



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

ANNUAL AUDIT REPORT

on the

**NATIONAL FOOD AUTHORITY
(NFA)**

For the Year Ended December 31, 2014

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 (OP) 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 transferred NFA together with the National Irrigation Administration, Philippine Coconut Authority and Fertilizer and Pesticide Authority from DA to the OP, to enhance and coordinate the efforts of these agencies in fulfilling their respective mandates. The oversight responsibilities over these agencies were 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 authorized plantilla positions of 4,436 with 4,345 filled positions as of December 31, 2014. Only 525 personnel holding permanent plantilla items are assigned at the Head Office (HO), while 3,399 personnel are assigned at the field offices (FOs). It also has 421 co-terminous employees; 89 assigned at HO and 332 assigned at FOs.

FINANCIAL HIGHLIGHTS (In Million Pesos)

I. Comparative Financial Position

	2014	2013	Increase (Decrease)
Assets	24,002.725	20,973.692	3,029.033
Liabilities	166,936.374	165,810.075	1,126.299
Capital deficiency	(142,933.649)	(144,836.383)	1,902.734

II. Comparative Results of Operation

	2014	2013	Increase (Decrease)
Sales and other income	36,818.803	19,478.407	17,340.396
Cost of sales and expenses	39,304.805	32,703.424	6,601.381
Loss from operations	(2,486.002)	(13,225.017)	10,739.015
Subsidy from national government (NG)	4,361.205	2,145.913	2,215.292
Gain/(Loss) after subsidy from NG	1,875.203	(11,079.104)	12,954.307

III. Budget and Actual Expenditures

	Budget	Utilization	Variance
Personal services	2,488.792	1,911.512	577.280
Maintenance and other operating expenses	4,920.420	1,921.845	2,998.575
Capital outlay	785.811	640.421	145.390
	8,195.023	4,473.778	3,721.245

SCOPE OF AUDIT

Our audit covered, on a test basis, the accounts and operations of NFA for calendar year (CY) 2014. 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 balance of the Merchandise Inventory account of P10.384 billion as of December 31, 2014 and the related Cost of Sales (COS) of P28.826 billion for the year are not reliable due to non-recognition of customs duties, handling and transportation costs as component of the cost of imported rice, thereby understating the Merchandise Inventory account by P10.429 billion and COS by P8.495 billion, and the variance of 83,104.89 net kilograms amounting to P2.409 million between the stock inventory report and the trial balance.
2. The validity, existence and collectability of the Accounts Receivable-Trade of P1.169 billion cannot be ascertained due to the existence of dormant accounts, non-availability of supporting documents and the absence of updated information on collections, thus affecting the fairness of presentation of the balances in the financial statements.

3. Stock shortages totalling P2.440 billion had been lodged in the Other Assets account, most of which remained outstanding for more than five years, and cannot be reclassified to Due from Officers and Employees account due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of Tolerable Allowance (TOLA), thus adversely affecting the determination of the final shortages of the concerned Stock Accountable Officers (SAOs) and enforcement of collection/settlement from them could not be pursued.
4. The validity, existence and collectability of the Inter-agency and Other Receivable accounts totaling P351.143 million cannot be ascertained due to the existence of various dormant accounts, insufficient documents and negative results of confirmation, thus, affecting the fairness of presentation of the balances of these accounts in the financial statements.
5. The reliability of the Property and Equipment (PE) account with net book value (NBV) of P2.454 billion remained doubtful in view of the unreconciled variance of P90.566 million between the book balance and the established inventory count in the NFA-HO and FOs; inclusion of "For Reconciliation" items of P16.475 million; and non-reclassification of unserviceable properties of P12.585 million to Other Assets account pending their disposal.
6. The Deferred Credits account with a balance of P738.898 million as of year-end is unreliable as this still included, among others, P3.259 million abnormal balance; dormant balances of P20.699 million in NFA-HO and several FOs as stocks remained unwithdrawn for five years and more; and overages of SAOs of P219.282 million which remained not established.
7. The accuracy of trust liability accounts with total balance of P599.363 million in NFA-HO continued to be doubtful due to the inclusion of accounts totaling P216.356 million that have remained idle for the past seven years, fund balances of P291.106 million that did not reconcile with the corresponding bank balance, and misclassified accounts in the total amount of P29.241 million.
8. The non-recognition of corresponding tax subsidy to cover the amount of import duties for the November 2013 to September 2014 importations of rice amounting to P15.888 billion rendered the NFA's reported income unreliable.

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 effect the necessary adjustments for the customs duties not taken up in the books. Henceforth, record and recognize in the books the customs duties incurred in importing rice as component of the initial cost of rice received under the Merchandise Inventory account pursuant to Philippine Accounting Standards (PAS) 2;
2. Require the Cavite Provincial Office (PO) to effect the necessary adjustments in the books for the handling and transportation costs which were not taken up as

Merchandise Inventory and COS in 2014, and the Negros Occidental PO to exert extra efforts in verifying the variances of prior years' transactions, and effect the necessary adjustments to come up with the correct balance of the account;

3. Require the ASD to fast track the reconciliation of the receivables from National Government Agencies (NGAs) and Local Government Units (LGUs) with the collections received at the NFA-HO. Accordingly, advise the Regional Offices (ROs) and POs on the results thereof for updating the recorded receivables in the respective ROs and POs books of accounts where receivables were recorded;

4. Continue to vigorously pursue the collection efforts through demand letters and collaboration meetings and strictly enforce the provisions of the Memoranda of Agreement (MOAs) with the NGAs and LGUs particularly the payment terms;

5. 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 NFA Standard Operating Procedure (SOP) No. FS-FA13;

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

7. Require the Stock Examination Group to expedite the conduct of 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;

8. Require the RTAC to speed up the TOLA computation to establish the final shortages of the SAOs/Warehouse Supervisors (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;

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

10. 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;

11. Require the ASD to fast track the analysis and reconciliation of the receivable accounts. For those reconciliation or recovery which are already remote or nil after all the efforts have been exerted, request for write-off in accordance with COA Circular No. 97-001;

12. Pursue an extensive collection policy for the accounts due to the NFA and intensify efforts to collect long outstanding accounts;
13. For the agencies which still have transactions with NFA, coordinate with their authorized official/s in order to finally settle these receivable accounts;
14. Require the ASD and General Services Department (GSD) of NFA-HO to conduct complete and thorough verification and reconciliation of the property and accounting records, including the PE items "For Reconciliation," to determine the cause/s of discrepancies so that necessary corrections/adjustments can be effected in both records to arrive at correct/reconciled balances;
15. Reclassify to the Other Assets-Junked Assets account all the PE that are reported as unserviceable or items that are not being used in order to reflect the correct balances of affected accounts;
16. Strictly observe proper disposal procedures of unserviceable properties expressly stated in Section 79 of PD No. 1445 in order to effectively and efficiently utilize government resources. Initiate immediate disposal for the interest of the government;
17. Instruct the concerned NFA-HO departments/offices and NFA-ROs to prioritize the in-depth analysis to clear the long outstanding balances in the Deferred Credits account;
18. Sustain efforts in securing the necessary information from Federation of Filipino Chinese Chamber of Commerce and Industry, Inc. (FFCCCII) in order to utilize the fund for its intended purpose, and in case FFCCCII cannot provide such information, consider requesting authority to identify/suggest beneficiaries/areas and volume for rice donation for those in need in times of calamities;
19. Cause the thorough verification of the nature or purposes of projects long outstanding and determine the status whether already completed, discontinued or abandoned;
20. Fast track reconciliation of the balances against relevant records, determine the actual existence and proper valuation of accounts, ascertain and validate discrepancies between the recorded amounts and the actual existing balances;
21. Make the necessary adjustments in the books to determine actual balances and cause remittance to the National Government (NG) thru the Bureau of the Treasury (BTr);
22. On the projects that did not reconcile with the cash balances, fast track the reconciliation process, ascertain and validate discrepancies between the recorded amounts and the actual existing balances and appropriate adjustments be made to reflect the correct balances of the accounts;
23. Require the ASD to reclassify the advance payments received from NGAs for the sale of rice from Due to Other NGAs account to Other Deferred Credits account; and

24. Require the ASD to effect the necessary adjustments for the non-recognition of the tax subsidy, and the corresponding liability to the Bureau of Customs (BOC) in 2014; and henceforth, to take up in the NFA's books of accounts the tax subsidy received from NG to cover the customs duties for the importation of rice and liability to BOC.

The other significant audit observations and recommendations are as follows:

Rice Importation

25. The validity and propriety of the rice importations of 1.800 million metric tons (MT) of rice amounting to US\$818.825 million made from November 2013 to September 2014 could not be fully assessed due to non-provision of a copy of Inter-Agency Committee (IAC) reports on the rice situation for 2013 and 2014 with recommendations on the volume of rice importation and the absence of documents on the approval by the President of the Philippines on the importations.

25.1 We recommended that the Administrator, in coordination with the NFA Council, exert utmost efforts to secure a copy of the IAC reports and approval by the OP on the importations made in order to support the NFA Council resolutions and validate the importation undertaken from November 2013 to September 2014. Henceforth, ensure that all rice importations to be undertaken are properly supported.

Tax Subsidy

26. The computation of customs duties for the 500,000 MT and 800,000 MT rice importations on November 15, 2013 and April 4, 2014, respectively, still included the estimated expenses in bringing the rice from port of loading to NFA designated warehouses in arriving at the dutiable value, despite the shift in importation terms from Cost, Insurance and Freight-Freight on Board (CIF-FOB) price to CIF-Duties Delivered Unpaid (DDU), resulting in the overvaluation of customs duties in the amount of P3.092 billion.

26.1 We recommended that Management require the Grains Marketing and Operations Department (GMOD) to:

- a. Perform independent review of the computation of the dutiable value of importation before the submission of the Memorandum of Undertaking (MOU) to the BOC with consideration of the contract terms to ensure the accuracy of customs duties being charged to the tax subsidy granted to NFA; and
- b. Coordinate with the BOC as regards the difference in the computation of the dutiable cost and resulting customs duties in the 2013 and 2014 rice importations for appropriate adjustment and application of the over computation of customs duties on future importations.

Maintenance of Buffer Stock

27. In NFA-National Capital Region (NCR), the mandated rice stock levels of 15 days for food security at any given time and 30 days for the start of lean months (July 1) were not consistently maintained, thus, could compromise the NFA's capability to effectively and immediately respond in times of disaster and emergency situations.

27.1 We recommended that NFA-NCR Management strengthen the monitoring of rice stock levels to ensure at all times the required 15-day and 30-day buffer stock levels for the NFA to attain its mandate to respond within 48 hours to rice requirements during calamities, restore rice supply at levels prior to calamity and achieve national food security through stabilized supply and price of rice.

Rice Distribution

28. The maximum weekly rice allocation to grains businessmen as determined in accordance with SOP No. GM-DN09 was not observed resulting in inequitable rice distribution among accredited retailers, thus casting doubt on whether the intention of the allocation system was served as this could lead to diversion of stocks or could be construed as giving undue advantage to a few select retailers.

28.1 We recommended that Management:

- a. Strictly adhere to the provisions of NFA SOP No. GM-DN09 and instructions per NCR-OCM-2K14-G-187 on the allocation of retailers;
- b. Document the increase/decrease of stock allocation of each accredited retailers, such that verbal requests from accredited retailers and approval be made in writing for check and balance and easier monitoring;
- c. Maintain database of stock issuances per accredited retailer *vis-à-vis* authorized stock allocation, and indicate the maximum allocation of retailers in their respective Weekly Rice Allocation Card for monitoring of their weekly purchases; and
- d. Instruct the Ws and the personnel in charge in encoding to report/record in the Warehouse Stock Issues (WSIs) and in the stock reports/accounting schedules, the full name of retailers, their categories whether Bigasang Bayan sa Palengke (BBSP), Inside the Market (ITM), Outside the Market (OTM), etc. and the markets where they belong for complete data and reports on accredited retailers.

Palay Procurement

29. The accomplishments on palay procurement in NFA Negros Occidental, Masbate and Cavite POs for 2014 were significantly low at zero to 41.1 per cent, attributed to high ex-farm price above the NFA procurement price of P17.00 per kilogram (kg.) exclusive of incentive fees. Thus, NFA's function of providing market to farmers' produce with fair return on their investment in production costs was not attained in those regions.

29.1 We recommended that Management:

- a. Require the Negros Occidental PO to assess the low NFA buying price in order to determine the appropriate increase and additional incentives that can compete with local traders;
- b. Require the Masbate PO to plan marketing targets more realistically to achieve accurate result specifically on palay procurement; and

- c. Give direction to the Cavite PO to conduct an assessment of the market and environmental resources of the province in the context of palay production and standard NFA procurement price as basis for setting realistic procurement target for the succeeding years.

Warehousing Operations

30. In NFA Cavite PO, fillers of 2,562 bags of rice remained unaccounted as at year-end and the reporting of “two moves” in the WSIs of 702,897 bags issued instead of “one move,” resulted in handling cost of P5.131 million instead of P2.566 million for only “one move,” contrary to existing NFA SOPs. These affected the reliability of stock reports and the balance of stocks as at a given period, and when undetected and unresolved, encourage fraudulent acts by personnel at the warehouses.

30.1 We recommended that Management require the Cavite PO to strengthen monitoring controls on warehouse operations, and undertake the following:

- a. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse at the end of the year;
- b. Investigate the accuracy of reported 816 bags filler transactions and recommend for appropriate sanction on erring warehouse supervisors, as warranted;
- c. Evaluate existing control activities in warehouse operations, including documentation and reporting, and institute additional controls, if necessary;
- d. Strengthen monitoring of warehouse operations, such as installation of closed-circuit televisions (CCTVs); and
- e. Initiate investigation to determine the personnel responsible for possible fraudulent activities so that appropriate measures can be implemented and those found guilty shall be dealt with accordingly.

Rental of building by NFA-HO

31. For the past 36 years or from 1979 to 2014, a total of P801.095 million had been spent for the lease of buildings for the NFA-HO due to lack of continued effort to implement the proposed construction of the building. This amount could have been utilized to construct NFA’s own building and the use of its own lot could have been maximized.

31.1 We recommended that Management continue the initial effort undertaken for the construction of the proposed NFA-HO building in order to maximize the utilization of its own property and prevent the incurrence of rental expenses. Evaluate the report of the Ad Hoc Committee to determine the necessary steps to be taken for the eventual implementation of the project taking into consideration, among others, the NFA-HO’s present manpower and organizational set up.

Utilization of Disbursement Acceleration Program (DAP) Fund

32. A total of P2.160 million was still obligated and disbursed despite the declaration of the Supreme Court (SC) on July 1, 2014 that some acts and practices under the DAP, National Budget Circular No. 541 and related executive issuances were unconstitutional for being in violation of Section 25(5), Article VI of the 1987 Constitution and the Doctrine of separation of powers, thereby making the expenses irregular. Moreover, the unobligated balance of DAP Fund of P1.812 million remained unremitted to the BTr as of May 31, 2015, contrary to the SC Decision.

32.1 We recommended that Management oblige the concerned NFA-ROs with unobligated/unutilized DAP funds to return the same to Budget, Treasury and Fund Management Department (BTFMD), and remit to the BTr the unutilized DAP funds of P1.812 million and the amount of P2.160 million which was obligated after July 1, 2014.

UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The NFA had total consolidated unsettled audit suspensions, disallowances and charges as of December 31, 2014 of P2.846 million, P148.178 million, and P1.744 million, respectively.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 139 audit recommendations embodied in prior years' Annual Audit Reports (AARs), 33 were fully implemented, 91 were partially implemented and 15 were not implemented. Details are presented in Part III of this Report.

TABLE OF CONTENTS

	Page
PART I - AUDITED FINANCIAL STATEMENTS	
Independent Auditor's Report	1
Statement of Management's Responsibility for Financial Statements	4
Balance Sheet	5
Statement of Income and Expenses	6
Statement of Changes in Capital Deficiency	7
Cash Flow Statement	8
Notes to Financial Statements	9
PART II - OBSERVATIONS AND RECOMMENDATIONS	28
PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS	155



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, 2014, 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.

Our 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 balance of the Merchandise Inventory account of P10.384 billion as of December 31, 2014 and the related Cost of Sales (COS) of P28.826 billion for the year are not reliable due to non-recognition of customs duties, handling and transportation costs as component of the cost of imported rice, thereby understating the Merchandise Inventory account by P10.429 billion and COS by P8.495 billion, and the variance of 83,104.89 net kilograms amounting to P2.409 million between the stock inventory report and the trial balance.
2. The validity, existence and collectability of the Accounts Receivable-Trade of P1.169 billion cannot be ascertained due to the existence of dormant accounts, non-availability of supporting documents and the absence of updated information on collections, thus affecting the fairness of presentation of the balances in the financial statements.
3. Stock shortages totalling P2.440 billion had been lodged in the Other Assets account, most of which remained outstanding for more than five years, and cannot be reclassified to Due from Officers and Employees account due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of Tolerable Allowance, thus adversely affecting the determination of the final shortages of the concerned Stock Accountable Officers and enforcement of collection/settlement from them could not be pursued.
4. The validity, existence and collectability of the Inter-agency and Other Receivable accounts totaling P351.143 million cannot be ascertained due to the existence of various dormant accounts, insufficient documents and negative results of confirmation, thus, affecting the fairness of presentation of the balances of these accounts in the financial statements.
5. The reliability of the Property and Equipment account with net book value of P2.454 billion remained doubtful in view of the unreconciled variance of P90.566 million between the book balance and the established inventory count in the NFA-Head Office (HO) and Field Offices (FOs); inclusion of "For Reconciliation" items of P16.475 million; and non-reclassification of unserviceable properties of P12.585 million to Other Assets account pending their disposal.
6. The Deferred Credits account with a balance of P738.898 million as of year-end is unreliable as this still included, among others, P3.259 million abnormal balance; dormant balances of P20.699 million in NFA-HO and several FOs as stocks remained unwithdrawn for five years and more; and overages of stock accountable officers of P219.282 million which remained not established.
7. The accuracy of trust liability accounts with total balance of P599.363 million in NFA-HO continued to be doubtful due to the inclusion of accounts totaling P216.356 million that have remained idle for the past seven years, fund balances of P291.106 million that did not reconcile with the corresponding bank balance, and misclassified accounts in the total amount of P29.241 million.

8. The non-recognition of corresponding tax subsidy to cover the amount of import duties for the November 2013 to September 2014 importations of rice amounting to P15.888 billion rendered the NFA's reported income unreliable.

Qualified Opinion

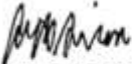
In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the **National Food Authority** as at December 31, 2014, and its financial performance and 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. Continuous collection efforts and strict enforcement of the provisions particularly on terms of payments of Memoranda of Agreement executed by NFA with National Government Agencies, Local Government Units and other parties;
2. Strengthening the monitoring of rice stock levels to ensure at all times the required 15-day and 30-day buffer stock levels in order to attain its mandate to respond within 48 hours to rice requirements during calamities, restore rice supply at levels prior to calamity and achieve national food security through stabilized supply and price of rice;
3. Revisiting the NFA regulations on grains business and evaluating effectiveness as basis for re-designing or establishing additional controls to ensure monitoring of compliance with NFA regulations on grains business; and
4. Sustained efforts for the implementation of the proposed construction of the NFA Head Office building in order to maximize the utilization of its own property and prevent incurrence of rental expenses.

COMMISSION ON AUDIT


DARIA B. SISON
Supervising Auditor
Audit Group A–National Food Authority
Cluster 5- Agricultural and Natural Resources
Corporate Government Sector

June 30, 2015



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

April 22, 2015

We are responsible for all information and representations contained in the Balance Sheet of the National Food Authority as of December 31, 2014 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.


LETICIA G. CRUZ
Assistant Administrator for Finance and Administration


RENAN B. DALISAY
Administrator

NATIONAL FOOD AUTHORITY
B A L A N C E S H E E T
December 31, 2014
(In Philippine Peso)

	Note	2014	2013
ASSETS			
Current assets			
Cash and cash equivalents	3	2,095,474,868	1,627,171,637
Trade and other receivables	4	1,719,633,342	1,709,272,775
Inventories - net	5	11,370,132,271	8,076,984,171
Prepayments	6	10,613,529	12,747,329
Other current assets	7	321,220,329	310,022,039
		<u>15,517,074,339</u>	<u>11,736,197,951</u>
Non-current assets			
Investments	8	2,240,239,601	2,528,139,548
Property and equipment - net	9	2,454,096,137	2,422,752,010
Other non-current assets	10	3,791,315,108	4,286,601,994
		<u>8,485,650,846</u>	<u>9,237,493,552</u>
TOTAL ASSETS		<u>24,002,725,185</u>	<u>20,973,691,503</u>
LIABILITIES AND CAPITAL DEFICIENCY			
Current liabilities			
Payable accounts	11	33,248,411,864	30,904,596,051
Inter-agency payables	12	26,703,880,196	26,282,283,148
Other liability accounts	13	508,846,427	557,403,790
		<u>60,461,138,487</u>	<u>57,744,282,989</u>
Non-current liabilities			
Loans payable - domestic	14	105,528,119,395	107,330,119,395
Loans payable - foreign	15	208,218,679	277,035,862
		<u>105,736,338,074</u>	<u>107,607,155,257</u>
Deferred credits	16	738,898,088	458,636,957
		<u>166,936,374,649</u>	<u>165,810,075,203</u>
CAPITAL DEFICIENCY		<u>(142,933,649,464)</u>	<u>(144,836,383,700)</u>
TOTAL LIABILITIES AND CAPITAL DEFICIENCY		<u>24,002,725,185</u>	<u>20,973,691,503</u>

The Notes on pages 9 to 27 form part of these financial statements.

NATIONAL FOOD AUTHORITY
STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
Sales		36,358,846,626	19,232,675,481
Cost of sales		28,826,140,966	20,963,365,697
Gross income/(loss) from sales		7,532,705,660	(1,730,690,216)
Operating expenses	18	3,833,357,221	4,836,051,952
Financial expenses	19	6,645,306,970	6,904,006,063
		10,478,664,191	11,740,058,015
Loss from operations		(2,945,958,531)	(13,470,748,231)
Other income		459,956,634	245,731,703
Net loss before government subsidy		(2,486,001,897)	(13,225,016,528)
Subsidy income from national government	20	4,361,205,000	2,145,912,646
Net income/(loss)		1,875,203,103	(11,079,103,882)

The Notes on pages 9 to 27 form part of these financial statements.

NATIONAL FOOD AUTHORITY
STATEMENT OF CHANGES IN CAPITAL DEFICIENCY
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
Equity contribution from national government	17	5,000,000,329	5,000,000,329
DEFICIT			
Balance at the beginning of the year		(149,836,384,029)	(138,593,574,468)
Correction of prior period errors		27,531,133	(163,705,679)
As restated		(149,808,852,896)	(138,757,280,147)
Net income/(loss) for the year		1,875,203,103	(11,079,103,882)
Balance at the end of the year		(147,933,649,793)	(149,836,384,029)
CAPITAL DEFICIENCY		(142,933,649,464)	(144,836,383,700)

The Notes on pages 9 to 27 form part of these financial statements.

NATIONAL FOOD AUTHORITY
CASH FLOW STATEMENT
For the Year Ended December 31, 2014
(In Philippine Peso)

	Note	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection from customers		37,470,244,427	18,730,572,312
Subsidy received from the national government		4,361,205,000	2,145,912,646
Payment to suppliers of imported rice		(26,272,889,283)	(1,137,193,846)
Payment to suppliers and employees		(4,602,535,585)	(5,406,997,454)
Payment to suppliers of palay		(468,368,162)	(6,259,879,524)
		10,487,656,397	8,072,414,134
CASH FLOWS FROM INVESTING ACTIVITIES			
Placement of investments		360,914,475	(400,000,000)
Proceeds from sale of property		1,405,568	2,058,438
Purchase/construction of property		(162,838,495)	(84,473,109)
		199,481,548	(482,414,671)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of loans		(4,659,016,107)	(2,327,092,398)
Payment of financial charges		(5,560,196,765)	(5,425,037,659)
		(10,219,212,872)	(7,752,130,057)
Net increase (decrease) in cash and cash equivalents		467,925,073	(162,130,594)
Effects of exchange rate changes on cash and cash equivalents		378,158	7,640,616
Cash and cash equivalents, beginning of year	3	1,627,171,637	1,781,661,615
CASH AND CASH EQUIVALENTS, END OF YEAR	3	2,095,474,868	1,627,171,637

The Notes on pages 9 to 27 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 4,436 with 4,345 filled positions as of December 31, 2014. Only 525 personnel holding permanent plantilla items are assigned at the NFA Head Office (HO), while 3,399 personnel are assigned at the field offices. It also has 421 co-terminous employees; 89 assigned at the HO and 332 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 P2.095 billion out of which P766.844 million are held in trust by NFA. Cash with accountable officers amounted to P46.557 million.

4. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2014	2013
Accounts receivable	1,169,448,143	1,655,277,852
Less: Allowance for doubtful accounts	694,821,698	745,001,846
Accounts receivable – net	474,626,445	910,276,006
Due from officers and employees	835,720,294	415,606,000
Due from government-owned and controlled corporations (GOCCs)	165,203,750	164,912,407
Loans receivables	41,911,692	48,379,438
Due from national government agencies (NGAs)	69,668,088	36,240,501
Due from local government units (LGUs)	14,764,003	14,897,598
Receivables – disallowances/charges	14,086,489	11,873,866
Other receivables	103,652,581	107,086,959
	1,719,633,342	1,709,272,775

The accounts receivable is aged as follows:

	Amount	Percentage
Less than one year	290,412,152	24.83
One year but less than two years	160,644,720	13.74
Two years but less than three years	58,815,771	5.03
Three years but less than four years	137,291,471	11.74
Four years and above	522,284,029	44.66
	1,169,448,143	100.00

Due from officers and employees includes shortages of Stock Accountable Officers for stocks and empty sacks amounting to P778,389,895 and P25,267,470, respectively.

5. INVENTORIES

This account consists of the following:

	2014	2013
Merchandise inventory	10,383,536,350	5,858,142,906
Raw materials inventory	554,014,341	1,715,881,050
Work-in-process inventory	4,479,275	131,478,921
	10,942,029,966	7,705,502,877
Less: Allowance for inventory variance	56,126,253	109,973,518
	10,885,903,713	7,595,529,359
Others	484,228,558	481,454,812
	11,370,132,271	8,076,984,171

Raw materials consist primarily of palay, while Merchandise consists 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

	2014	2013
Advances to contractors	4,325,282	7,131,398
Prepaid rent	3,919,567	3,764,458
Prepaid insurance	2,167,555	1,686,521
Other prepaid expenses	201,125	164,952
	10,613,529	12,747,329

7. OTHER CURRENT ASSETS

This account consists of the following:

	2014	2013
Guaranty deposits	57,063,233	56,037,865
Other current assets	264,157,096	253,984,174
	321,220,329	310,022,039

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).

Other current assets consist of items in transit- stocks (imported rice purchased but not yet received) and empty sacks, commodity held-in-trust, miscellaneous inventory (Corn Marketing Assistance Program, cereal sweepings, damaged grains, damaged non-grains, fertilizer and rice donation-Japan).

8. INVESTMENTS

	2014	2013
Sinking fund	1,724,056,321	2,011,956,267
Investment in stocks	500,755,187	500,755,187
Other investments	15,428,093	15,428,094
	2,240,239,601	2,528,139,548

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 P1.724 billion provision of Sinking fund for the long term bonds.

9. PROPERTY AND EQUIPMENT

This account consists of the following:

	Land and land improvements*	Buildings and structures**	Furniture, fixtures, equipment, Books	Construction in Progress	Total
Cost, 12/31/13	769,550,867	2,241,737,037	2,098,591,645	66,873,671	5,176,753,220
Additions	27,005,050	158,334,050	251,735,880	143,560,008	580,634,988
Deductions	(5,445,668)	(41,893,022)	(220,561,796)	(149,235,322)	(417,135,808)
Cost, 12/31/14	791,110,249	2,358,178,065	2,129,765,729	61,198,357	5,340,252,400
Acc. Depr., 12/31/13	140,284,221	1,228,388,915	1,385,328,074	-	2,754,001,210
Depr. and depletion-2014	3,964,585	60,436,375	102,633,292	-	167,034,252
Adjustment - transfer	360,643	(3,516,358)	(31,723,484)	-	(34,879,199)
Acc. Depr., 12/31/14	144,609,449	1,285,308,932	1,456,237,882	-	2,886,156,263
Net book value, 12/31/14	646,500,800	1,072,869,133	673,527,847	61,198,357	2,454,096,137
Net book value, 12/31/13	629,266,646	1,013,348,122	713,263,571	66,873,671	2,422,752,010

* Includes leasehold improvements on land amounting to P21,161,945.

** Includes leasehold improvements on buildings amounting to P13,866,058.

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 is shown after Note 23.

10. OTHER NON-CURRENT ASSETS

	2014	2013
Restricted funds	54,802,783	54,802,784
Other assets	3,736,512,325	4,231,799,210
	3,791,315,108	4,286,601,994

Other assets composed of the following:

	2014	2013
Stocks shortages – without examination	1,573,335,564	2,247,654,875
Stocks shortages – with examination without tolerable allowance (TOLA)	459,298,847	519,627,467
Stocks shortages – with examination for TOLA	406,878,557	227,485,464
	2,439,512,968	2,994,767,806
Non-performing assets	53,377,890	54,488,835
Junked assets	20,655,120	19,887,959
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	23,510,127
Other receivables – GOCCs -CULCA	1,267	1,267
Other receivables – contingent assets	1,193,601,980	1,133,290,243
	3,736,512,325	4,231,799,210

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

	2014	2013
Due to national treasury	25,829,356,860	25,469,194,617
Due to other national government agencies (NGAs)	734,229,298	673,420,676
Due to Government Service Insurance System (GSIS)	68,942,872	66,914,385
Due to other GOCCs	36,349,605	34,504,064
Due to Bureau of Internal Revenue (BIR)	24,404,021	21,371,992
Due to LGUs	8,935,027	14,992,552
Due to Pag-IBIG	1,241,605	1,383,231
Due to PhilHealth	420,908	501,631
	26,703,880,196	26,282,283,148

Due to national treasury consists primarily of guarantee fees payable to the Bureau of the Treasury (BTr) of P6.767 billion, 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

	2014	2013
Performance/bidder/bail bonds payable	91,651,500	149,525,802
Guaranty deposits payable	6,448,364	6,212,589
Other payables	410,746,563	401,665,399
	508,846,427	557,403,790

14. LOANS PAYABLE – DOMESTIC

This account consists of loans from different banks maturing from 2011 to 2024, as follows:

	2014	2013
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
2. Ten-year notes/loans syndicated by Development Bank of the Philippines and Land Bank of the Philippines dated October 29, 2014; due date - October 29, 2024:		
Land Bank of the Philippines	4,500,000,000	-
Development Bank of the Philippines	4,500,000,000	-
	9,000,000,000	-
3. 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
	8,000,000,000	17,000,000,000

	2014	2013
4. 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	3,780,000,000	4,320,000,000
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	2,972,500,000	3,382,500,000
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	3,262,500,000	3,712,500,000
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	2,900,000,000	3,300,000,000
	12,915,000,000	14,715,000,000
5. Corn Development Fund		
For the Dryermat and Corn Center Project	12,500,000	14,500,000
6. DBP – Minprocor		
Acquired assets from Minprocor properties	91,200,000	91,200,000
7. Human Settlements Development Corporation –		
P553.824 million, interest free, payable in 25 years (quarterly payment)	509,093,711	509,093,711
8. Agrarian Credit Line	205,000	205,000
9. 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
	105,528,119,395	107,330,119,395

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:

	2014	2013
1. 1995 Japanese Rice Loan – Y541.355 million 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	110,633,237	138,261,031
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	97,585,442	138,774,831
	208,218,679	277,035,862

16. DEFERRED CREDITS

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:

	2014	2013
Personal services		
Salaries and wages	1,196,098,622	1,254,505,473
Other compensation	415,628,650	422,787,045
Personnel benefits and contributions	167,422,864	176,615,820
Other personnel benefits	132,361,861	110,275,516
	1,911,511,997	1,964,183,854

	2014	2013
Maintenance and other operating expenses		
Inventory losses	215,534,111	876,527,210
Professional/contract services	481,941,592	505,396,777
Depreciation and depletion	167,034,252	161,260,458
Handling	242,391,572	152,627,043
Utilities	113,924,973	124,312,094
Storage	94,699,486	119,972,799
Repairs and maintenance	85,465,320	113,459,421
Supplies and materials	86,617,165	91,380,043
Bad debts	65,791,997	83,245,406
Gasoline, oil and lubricants	65,413,200	79,804,932
Traveling	67,289,671	75,151,760
Taxes and other fees	45,210,419	49,045,790
Transportation and delivery	11,171,467	43,493,752
Rent	37,262,412	37,253,483
Communication	32,820,875	31,711,033
Rewards and other claims	9,028,811	2,936,839
Other expenses	100,247,901	324,289,258
	1,921,845,224	2,871,868,098
	3,833,357,221	4,836,051,952

19. FINANCIAL EXPENSES

This account consists of the following:

	2014	2013
Interest expense	5,099,377,300	5,393,501,061
Guaranty fees	1,352,072,440	1,376,316,808
Documentary stamps	184,565,734	133,978,033
Bank charges	9,291,496	210,161
	6,645,306,970	6,904,006,063

20. SUBSIDY INCOME FROM THE NATIONAL GOVERNMENT

This account consists of subsidy for food security and stabilization programs. A total amount of P4.361 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-14-0024163 dated December 18, 2014 with Certificate of Entitlement to Subsidy No. 0162 dated December 11, 2014 amounting to P10.997 billion was released to NFA to cover the payment of customs duties on the NFA importation of rice.

22. TAX COMPLIANCE

Taxes withheld and Due to Bureau of Internal Revenue (BIR) for CY 2014 were recorded and remitted to BIR.

	Amount (In Thousand)
Withheld	184,500
Others	269,891
	454,391

23. REMITTANCE OF PREMIUMS TO THE GSIS

NFA deducted GSIS premiums from its officials and employees for the year 2014. Aggregate amount of P4.641 million was not remitted as of December 31, 2014 in the following office/regions:

Office/Region	Amount
HO	1,659,401
I	204,288
II	350,829
III	2,419
IV	97,256
V	2,853
VI	339,259
VII	151,539
VIII	561,583
IX	53,799
X	81,065
XI	59,860
XII	206,338
National Capital Region	312,339
Autonomous Region in Muslim Mindanao	507,851
CARAGA	49,928
	4,640,607

**STATUS OF NFA PROPERTIES ASSIGNED TO LAD LAWYERS
AS OF JULY 31, 2015**

No.	TOWN	PROVINCE	TOTAL AREA In sq.m.	STATUS
1	RAWIS, LAO-ANG	NORTHERN SAMAR	10000	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	1012	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	2232	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	7659	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	Land is coveredly a Deed of Absolute Donation. It was previously suggested that a survey plan be finalized by a geodetic engineer for approved by the Bureau of Lands since this property is a 10,000 sq.mter parcel of land.
7	SAN GABRIEL	CAGAYAN	324	

8	BUAYAN, DATU PIANG	MAGUINADANO	23520	Requested for documents from the Field Office for evaluation.
9			14911	
10	CENTRO, DATU PIANG,	MAGUINDANAO	41162	Requested for documents from the Field Office for evaluation.
11	IBA, ZAMBALES P.O. WHSE. 1 and 2	ZAMBALES	7350	Requested for documents from the Field Office for evaluation.
12	MAGSAYSAY, CASTILLEJOS	ZAMBALES	11000	Requested for documents from the Field Office for evaluation.
13	PANALONAN BRGY. 1 TACLOBAN CITY PORT AREA	NORTHERN LEYTE	6849	USUFRUCT ONLY
14	BETINAN, SAN MIGUEL	ZAMBOANGA DEL SUR	2000	Requested for all documents from local RD, letter to be sent to LGU per recommendation of PM Regino Deifin, to persuade LGU to facilitate transfer of ownership and subdivide the land so NFA can take possession of the corresponding portion of the lot.
15	BRGY. LIBERTY, HILONGOS	LEYTE	10000	NFA filed petition for original registration on December 2004, and the same was favorably granted. Original owner's duplicate copy with BTFMD.
16	VALENCIA CITY	BUKIDNON	7000	Requested for documents from the Field Office for evaluation.
17	MALAYBALAY CITY P.O	BUKIDNON	5345	Requested for documents from the Field Office for evaluation.
18	BRGY. POBLACION. MARAMAG	BUKIDNON	3493	TCT NO. T-10819 With Lease Contract on file with Crystal Sugar Company, Inc. - expired as of May 2013.
19	BRGY. POBLACION. MARAMAG	BUKIDNON	22, 881	For verification with the Regional office re: actual status of lot. TCT NO. T-21301
20	AGLAYAN CITY	BUKIDNON	10000	Subject of a Civil Case entitled "A. Vilion vs. A. Mendoza" pending before RTC, Branch 9, Malaybalay City, Bukidnon. Trial on-going.
21	BO. POBLACION, KALILANGAN	BUKIDNON	5345	For verification on status of original documents. Deed of Sale and Sketch Plan on File.
22	MUSUAN, MARAMAG	BUKIDNON	50000	For verification on status of original documents.
23	BRGY. BANGA, WAO	LANAO DEL SUR	116785	OCT CLOA-918 under Leonardo Lizada and Milagros Lariza. For verification on status of original documents.

24	BRGY. BANGA, WAO	LANAO DEL SUR	10000	With Deed of Donation from Lanao Bukidnon Cotabato Cooperatives to NFA. However, the Deed was not registered in the TCT. The heir is now imposing a new condition on the donation.
25	DOTAL ST. POBLACION LAGAWÉ	IFUGAO	1325	Requested for documents from the Field Office for evaluation.
26	SAN DIONISIO, ILOILO	ILOILO	10000	The Deed of Donation from Capisan MPC to NFA was not registered. Hence, the lot owner filed a case against NFA for Unlawfull Detainer to re-acquire the property.
27	PACOL, PILI, CAMARINES SUR P.O.	CAMARINES	26897	Requested for documents from the Field Office for evaluation.
28	NFA COMPOUND, MARAWI CITY	LANAO DEL SUR	4,824 (5,000)	Requested for documents from the Field Office for evaluation.
29	CAMACHO DRIVE, BALANGA	BATAAN	20000	Requested for documents from the Field Office for evaluation.
30	KM. 10, BRGY. QUEZON SURIGAO CITY	SURIGAO DEL NORTE	21678	With memo dated March 18, 2015 from Dir. Paqueo forwarding to LAD various documents including Tax Declaration, DENR Certificate & others.
31				
32	DIGOS CITY	DAVAO DEL SUR	130506	NFA filed a Petition for the Issuance of a 2nd Owner's Duplicate Copy of TCT No. 2390. The court approved the petition.
33	BRGY. CULO, MOLAVE	ZAMBOANGA DEL SUR	19475	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. With Demand letter to vacate from Atty. Ivy S. Manago dated March 24, 2015.
34	POBLACION, BONTOC	MOUNTAIN PROVINCE	800	For records verification.
35	LAOAG CITY	ILOCOS NORTE	3834	Rented only. No issue on ownership.
36	RIZAL ST., TABACO CITY	ALBAY	5551	Titled already
37			5413	Titled already
38	NFA FLGC- NAMILLANGAN, ALFONSO LISTA	IFUGAO	3000	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.
39	NFA-AGUIAN VIEWDECK-PATILONG VIEWPOINT, BANAUÉ	IFUGAO	241	For documents verification.

40	FLGC-WHSE. STA. MARIA, ALFONSO LISTA	IFUGAO	1247	The Cooperative paid their loan already.
41	BRGY. CARIG, TUGUEGARAO CITY	CAGAYAN	20001	Sent a Letter to the Office of Provincial Governor, requesting for copies of the Title or Certification.
42	TAWAY, IPIL (SHINN CASE)	ZAMBOANGA SIBUGAY	15358	For filing of a civil case for annulment of title and petition for issuance of title despite the pendency of the case filed against NFA.
43	LIWAN WEST, RIZAL	KALINGA	20000	Made a follow-up Memorandum and phone call requesting for copies of the Subdivision Plan and Technical Description.
44	CAMP FULLON, SAN JOSE/AUTAJAY-TAVARRO vs. NFA ANTIOQUE	ANTIQUE	18,297 4,056 623	The lot owner Dr. Maribel Autajay-Tavarró filed a case against NFA but it was dismissed by the Court. In sum, NFA won the case but the lot owner appealed the case to Court of Appeals which is pending resolution.
45	MANGOSO, SIGMA	CAPIZ	20086	Per verification the Original copy of TCT is with Land Bank. Hence, the segregating of NFA's lot can be done administratively. For filing soon.
46	RAPU-RAPU PROPERTY, BUENAVISTA ALBAY	ALBAY	590,000 (19.6 hectares)	A Memo was sent 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.
47	NAPO, PANDAN, JICA WHSE.	CATANDUANES	2000	For Evaluation of documents.
48	ALIAGA	NUEVA ECIJA	4707	For Evaluation of documents.
49	ALLILINU, CALAMANUIGAN	CAGAYAN	6780	For Evaluation of documents.
50	DINALUPIHAN	BATAAN	5000	For Evaluation of documents.
51	NURSERY SITE, TUGUEGARAO	CAGAYAN	650	Writ of Execution issued. Coordinate with the sheriff for the execution or levying of properties.
52	LOGON, COMBADO, ORMOC CITY	NORTHERN LEYTE	2200	For Evaluation of documents.
53	BRGY. AGUIT-ITAN, CALBAYOG CITY	WESTERN SAMAR	1800 1,210	Prepared Deed of Acceptance. LGU refused to sign instead it wants to give NFA mere USUFRUCT over the property
54	BRGY. LEONARDA, PENGUE RUYU (LOT 3 & 4)	CAGAYAN	508 509	Writ of Execution issued. Coordinate with the sheriff for the execution or levying of properties.
55	ALAC, SAN QUINTIN	PANGASINAN	6271	Original documents cannot be located. For determination as to the propriety of filing an application for Original Registration under P.D. 1529.
56	GOVERNMENT CENTER, CATBALOGAN CITY	WESTERN SAMAR	1925	Prepared Deed of Acceptance for the Deed of Donation. Mother Title is in the name of the Province.

57	BALALENG, BANTAY, ILOCOS SUR	ILOCOS SUR	6588	With OCT No. 024-2014000511 (2,764) OCT No. 024-2014000512 (3,758) OCT No. 024-2014000513 (51) OCT No. 024-2014000514 (15)
58	CENTRO I LUNA, ISABELA	ISABELA	8,776 sq.m. (from asd)	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.
59	BRGY. ASUNCION, MAASIN	SOUTHERN LEYTE		NFA filed an application for Original registration of title. Petition granted. LRA to process issuance of title.
60	BRGY. OSMENA, DAPA	SURIGAO DEL NORTE	2,000 (2,149)	Requested for documents from the Field Office for evaluation.
61	BRGY. 4, CATBALOGAN CITY	WESTERN SAMAR	3000	With Special Patent No.4452 already.
62	JORDAN, GUIMARAS	CAPIZ	1,099 (1,000)	With pending application to Land Registration Authority.
63	BARAS, PALO, LEYTE (GOV'T. SITE)	NORTHERN LEYTE	28000	Property in the named of the Provincial Government of Leyte. Latter, not amenable to donate the same to the NFA. Instead, allowed NFA to use property through usufruct. Draft usufruct agreement was forwarded to NFA - N. Leyte on August 29, 2013.
64	POB. BOJO, SERGIO OSMENA	ZAMBOANGA DEL NORTE	2000	Requested for documents from the Field Office for evaluation.
65	BRGY. BANCO, TITAY	ZAMBOANGA SIBUGAY	2500	Requested for documents from the Field Office for evaluation.
66	POBLACION COMPOSTELA	COMPOSTELA VALLEY	10000	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, NFA wrote the Director of the Land Management Bureau, Manila to inquire on the status of the application. No reply from the LMB yet. For follow-up.
67	CADRE, GUIHULNGAN CITY	NEGROS ORIENTAL	3000	Mun. government of Guihulngan donated to NFA an unregistered property. NFA filed a Petition for Original Registration in Nov. 1999, favorably granted by the court per Decision dated October 2007. Coordination made with the LRA field office for the issuance of the Decree of Confirmation and Registration.
68	BRGY. HIPUSNGO, BAYBAY CITY	SOUTHERN LEYTE	10000	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.
69	DIFFUN	QUIRINO	3500	For evaluation whether application for free patent under RA 10023, as suggested by the PENRO, is feasible.
70	SAMONTE, QUEZON	ISABELA	5000	For Evaluation of documents.
71	SAN ANTONIO, SANTA MARIA	ISABELA	20000	For Evaluation of documents.
72	BRGY. HINDANG, BORONGAN	EASTERN SAMAR	5000	For Evaluation of documents.

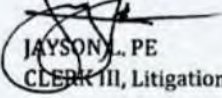
73	COGON, GUIAUN,	EASTERN SAMAR	2000	For Evaluation of documents.
74	STA. ANA, DAVAO CITY	DAVAO DEL SUR		With pending for Presidential Proclamation in process, now pending before the Office of the DENR Secretary.
75	BRGY. TAWAGAN, ORAS	EASTERN SAMAR	10000	On November 2011, property was included in the DENR priority plan for conversion from timberland to alienable land so the same may be the proper subject of application for registration.
76	APAS, BANILAD	CEBU	5000	NFA received communication from the Provincial Legal Officer stating that NFA has no title over the property and should vacate. Recommendation was made for the field office to verify with the ROD whether there was any title issued to NFA.
77	SHARIF AGUAK	MAGUINDANAO	23311	To secure from Provincial Office the following documents; Affidavit of Loss, certified copy of TCT by the Register Deeds, Latest Tax Declaration and Publications.
78	SAN LORENZO, GUIMARAS	CAPIZ	5000	Requested from Provincial Office the following document: Certified Photocopy Survey Plan, Certified Copy of the Deed, Latest Tax Declaration and Technical Description.
79	KABACAN	NORTH COTABATO	10000	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.
80	TUMOG, LUNA, APAYAO	NORTHWESTERN CAGAYAN	20000	NFA cannot acquire ownership. Title is already named under the Bureau of Plant and Industry. Mere tax declaration is not sufficient proof of ownership.
81	BAHBAH, PROSPERIDAD	AGUSAN DEL SUR	20605	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 utilized the said land ever since.
82	BIDCOR, BRGY. POBLACION, BAYUGAN CITY	AGUSAN DEL SUR	8000	We still wait for the following documents: Survey Plan, Certified Copy of the Deed, Latest Tax Declaration and Technical Description.
83	BRGY. CALAGDAAN, CANTILAN	SURIGAO DEL SUR	4172	We file a petition in court regarding untitled lot and transfer from the RD as to the titled one.
84	268 QUIRINO HIGHWAY, SAN BARTOLOME, NOVALICHES	QUEZON CITY, CDO	2892	Ready for filing. The only document lacking is a certification from the RD that TCT was burned during a fire with the RD.
85	MINPROCOR WHSE. 447 DEL MONTE AVE. SEDM	QUEZON CITY, CDO	2929	Wait for the decision of the Management on the matter.
86	BANGKILING, SUCLARAN, SAN LORENZO	GUIMARAS	10000	
87	BOROL 1 ST , BALAGTAS	BULACAN	13,858 1,246 859 57	The nature of ownership is undetermined but we have possession and tax declaration as proof of ownership. We requested for an update from the Field Office.

88	CALIGUIAN, BURGOS	ISABELA	4716	We still await for the following documents: Survey Plan, Certified Copy of the Deed, Latest Tax Declaration and Technical Description.
89	PROVINCIAL CAPITOL COMPOUND	JOLO SULU	7125	No available documents.
90	INTEGRATED FLGC, WAO	LANAO DEL SUR	10000	For resurvey to be conducted by NFA -Regional Office No. X, Deed of Donation (2) to be executed after subdivision by Development Plan by TRSD. (6/17)
91	BO. LIBERTAD, PORO, TUDELA	CEBU	2,000 (2,107)	Requested for documents to be attached in the petition for registration.
92	BRGY. SALUDARES, DINGRAS	ILOCOS NORTE	10000	Requested for documents to be attached in the petition for registration. With issue on ownership as the LGU of Dingras is revoking the donation to BPI.
93	MARAMAG	BUKIDNON	26374	Requested for documents to be attached in the petition for registration.
94	BRGY. CALUMPANG, NAVAL	BILIRAN	3229	Requested for documents to be attached in the petition for registration.
95	BRGY. CALAGDAAN, CANTILAN	SURIGAO DEL SUR	6027	Requested for documents to be attached in the petition for registration.
96	TACURONG	SULTAN KUDARAT (SPGC)		Already referred to the Management for action.
97	POOC, SANTA FE	CEBU	5000	For completion of documents needed in the filing of the petition.
98	BARUBOC, MALLIG	ISABELA	5000	For completion of documents needed in the filing of the petition. Also sent Memorandum 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.
99	POB. 2 INATOPILAN, CATUBIG	NORTHERN SAMAR	8000	Requested for documents and was only given photocopies of Tax Declarations, Deed of Donation and Subdivision
100	BO. CENTRO DATU PIANG	MAGUINDANAO	41162	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.
101	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. No documents received yet.
102	FLGC, KILI-KILI	LANAO DEL SUR	?	Already requested the Provincial Office for documents. No documents received yet.
103	SALVACION, ALICIA	ISABELA	10000	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.
104	POBLACION, BADIAN	CEBU	5244	On October 23, 2013, a memorandum was issued to PM Nestor Rey Alcosoba, Cebu requesting him for documents necessary in the filing of Petition for land registration.


105	BRGY. DANCALAN, BOBON	NORTHERN SAMAR	5000	Verify and evaluate if the documents needed for filing of the Petition for Land Titling is complete so we can proceed with the application for titling.
106	CAPITOL SITE, BAYOMBONG	NUEVA VIZCAYA	947	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.
107	BANIGAN, LILOY	ZAMBOANGA DEL NORTE	1800	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.
108	BANISILAN	NORTH COTABATO	14149	To follow-up with the Provincial Office, NFA- North Cotabato, if they already complied with the memo from LAD. Then, verify and check the update on CLOA application before the DAR-North Cotabato.
109	BRGY. BISLIG CITY (MANGAGOY)	SURIGAO DEL SUR	1507	Already sent a Memorandum requesting the documents from the Provincial Office.
110	FSC LOT, BAY-ANG, UBAY	BOHOL	2948	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.
111	BRGY. BAGACAY, ROMBLON	ROMBLON	1122	Request for the documents needed for the titling already sent to the Provincial Office last December 21, 2013. No response yet from Provincial Office. With reply on April 4, 2014.
112	LEGAZPI PROPERTY	ALBAY	5060	Submitted documents from NFA Albay for review and evaluation.
113	TUBURAN, LIGAO PROPERTY	ALBAY	3339	Submitted documents from NFA Albay for review and evaluation.
114	LIBON PROPERTY, ALBAY	ALBAY	20000	For follow-up, status of the issuance of new TCT from the Registry of Deeds.
115	TABACCO CITY	ALBAY		For follow-up, status of the issuance of new TCT from the Registry of Deeds.
116	LIBERTAD, BUTUAN CITY	AGUSAN DEL SUR	16448	For issuance of Presidential Proclamation with completed staff work already.
117	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).
118	CAMARAG, SAN ISIDRO	ISABELA	5000	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.
119	BRGY. POBLACION, TRENTO	AGUSAN DEL SUR	10000	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.
120	COGON, BOGO	CEBU	5000	DONATION dated 10-21-1975
121	LARENA, SIQUIJOR	SIQUIJOR	3000	PURCHASED dated 4-18-1977, NFA Siquijor requested from the LRA a certification on the registration of the said lot. Awaiting the requested documents.
122	LOAKAN, BAGUIO CITY	BENGUET	21,115(1,214)	With Presidential Proclamation No. 919 dated 24 November 2014, amending Proclamation No. 603 (Series of 2004) segregating the area of NFA and declaring a portion (7,917) as BSP site.
123	DEL PILAR, TAGUDIN	ILOCOS SUR	2000	

124	DELFIN ALBANO	ISABELA	3000	The donor favorably granted NFA's request. Issued a Resolution No. 10-2012 confirming the old SB Resolution. A new Deed of Donation was executed and signed by both parties. Forwarded signed deed to the PO on April 4, 2012 for the issuance of new title with ROD.
125	ALIAGA	NUEVA ECIJA	4707	For Evaluation of documents.
126	CADRE, GUIHULNGAN CITY	NEGROS ORIENTAL	3000	Still awaiting for the issuance of title by the Land Registration Authority / Registry of Deeds.
127	PRA CEBU PORT CENTER	CEBU	25000	This lot was purchased fro PEA (now PRA). The Deed of Sale cannot be executed due to the issue as to who will pay the Capital Gains Tax.


Prepared By:


JAYSON L. PE
 CLERK III, Litigation Division

Noted By:


 Atty. MA. THERESA S. VILLAFUERTE
 Div. Chief, Litigation Division

Approved by:


 Atty. EDNA T. LOVERIA
 Officer-In-Charge, LAD

PART II - OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL OPERATIONS

Merchandise Inventory

1. The balance of the Merchandise Inventory account of P10.384 billion as of December 31, 2014 and the related Cost of Sales (COS) of P28.826 billion for the year are not reliable due to non-recognition of customs duties, handling and transportation costs as component of the cost of imported rice, thereby understating the Merchandise Inventory account by P10.429 billion and COS by P8.495 billion, and the variance of 83,104.89 net kilograms amounting to P2.409 million between the stock inventory report and the trial balance.

1.1 To stabilize the price and supply of basic food commodities, particularly rice, NFA resorted to importation to augment the domestic production. The NFA Council approved the importation of 1.800 million metric tons (MT) of rice through the conduct of Government to Government (G to G) and public bidding as modes of procurement. For such importations, the NFA incurred duty obligations to the Bureau of Customs (BOC). These duties were settled through Tax Expenditure Subsidy (TES) granted by the National Government (NG) to NFA.

1.2 From November 2013 to September 2014, the NFA entered into contracts with Vietnam Southern Food Corporation (Vinafood II), Vietnam Northern Food Corporation (Vinafood I) and Department of Foreign Trade, Ministry of Commerce, Thailand for the importation of 1.800 million MT of rice amounting to US\$818.825 million. The breakdown is presented in Table 1.

Table 1 - Rice Importation of 1.800 Million MT

Supplier	Contract Date	Quantity (in MT)	Unit Price (in US\$)	Amount (in US\$)	Mode of Procurement
Vinafood II	11/26/13	500,000	462.25	231,125,000	G to G
Vinafood II	09/30/14	200,000	475.00	95,000,000	
Thailand	09/30/14	300,000	475.00	142,500,000	
		500,000		237,500,000	
Sub-total		1,000,000		468,625,000	
Vinafood II	04/28/14	200,000	436.50	87,300,000	Public bidding
		200,000	437.75	87,550,000	
		200,000	439.25	87,850,000	
		600,000		262,700,000	
Vinafood I	04/30/14	100,000	436.00	43,600,000	
		100,000	439.00	43,900,000	
		200,000		87,500,000	
Sub-total		800,000		350,200,000	
Grand-total		1,800,000		818,825,000	

1.3 Under Volume III, Section 45 of the Manual on the New Government Accounting System (MNGAS), as updated by COA Circular No. 2004-008 dated September 20, 2004, Merchandise Inventory account is used to record the cost of merchandise purchased or produced for sale. In Philippine Accounting Standards (PAS) 2-

Inventories, the cost of inventories shall comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The cost of purchase includes, among others, the import duties and taxes, other than those subsequently recoverable by the entity from taxing authorities.

1.4 As of December 31, 2014, the Merchandise Inventory account had a book balance of P10.384 billion, while Cost of Sales for the calendar year (CY) 2014 amounted to P28.826 billion. Of these amounts, P10.255 billion under Merchandise Inventory and P24.197 billion under Cost of Sales pertained to the imported rice.

1.5 Review of the Merchandise Inventory account disclosed that the customs duties (CD) thereon amounting to P10.421 billion were not recorded and recognized in the books as component of initial cost, which was inconsistent with the provisions of PAS 2. The computation is shown in Table 2.

Table 2 - Computation of CD for Imported Rice Received in 2014

Supplier	Quantity (in MT)		CD as Recomputed and/or Audited
	Contracted	Received in 2014	
Vinafood II (November 2013 contract)	500,000	399,435	P 2,851,689,600
Vinafood I and II (April 2014 contract)	800,000	793,299	5,219,833,042
Vinafood II and Thailand (September 2014 contract)	500,000	231,822	2,349,309,856*
Total	1,800,000	1,424,556	P10,420,832,498

* Based on the Summary of Accounts from Grains Marketing and Operations Department (GMOD)

1.6 The CD is P7,315.14 per MT (P10,420,832,498 total CD / 1,424,556 MT) or P365.76 per bag (P7,315.14 per MT / 1,000 kilograms / MT x 50 kilograms / bag).

1.7 Likewise, the COS of P24.197 billion pertaining to the sale of imported rice totaling 1,160,511,060 kilograms (kgs) or approximately 23,210,221 bags during the year was understated by approximately P8.489 billion, which is the corresponding CD, thus, resulting in the understatement of the COS by the same amount. The corresponding CD was computed as follows:

$$\begin{aligned} \text{CD} &= \text{P}365.76 \text{ per bag} \times 23,210,221 \text{ bags sold} \text{ (1,160,511,060 kgs / 50 kgs)} \\ &= \mathbf{\text{P}8,489,370,432.96} \end{aligned}$$

1.8 The interpretation on the exception on cost component of inventories as basis for mere disclosure of import duties in the Notes to Financial Statements in relation to “subsequently recoverable by the entity from taxing authorities” is not appropriate. The recoverability of import duties did not arise from a “taxing authority” but rather from the General Appropriations Act (GAA). The tax subsidy is paid through TES, a non-cash transaction based on the Special Allotment Release Order (SARO) issued by the Department of Budget and Management (DBM), where such expenditure are chargeable against the Tax Expenditure Fund (TEF) in the budgetary program approved by the Congress, and set aside to cover the subsidy support from the beneficiaries as determined by the Fiscal Incentives Review Board (FIRB). The import duties of NFA rice are tax expenditure subsidies granted by the FIRB provided under the GAA, and required to be taken up as revenue and expenditure of the government.

Non-recognition of handling and transportation costs

1.9 For the 2014 importation, the cost of “one move” handling from truck to platform scale was part of the agreed contract price with the supplier, while the cost of “one move” handling from platform scale to pile in the amount of P3.65 per move was to be paid by NFA. From the data available in Cavite Provincial Office (PO), handling costs directly attributable to the acquisition of imported rice in the amount of P1.709 million were not recorded in a timely manner.

1.10 In early 2015, there were adjustments made to Prior Year Adjustment- Expenses for stock receipts in the amount of P342,966 but left out the recognition of P1.366 million which comprised 2014 handling costs to be capitalized as component of inventories.

1.11 The importation contracts stipulated that the delivery was freight free provided that the distance was within the 30-kilometer (km) radius from the disport area. The Cavite PO warehouses were located beyond 30-km radius from Manila port, however, to facilitate and fast track delivery, NFA-National Capital Region (NCR) executed a contract with designated cargo handler of the supplier for the delivery to the Cavite PO warehouses to be paid by the NFA-NCR. The additional transportation expenses in the total amount of P6.786 million incurred in bringing the imported rice of 832,186 bags to the Cavite PO warehouses were not yet capitalized as cost component of inventories as of April 30, 2015. Of this amount, P2.462 million was already paid by the NCR covering the months of February to April 2014, but the expense was not yet recorded at Cavite PO as at December 31, 2014.

1.12 The non-recognition in the books of the related customs duties of P10.421 billion and handling and transportation costs totaling P8.152 million (P1.366 million + P6.786 million) resulted in the understatement of the Merchandise Inventory account balance by P10.429 billion and COS by P8.495 billion [P8.489 billion for CD + P5.741 million (P1.043 million for handling cost + P4.698 for trucking cost)] during the year.

Variance between stock inventory report and trial balance

1.13 In Negros Occidental PO, review and verification of the Merchandise Inventory account balance and year-end stock inventory reports for local and imported rice revealed a variance of 83,104.89 net kilograms (nkg) amounting to P2.409 million.

1.14 The variances between accounting (trial balance – total of 21,546,165.05 nkg with equivalent amount of P430,585,448) and warehouse (stock reports – total 21,463,060.16 with equivalent amount of P428,176,067) records were mostly due to the unreconciled beginning balances or prior years’ differences which are continuously being corrected and reconciled by the Accounting Section.

1.15 In addition, it was noted that 38 bags equivalent to 1,602.44 nkg of totally damaged Thailand rice were included per Summary of Warehouse Stock Balance as of December 31, 2014, while 20 bags equivalent to 967.72 nkg of damaged Vietnam rice in Gequillana warehouse were not.

1.16 Moreover, the Raw Materials Inventory and Work-In-Process accounts still had ledger balance of P1,083 and P200,832, respectively, even though there was already no inventory of palay on hand in all warehouses.

1.17 We recommended that Management require the Accounting Services Department (ASD) to effect the necessary adjustments for the customs duties not taken up in the books. Henceforth, record and recognize in the books the customs duties incurred in importing rice as component of the initial cost of rice received under the Merchandise Inventory account pursuant to PAS 2.

1.18 We also recommended that Management require the:

a. Cavite PO to effect the necessary adjustments in the books for the handling and transportation costs which were not taken up as component of Merchandise Inventory and COS in 2014. Henceforth, coordinate with the NCR for the timely recognition of the expenses to present the correct balance of Merchandise Inventory account and COS; and

b. Negros Occidental PO to exert extra efforts in verifying the variances of prior years' transactions, and effect the necessary adjustments to come up with the correct balance of the account. In addition, corrections made by the Accounting Section on the Stock Inventory Report be incorporated on the succeeding reports to show the correct balances.

1.19 Management gave the following comments:

a. The non-recognition of customs duties as component of the initial cost of imported rice and the corresponding cost of sales is in compliance with COA's Audit Observation Memorandum (AOM)-08-07-002 dated July 1, 2008;

b. Cavite PO Management will discuss the matter with the officials of the NCR; and

c. Negros Occidental PO Management has difficulty reconciling the prior years' carry over balance because of the long period of time and lack of personnel. It also cannot forgo its current transaction which is already being reconciled monthly. Since this variance occurred in the periods which have already been liquidated and that shortages have already been either absorbed by Tolerable Allowance (TOLA) or paid by Stock Accountable Officers (SAOs), it recommends that these variances be dropped in the books.

The 38 bags of totally damaged Thailand rice was inadvertently included in the December 2014 Summary of Warehouse Stock Balance and was already adjusted in January 2015. Damaged stocks are classified as Miscellaneous Inventory in the books, thus were not included in Merchandise Inventory account.

1.20 As audit rejoinder, the exception provided in PAS 2 which is "subsequently provided by the entity from taxing authorities" might have been misinterpreted, thus, the basis for the audit recommendation under the said AOM that the customs duties and related tax subsidy need only to be discussed in the Notes to Financial Statements.

1.21 It is emphasized that the recoverability of import duties did not arise from a taxing authority but from the GAA. It is clear under the GAA and COA rules and regulations that the tax subsidy shall be recognized as Subsidy Income.

1.22 As to Negros Occidental PO Management's explanations, we maintain that Management should instruct its Accountant to exhaust all efforts in verifying the variances of prior years' transactions, and effect the necessary adjustments to come up with fair presentation of accounts in the financial statements.

2. The receipt of 832,186 bags of imported rice was recorded by the Cavite PO in the Merchandise Inventory account at a fixed amount of US\$462.25/MT, translated in Philippine Peso, instead of the cost indicated on the vessel's commercial invoices, thereby overstating the account by P12.555 million. Also, the foreign exchange (ForEx) rates used were computed daily, which are prone to error and difficulty in locating transactions in cases when adjustments are required to correct previous accounting entries.

2.1 The NFA Standard Operating Procedure (SOP) No. FA-FA11 entitled "Revised SOP on Cost Accounting for Stocks" dated June 15, 1999, provides that the basic cost pertains to the negotiated/contracted cost of imported stocks, while the inventory cost includes items of expense, which are added to the cost of stocks in making it ready for sale.

2.2 The Cavite PO received a total of 832,186 bags in 2014. The receipt of imported rice per month was recorded based on the Warehouse Stock Receipts (WSRs) by multiplying the MT received by the contract price in US\$ and by the daily US\$ exchange rate. The contract price used as basis for recording the imported rice received was fixed at US\$462.25 per MT, with a total amount of P844.158 million, without reference to the value of stocks indicated in each vessel's import documents, in particular, the commercial invoices.

Table 3 - Comparison of Price per MT Between Accounting Records and Commercial Invoice per Vessel

Vessel	Date Received (CY 2014)	Total Bags	Accounting Record			Commercial Invoice	
			Month (CY 2014)	Cost/MT (in US\$)	Equivalent Amount (in Peso)	Cost/MT (in US\$)	Amount (In Peso)
Vinaship Gold V2	Feb 23 - 26	20,462	February	462.25	20,957,456	462.25	21,232,102
MY Vuong	Feb 28 - Mar 9	50,697		462.25	-	462.25	52,486,010
FS Beach	Mar 7 - 12	55,882	March	462.25	252,620,916	462.25	57,851,609
Lucky Star	Mar 12 - 31	80,300		462.25	-	462.25	83,130,242
Vega Star	Mar 22 - 29	55,550		462.25	-	462.25	57,507,907
VinhPhuoc	Mar 30 - Apr 6	49,599	April	462.25	41,107,368	462.25	51,194,447
Lan Ha	Jul 5 - 23	46,644	July	462.25	90,481,487	439.00	44,502,559
Vega Star	Jul 15 - Aug 7	51,351		462.25	-	436.50	48,765,003
Vinaship Diamond	Aug 7 - 20	55,937	August	462.25	121,327,025	437.75	53,585,228
Vinalines Unity	Aug 19 - Sep 3	79,515		462.25	-	439.00	76,544,836
Silver Star	Sep 2 - 16	35,199	September	462.25	114,261,740	437.75	33,956,255
Tay Son 2	Oct 7 - 19	39,999	October	462.25	128,184,407	439.25	39,353,971
Vinaship Sea	Sep 22 - Oct 5	92,750	November	462.25	6,064,216	437.75	90,086,784
Diamond Star	Oct 22 - Nov 8	51,298	November	462.25	19,598,804	436.50	50,174,380
Gertrudis	Dec 20 - 30	37,098	December	462.25	38,174,357	475.00	39,373,415
Lucky Star	Nov 11- Dec 30	29,905	December	462.25	11,379,912	475.00	31,857,554
TOTAL		832,186			844,157,688		831,602,302
Difference							12,555,386

2.3 The value of imported rice indicated in the commercial invoice of each vessel ranged from US\$436.50 to US\$475 per MT from the 2014 procurement contracts entered into by the NFA. The cost at US\$462.25 per MT was the contracted cost of the

500,000 MT with Vietnam Southern Foods Corporation on November 26, 2013. This cost was consistently used by the Accounting Specialist for all the 832,186 bags imported rice, thereby overstating the Merchandise Inventory balance by P12.555 million, as shown in Table 3.

2.4 Further examination disclosed that adjustments in the total amount of P501.815 million under various Journal Entry Vouchers (JEVs) in the Merchandise Inventory account were made in 2015 per advice from the NFA - Head Office (HO). The accounting entries contained price variances between the recognition of inventory cost per Cavite PO's books and set-up of accounts payable at the HO. As shown in Table 4, the adjustments had a net effect understatement of P19.210 million in the Merchandise Inventory and COS.

Table 4 – Net Effect of CY 2015 Adjustments to CY 2014 Importation

Account Title	JEV 15-02-0077	JEV 15-02-0076	Net Effect
	Debit	Credit	
Merchandise Inventory	P 540,584	P 7,124,863	P 6,584,279
Prior Year Adjustment- Cost of Sales	4,496,866	17,122,770	12,625,904
Total	P 5,037,450	P 24,247,633	P 19,210,183

2.5 Also, the equivalent exchange rate for the cost of US\$462.25 per MT was computed daily, based on exchange rate of the day, which was prone to error and difficulty in locating transactions in cases when adjustments are needed to correct the previous accounting entries.

2.6 PAS 21 - The Effects of Changes in Foreign Exchange Rates provides that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Under Paragraph 22 of the same PAS, *“The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with PFRSs. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during the period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate.”*

2.7 We recommended that Management require the Accounting Specialist of Cavite PO to:

- a. Conduct an in-depth review and analysis of the cost of 2014 imported rice recognized in the books, with emphasis on cost per MT *vis-à-vis* cost per MT per vessel, and re-compute for the correct cost of 832,186 bags imported rice and compare with the adjustments advised by the HO;**
- b. Coordinate with the HO on results of the review and analysis noted, if any, to determine the correct initial cost that should be recorded in the books and to make adjustments accordingly; and**
- c. Consider the applicability of using the average US\$ exchange rate for a week or a month provided under PAS 21, instead of daily exchange rate.**

2.8 Cavite PO Management explained that the US\$ exchange rate used on the day the stocks were received was provided per ASD, NFA-HO advice.

2.9 As audit rejoinder, **we further recommend that the matter be elevated to the ASD, NFA-HO for the purpose of revisiting the accounting policy.**

Accounts Receivable - Trade

3. The validity, existence and collectability of the Accounts Receivable-Trade of P1.169 billion cannot be ascertained due to the existence of dormant accounts, non-availability of supporting documents and the absence of updated information on collections, thus affecting the fairness of presentation of the balances in the financial statements.

3.1 Government fund is the lifeblood of any government office providing services to the general public. The NFA, which is mandated to provide food security in staple cereals and stabilization of staple cereal supply and prices, is expected to raise and manage funds to support its operations. Hence, it is imperative that the head of office should set strategies and implement measures that will improve its fund management. Moreover, Section 102 of Presidential Decree (PD) No. 1445 provides that *“the head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.”*

3.2 Furthermore, Section 64, Volume I of the Government Accounting and Auditing Manual (GAAM) provides that *“Quarterly, each agency accounting unit shall prepare a statement scheduling overdue accounts receivable. The agency head or its authorized representative shall review and sign this statement as an indication that he has examined the list of overdue accounts and has instituted, or will institute, action for their collection.”*

3.3 As provided under COA Circular No. 97-001 dated February 5, 1997, when the accounts in the trial balance of a fund or funds are non-moving for five consecutive years, the Chief Accountant or other officials concerned shall:

- a. Initiate/cause the verification of the nature or purpose of the fund;
- b. If upon verification the purpose of the fund is found fully completed, discontinued and/or abandoned and no financial transactions are expected, conduct review, analysis, and reconciliation of the subject funds/accounts, and determine their existence and validity; and
- c. If the analysis/review of the accounts/funds is not possible due to absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from the COA, supported by 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.

3.4 The Accounts Receivable-Trade account has a balance of P1.169 billion as of December 31, 2014. It consists of several sub-accounts, as shown in Table 5.

Table 5 - Breakdown of Accounts Receivable-Trade

Particulars	HO	ROs/POs	Total	Percentage
National Government Agencies (NGAs)	P 59,362,441	P 910,532,739	P 969,895,180	82.94
Local Government Units (LGUs)	-	179,969,873	179,969,873	15.39
Private Corporations	3,531,235	9,172,090	12,703,325	1.08
Employees	-	543,392	543,392	0.05
Farmers	-	5,566,221	5,566,221	0.48
Others	-	770,152	770,152	0.06
Total	62,893,676	1,106,554,467	1,169,448,143	100.00
Less: Allowance for doubtful accounts	62,893,676	631,928,022	694,821,698	59.41
Accounts Receivable – Net	P -	P 474,626,445	P 474,626,445	40.59

ROs – Regional Offices

3.5 Last year's audit of the account revealed that a total P129.915 million from the Branch Transactions Accounting Section (BTAS) remained unreconciled. In 2014, the amount of reconciling items decreased to P129.669 million, which showed that only 0.19 per cent or P245,867 was reconciled.

3.6 Aging of the accounts receivable revealed that P718.391 million or 61.43 per cent of the total balance of P1.169 billion has remained outstanding for two to more than four years, as shown in Table 6.

Table 6 - Aging of Accounts Receivable-Trade

Age	Amount	Percentage
Less than one year	P 290,412,152	24.83
One year but less than two years	160,644,720	13.74
	451,056,872	38.57
Two years but less than three years	58,815,771	5.03
Three years but less than four years	137,291,471	11.74
Four years and above	522,284,029	44.66
	718,391,271	61.43
	P 1,169,448,143	100.00

3.7 Management may have sufficiently provided for allowance for doubtful accounts, in the amount of P694.822 million as shown in Table 5, but it should not preclude the same from exhausting all administrative and legal remedies available under the circumstance to pursue collection of the amounts due from creditors.

3.8 Receivables from NGAs and LGUs of P969.895 million and P179.970 million, respectively, comprised the 98.32 per cent of the total accounts receivable. Moreover, out of the total P718.391 million receivables aged two to four years or more, P554.636 million or 77.20 per cent were also receivables from the NGAs and LGUs, details shown in Table 7 on the next page.

3.9 Accounts receivable from NGAs consist of authorized rice loans granted to various NGAs under Memoranda of Agreement (MOAs) entered by NFA-HO with NGAs. The responsibility for the collection of the accounts rests with NFA-HO. The payments are recorded by the ROs/POs and Accounts Receivable account is credited upon the receipt of advice of payment from the NFA-HO.

**Table 7 - Accounts Receivable-Trade from NGAs and LGUs
Aged Two to Four Years or More**

Agencies	Amount
NGAs	
Department of Education (DepED)	P 185,137,661
Department of National Defense (DND)	120,244,774
Office of the President (OP)	58,858,000
Department of Social Welfare and Development (DSWD)	46,169,048
House of Representatives/Senate	32,402,225
Other Offices	6,944,264
Sub-total	449,755,972
LGUs	
Local Government Offices	88,409,346
Municipal Mayors / Vice Mayors	13,150,078
Provincial Governors/Vice Governors	2,690,553
City Mayors / Vice Mayors /Other Agencies	630,151
Sub-total	104,880,128
Total	P 554,636,100

3.10 On the other hand, accounts receivables from LGUs were agreements entered into by the NFA POs/Branch Offices with various LGUs to sell rice on credit for their relief operations. Under the Agreement, the LGUs should pay the NFA PO/Branch Office for the rice issued and delivery fee, if any, within a maximum period of six months from date of billing.

3.11 Review and analysis revealed that accounts aged two to four years or more were reported in the various NFA offices, as shown in Table 8.

Table 8 - Status of Accounts Receivable in Some ROs/POs/Districts

Office	Balance (in Million)	Status
HO	P 62.894	93.58 per cent or P58.858 million receivables pertained to the Office of the President (OP) account which remained dormant since/prior to 2007.
NCR- RO	141.572	100 per cent comprised of long outstanding balances aged four years and above, including negative balance of P0.730 million.
NCR- Batanes	0.272	100 per cent non-moving for over five years; representing sales of rice on credit to government agencies and legislator under the Priority Development Assistance Fund (PDAF); efforts to collect, reconcile document and determine the status of collection from the NFA-HO was not continuously pursued.
NCR- Central District Office (CDO)	123.229	7.01 per cent or P8.640 million remained outstanding and uncollected for two to four years and more, including account from the Department of National Defense in the amount of P4.125 million that confirmed zero balance in its books.
NCR- East District Office (EDO)	0.332	84.31 per cent or P279,933 remained non-moving for more than five years due to lack of coordination between NFA-HO and NFA-EDO.
NCR- South District Office (SDO)	92.982	4.26 per cent or P3.961 million remained outstanding and uncollected for three to five years and over.
Region I - Abra PO	2.912	93.99 per cent or P2.737 million uncollected accounts are aged over four years which includes accounts from

Office	Balance (in Million)	Status
		DSWD - Department of Education-Food for School Program (FSP) of P1.907 million.
Region I - Benguet PO	2.425	100 per cent had been outstanding from three to over four years because of incomplete documentation and non-availability of supporting documents and records. This includes receivable from the National Disaster Coordinating Council (NDCC) which the Accountant has no file of the documents supporting the validity of the amounts booked from 2005-2009 totaling P2.066 million.
Region I - Ilocos Sur PO	2.626	74.45 per cent or P1.955 million uncollected receivables are aged two to more than four years due to lack of constant coordination and inability of the NFA-HO to provide ROs/POs with the updated information on collections.
Region III - Bulacan PO	11.769	100 per cent remained outstanding for three to 15 years composed of P10.408 million uncollected receivables from NGAs and legislators due to uncertainties in the actual payments/settlements made to NFA-HO and P1.360 million receivables from LGUs that were in vain because of the non-enforcement of specific provisions of covering MOAs.
Region III - Tarlac PO	0.189	100 per cent remained outstanding for 13 years or more due to inadequate monitoring and lack/absence of the payment advice from NFA-HO as the basis of the PO concerned in recording the payment and crediting the accounts receivable account.
Region VI - Iloilo PO	19.039	3.22 per cent or P0.614 million receivables are dormant for six to 35 years due to lack of documents to support the receivables.
Region VIII	55.457	100 per cent outstanding for two to more than 10 years representing rice taken on credit from the different warehouses of the NFA Leyte, Biliran, Southern Leyte and Northern Samar, and from retailers and other employees.
Region IX	4.635	100 per cent outstanding for a period ranging two to four years and above which includes account of DSWD - FSP of P4.157 million that have remained uncollectible pending the reconciliation made between NFA and DSWD.

3.12 The existence of outstanding accounts receivable could be partly attributed to lack of constant coordination between the NFA-HO and NFA ROs/POs as to the status of the accounts, updated information on collections and the inability to strictly implement the payment terms as agreed in the MOAs.

3.13 Accounts receivable that remained dormant for many years cast doubt on the existence of the receivables, as well as the accuracy and completeness of the balances. Moreover, uncollected accounts had deprived NFA of the financial resources that could have been utilized for operations and could have minimized the borrowings for procurement of rice, palay and corn for food security program of the government.

3.14 **We reiterated our recommendations in previous years' audit that Management:**

- a. **Require the ASD to fast track the reconciliation of the receivables from NGAs and LGUs with the collections received at the NFA-HO.**

Accordingly, advise the ROs/POs on the results thereof for updating the recorded receivables in the respective regional and provincial books of accounts where receivables were recorded;

b. Continue to vigorously pursue the collection efforts through demand letters and collaboration meetings and strictly enforce the provisions of the MOAs with the NGAs and LGUs particularly the payment terms;

c. Conduct in-depth analysis and verification of the receivables and determine those deemed uncollectible after all the efforts have been exerted, for possible write off in accordance with COA Circular No. 97-001 and NFA SOP No. FS-FA13; and

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

3.15 We also recommended that Management instruct the ASD to prepare quarterly a statement scheduling overdue accounts receivable for the agency head or its authorized representative to review and sign the statement to ensure that he has examined report and has instituted, or will institute, action for their collection.

3.16 For NFA-HO, Management provided comments on the following accounts:

a. Bureau of Treasury (BTr) – Reconciliation of this account is a continuing activity. Journal Entry Vouchers (JEVs) were prepared to adjust misclassified transactions resulting in a decrease of 96 per cent or P11.381 million as of December 31, 2014.

b. Office of the President (OP) – NFA issued another demand letter dated April 14, 2015 to the Office of the Presidential Management Staff (PMS) together with the certified photocopies of pertinent documents to support NFA's claims.

c. Philippine National Red Cross (PNRC) – Reconciliation, verification and retrieval of supporting documents are on-going. Adjusting entries will be prepared after a thorough verification is completed.

3.17 On the other hand, the comments of the NFA District Office/ROs/POs' Management are:

a. NCR-CDO - The DSWD had just paid P113.825 million last May 2015, reducing its accounts by 92 per cent; as to the DND account, the Agency now acknowledges its payable to NCR-CDO in the amount of P4.125 million and had prepared a voucher for said payable; demand letters will be sent to other creditors, such as, the Philippine Amusement and Gaming Corporation (PAGCOR), Bureau of Agriculture and Fisheries Foundation (BAFF) and Department of Agriculture (DA) together with a copy of their confirmation of their accounts payable.

- b. Region I - Abra PO - Management was constrained because of delayed advices. However, it acknowledged COA's recommendation to constantly coordinate with NFA-HO regarding the status of said receivables.
- c. Region I - Ilocos Sur PO - The Statement of Rice Issuances and other required documents will be forwarded to NFA-HO to facilitate reconciliation of other receivables from DSWD, National Disaster Risk Reduction and Management Council (NDRRMC), Provincial Disaster Risk Reduction and Management Council (PDRRMC) and Congressman Grace Singson. The accounts will be credited upon receipt of collection advice from the NFA-HO.
- d. Region III - Tarlac PO - There is continuous coordination with the ASD, NFA-HO on the reconciliation of accounting advices of receivables from legislators and has forwarded the necessary documents to support the collections of the receivable accounts.
- e. Leyte PO - The debtors could not make settlement of their accountabilities with NFA due to the absence of documents, and that it is waiting for the decision/resolution on their request for write-off of dormant accounts totalling P185,473.
- f. Northern Samar PO - Collection of receivables amounting to P27.082 million representing unpaid accounts of the DepED, DSWD, NDCC, PNRG, Senator Legarda and Representative Mariano are being made at NFA-HO; while P1.198 million representing receivables from LGUs were already paid this 2015.
- g. Southern Leyte PO - Efforts have been made to collect the receivables from the LGUs but yielded negative results. It now intends to refer the matter to NFA Legal Affairs Division (LAD) at HO for appropriate legal action. As to the status of collections of receivables from other agencies, follow up with NFA-HO Marketing Operations and ASD were already made.
- h. Biliran PO - The receivables from the NGAs which have been outstanding for more than two years are due for collection at NFA-HO and it requested information or advices as to the status of the collections made to enable them to make adjustments in the books of accounts of the PO.
- i. Leyte and Northern Samar POs - Payments for rice issued on credit to NGAs are made at NFA-HO and they have not received yet any information as to the status of payments made by the concerned government agencies.

Other Receivables

4. Overdue receivables amounting to P14.029 million from various individuals and former NFA officials/employees, who died, resigned or retired from the service, remained dormant for five to 10 years and more due to lack of documentation and the failure to undertake measures for the proper disposition of the dormant accounts pursuant to COA Circular No. 97-001 and NFA SOP No. FS-FA13, thus rendering the accuracy and existence of the balance of the Other Receivables – Contingent Assets account doubtful.

4.1 COA Circular No. 97-001 dated February 5, 1997 prescribes the guidelines and procedures on the proper disposition/closure of dormant funds and/or accounts of government agencies. As defined in the Circular, dormant accounts refer to individual or group of accounts which balances remained non-moving for more than five years. The same Circular provides, among others that, if the analysis/review of the accounts is not possible due to absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from the COA, supported by 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.

4.2 On the other hand, NFA SOP No. FS-FA13 dated May 13, 2008 prescribes the guidelines in writing-off dormant/uncollectible accounts. Under this SOP, the reasons for which receivables may be recommended for write-off are the following:

- a. Death of respondent employee;
- b. Unknown whereabouts of the respondent employee, and that he/she cannot be located despite extra-diligent efforts to find him;
- c. Incapacity to pay or insolvency of the respondent employee;
- d. The account had remained unpaid and outstanding for more than 10 years despite diligent efforts to collect exerted by the NFA; and
- e. The account unpaid and outstanding does not exceed P10,000.

4.3 As of December 31, 2014, receivables from various individuals, and former NFA officials/employees who died, resigned or retired from the service, and have remained dormant for five to 10 years and more amounted to P14.029 million. These were booked under the accounts shown in Table 9.

Table 9 - Receivables with Remote Collectability

Account Description	HO	Field Offices	Total	Remarks
Cash Collecting	P 164,750	P -	P 164,750	Accounts of NFA personnel who either had retired or died; outstanding for more than 10 years
Cash Disbursing	4,293	-	4,293	
Due from Officers and Employees	42,149	-	42,149	
Disallowances and Charges	-	9,960	9,960	
Other Receivables	105,017	20,563	125,580	
Other Assets – Contingent	11,318,054	2,364,565	13,682,619	53 per cent of the HO account are those of individuals without subsidiary ledgers and supporting documents
	P 11,634,263	P 2,395,088	P 14,029,351	

4.4 In NFA-HO, the Matrix of Outstanding Receivables and Unliquidated Cash Advances of Accountable Officers submitted by the ASD as of December 31, 2014 showed that a total of P11.634 million, aged five to 10 years or more, remained in the books. Absence of records made it difficult for the ASD to analyze the nature of the accounts and determine whether the debtors are former NFA officials or private individuals/contractors.

4.5 The accounts of NFA personnel, who either had retired or died, for more than 10 years had not been reclassified to Other Assets-Contingent account.

4.6 In NCR-EDO, the total amount of P2.365 million pertains to unsettled obligations of separated/retired/absence without leave (AWOL)/deceased employees and majority of which remained uncollected for more than five years, despite the issuance of demand letters and the institution of legal action against the concerned personnel.

4.7 In Region III, the total amount of P30,523 are receivables due from employees of the RO who were already separated from the service. The Accountant informed that she was not able to send demand letters to them as there were no records of their last known addresses.

4.8 It was also noted that several NFA officials and employees were allowed to resign/retire without settling their liabilities in the total amount of P437,975, composed of P198,213 in the HO and P239,762 in the EDO. This is contrary to NFA SOP No. HR-PR03 - Issuance of Certificate of Clearance (COC) which states that *"For an employee who is applying for a permanent separation from NFA service due to resignation, retirement or transfer to another government agency, the approved COC shall evidence that he/she is already released from any obligation as an employee, and therefore, the NFA can no longer hold him/her liable/responsible for any accountability which he/she had already been cleared of. On the part of the NFA, this shall serve as a control measure in safeguarding its interest since the approved COC is one of the basic requirements for the processing of the application for leave/transfer and other money claims against the NFA. This, therefore, shall cause the settlement/liquidation of accountabilities by the concerned employee."*

4.9 Management had not initiated any action to dispose the said accounts. Thus, as the accounts remained uncollected and unreconciled, the accuracy and existence of the account balances become doubtful.

4.10 **We recommended that Management:**

- a. **Institute all measures to document the receivables and continuously send demand letters to all concerned to enforce collection of the dormant receivable accounts. For those the recovery are already remote or nil, require the Accountant to take appropriate action to have the accounts written-off pursuant to existing laws, rules and regulations;**
- b. **Adhere strictly to the rules and regulations on the issuance of clearance to officials and employees who are leaving the NFA through retirement, resignation or transfer for monitoring and control purposes of their outstanding accountabilities; and**
- c. **Reclassify the dormant balances under Cash-Collecting Officers and Cash-Disbursing Officers accounts to Other Receivables account.**

4.11 Management's comments are:

a. NFA-HO

a.1 It has sent demand letters to separated employees with outstanding obligations of P42,149 booked under Due from Officers and Employees. However, these were returned back by the post office with notation on the addressees, i.e., either had moved out, with insufficient address or already deceased.

a.2 On Other Receivables, the amount of P105,017 represents Kadiwa loans and rice disallowances of former COA personnel. Demand letters were sent to said employees but, to date, no response was received yet. NFA had requested also from the COA Human Resource Management Office (COA-HRMO) for latest information on the whereabouts of COA employees with outstanding accounts for the issuance of follow up demand letters.

a.3 On the reconciliation and verification of dormant accounts, all efforts have been exerted in locating/retrieving records. As recommended, Management will request for write-off of dormant/uncollectible accounts as soon as the necessary documents to support the request are completed and reclassified the balance of cash accounts to Other Assets-Other Receivables.

b. NCR-EDO - Of the P2.365 million Other Receivables, 90 per cent does not meet the conditions for request for write off based on NFA SOP No. FS-FA13 in terms of amount and documentation. Management has implemented SOP No. FS-CS10 dated September 3, 2007 that provides computerized database system to monitor collection remittances made by field offices on a daily basis. In this way, Management can monitor if collections are deposited and remitted to NFA-HO within the day. EDO abides by this SOP to help improve internal controls especially on collections and deposits.

c. Region III - Management committed to exert all efforts to locate and serve the demand letters to the concerned personnel.

4.12 As audit rejoinder, the Audit Team appreciates the actions taken/to be taken by Management to clear/settle the accounts. However, it will monitor implementation of the audit recommendations specifically on the reconciliation and verification of dormant accounts and the institution of legal action against concerned personnel whose account remained unsettled despite issuance of demand letters.

5. The validity, existence and collectability of the Inter-agency and Other Receivable accounts totaling P351.143 million cannot be ascertained due to the existence of various dormant accounts, insufficient documents and negative results of confirmation, thus, affecting the fairness of presentation of the balances of these accounts in the financial statements.

5.1 As of December 31, 2014, the reported balance of the NFA's Inter-agency Receivables such as the Due from National Government Agencies (NGAs), Due from Government-Owned and Controlled Corporations (GOCCs) and Due from the Local Government Units (LGUs) and the Other Receivables accounts amounted to P351.143 million consisted of the accounts presented in Table 10.

Table 10 - Inter-agency and Other Receivable Accounts

Account	HO	Field Offices	Total
Inter-agency receivables			
Due from GOCCs	P 94,990,028	P 70,213,722	P 165,203,750
Due from NGAs	6,798,402	62,869,686	69,668,088
Due from LGUs	5,626,446	9,137,557	14,764,003
	P 107,414,876	P 142,220,965	P 249,635,841
Other Receivables*	12,261,547	89,245,197	101,506,744
	P 119,676,423	P 231,466,162	P 351,142,585

* Excludes Advances to Officers and Employees amounting to P2.146 million.

5.2 Analysis of the Due from GOCCs, NGAs and LGUs accounts revealed that of the total year-end balances of P249.636 million, 43.43 per cent or P108.412 million (P107.067 million from the HO and P1.345 million from NCR-EDO) were considered dormant as the balances have been carried in the NFA books for several years now.

5.3 The Audit Team had sent confirmation letters to 24 creditors/agencies to determine the correctness and existence of the receivable balances as of October 31, 2014. However, as at audit date, only three agencies replied which confirmed a zero balance, thus a discrepancy of P0.908 million.

5.4 This audit issue had been raised in previous years' audit in which Management commented that ASD is coordinating with the concerned departments such as the Industry Services Department (ISD) and Grains Marketing and Operations Department (GMOD) in the reconciliation and possible collection of these long outstanding receivables.

5.5 In NFA-HO, receivables from various private entities/individuals recorded under Other Receivables account totaling P12.262 million, balance as of December 31, 2014 as presented in Table 10, were also non-moving and have been in the NFA books for 10 years or more, particularly the accounts shown in Table 11 which comprised 93.43 per cent of the total other receivables in the HO and mostly pertain to marine insurance coverage of imported rice shipments.

Table 11 - NFA-HO Dormant Other Receivable Accounts

Account	Amount
Vinafood Corporation	P 5,519,206
Vietnam Southern Food Corporation	2,736,628
Department of Foreign Trade, Thailand	1,464,542
Prima Comxendo	909,401
NFA Employees Association	825,903
Total	P 11,455,680

5.6 Paragraph 4.1.4 of COA Circular No. 97-002 states that “*Only permanent appointed officials shall be designated as disbursing officers. Elected officials may be granted a cash advance only for their official travelling expenses.*” In addition, Section 89 of PD No. 1445 requires that all cash advances shall be fully liquidated at the end of each year, except for petty cash fund. Further verification revealed, however, that the Other Receivables account included cash advances granted to five non-NFA employees that have remained unliquidated since 2008.

5.7 The non-movement of the affected accounts for a significant number of years brought about by their non-recoveries, negative amount of confirmations and the absence of pertinent documents which hampered the verification of these accounts were indications that the collectability and reliability of said accounts were doubtful.

5.8 **We reiterated our prior years’ recommendations that Management:**

a. Require the ASD to fast track the analysis and reconciliation of the receivable accounts. For those reconciliation or recovery which are already remote or nil after all the efforts have been exerted, request for write-off in accordance with COA Circular No. 97-001;

b. Pursue an extensive collection policy for the accounts due to the NFA and intensify efforts to collect long outstanding accounts; and

c. For the agencies which still have transactions with NFA, coordinate with their authorized official/s in order to finally settle these receivable accounts.

5.9 Management gave the following comments:

a. Due from NGAs account – thorough verification of the Department of Agriculture and Bureau of Post Harvest Research accounts resulted in the discovery of misposting of liquidations to NFA POs instead of NFA-HO. Necessary adjustments for the discovered error are being prepared.

b. Due from GOCCs – sent demand letter to Philippine International Trading Corporation (PITC) on June 2, 2015; as to Government Service Insurance System (GSIS) and Quedan Guarantee Fund Board (QGFB) accounts, verification and retrieval of documents are still being done to support claims and adjusting entries to be made.

c. Due from LGUs – thorough verification of the accounts resulted in the discovery of misposting of liquidations to NFA POs instead of NFA HO. Entries for remittances of refund from the NFA POs are still for verification and retrieval.

d. Other Receivables – ASD has requested the GMOD for copies of supporting documents and information on the status of collection of said accounts; as for the receivables from NFA-Employees Association, a demand letter was sent and provided them with the subsidiary ledgers to support claim; on the unliquidated cash advances, ASD has coordinated with concerned department requesting for assistance in the liquidation of outstanding travel cash advances.

5.10 As audit rejoinder, while we recognize the actions taken by Management, it is also emphasized that utmost and sustained efforts should be exerted to have the accounts reconciled and documented. As recommended, request for write-off should be made from COA for those accounts in which reconciliation or recovery is already remote or nil after all the efforts have been exerted.

6. Shortages of Stock Accountable Officers (SAOs) recorded as Due from Officers and Employees had accumulated to P803.657 million and remained uncollected due to failure to strictly implement existing policy, thus casting doubt on the full recovery of the receivable account that could have been used for the Agency’s operational requirements.

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

6.2 NFA SOP No. FS-GP20 dated January 27, 2006 entitled “Revised SOP on the payment of Grains and MTS (empty sacks) Shortages of Accountable Officers” provides the guidelines for the full settlement of grains and MTS shortages, which allows the payment of shortages through instalment basis. However, General Memorandum Order (GMO) No. AO-2K10-01-003 dated January 19, 2010 was issued which requires full payment of grains and MTS shortages of Accountable Officers within 15 working days from receipt of demand letter subject to certain provisions related to the filing of administrative/criminal case(s) against the SAOs.

6.3 It was observed that the provisions of the GMO on the payment of shortages of SAOs was not strictly implemented and carried out because of the Due from Officers and Employees account in the total amount of P835.720 million as of December 31, 2014, 96.16 per cent or P803.657 million of which are shortages of Accountable Officers of P778.390 million for stocks and P25.267 million for MTS, as presented in Table12.

Table 12 - Due from Officers and Employees-Stocks and MTS Shortages

Region	Shortages - Stocks	Shortages – MTS	Total
I	P 92,841,678	P 450,535	P 93,292,213
II	3,953,667	71,989	4,025,656
III	43,213,132	5,300,306	48,513,438
IV	174,049,556	1,696,668	175,746,224
V	18,540,688	7,057,847	25,598,535
VI	6,219,316	-	6,219,316
VII	1,248,097	11,148	1,259,245
VIII	142,601,600	57,279	142,658,879
IX	3,971,359	103,570	4,074,929
X	94,778	-	94,778
XI	867,260	34	867,294
XII	2,989,838	-	2,989,838
XIII	72,317,282	4,212,498	76,529,780
XIV	208,745,589	6,276,111	215,021,700
XV	6,736,055	29,485	6,765,540
Total	P 778,389,895	P 25,267,470	P 803,657,365

6.4 Last year's total unsettled shortages from stocks and MTS amounted to P375.939 million. As shown in Table 13, there was significant increase of 121.86 per cent in the stock shortages balance of P778.390 million as of December 31, 2014 from P350.841 million as of December 31, 2013.

Table 13 – Comparison Between the 2014 and 2013 Stocks and MTS Shortages

	2014	2013	Increase/ (Decrease)	Percentage
Stocks Shortages – Grains	P 778,389,895	P 350,841,449	P 427,548,446	121.86
Shortages – MTS	25,267,740	25,097,641	170,099	0.68
Total	P 803,657,635	P 375,939,090	P 427,718,545	113.77

6.5 Table 14 shows the status of the recorded stocks and MTS shortages.

Table 14 - Status of the Recorded Stocks and MTS Shortages

RO/PO	Status
NCR-CDO	The shortages amounted to P3.420 million, of which 99.88 per cent or P3.416 million was stock accountability of a SAO from 2006 to 2007 with denied appeal. The case was already forwarded to the Legal Affairs Department (LAD), NFA-HO for appropriate action.
NCR-NDO	Shortage of a SAO in the amount of P302,283, with final TOLA report, demand letter and no pending appeal remained outstanding for more than 30 years. Notice of failure to settle stock shortage was issued only on April 26, 2013.
Region II	In the POs of Isabela, Allacapan and Nueva Vizcaya, stock shortages of the SAOs were not regularly paid despite the deed of undertaking executed by the SAO for instalment payment.
Region III	Stock shortages in the POs of Bulacan and Tarlac amounting to P41.334 million and P5.368 million, respectively, have been outstanding from two years to more than 20 years.
Region VI	Stock shortages of a SAO in the amount of P6.053 million remained uncollected despite previous year's audit recommendation to enforce collection.
Region XI - Davao PO	Stock shortages of two SAOs who have already retired from service amounting to P93,573 remained outstanding and not acted upon for 14 years.

NDO – North District Office

6.6 While NFA had already filed administrative and/or criminal charges against most of the concerned accountable officers, there is a perceived delay in the action against other accountable officers such as the delayed processes on appeals on their accountabilities which contributed to the non-settlement of the shortages.

6.7 NFA Tarlac PO had already forwarded the relevant documents on the final MTS/stock shortages of the accountable officers to NFA-HO for filing of possible administrative and/or criminal charges in accordance with the provisions of GMO No. AO 2K10-01-003 dated January 19, 2010. However, only four of the cases involving a total P1.310 million out of the possible 14 cases involving P5.490 million have reached the appropriate court where administrative and/or criminal charges have been filed.

6.8 The delay in the prosecution of the remaining cases involving warehouse supervisors affects the collectability of the subject accounts, the cases of which were not yet filed in appropriate courts, which cast doubt on the full recovery of the receivable account that could have been used for the Agency's operational requirements.

6.9 Thus, in view of the recurring shortages and the significant amount of increase of the unsettled stock accountabilities, we reiterated our recommendations in prior years' audit that Management:

- a. 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;**
- b. 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; and**
- c. Fervently follow-up the early resolution of the cases of concerned accountable officers to effect immediate collection of the amounts of their shortages.**

6.10 Management informed the actions taken which included the following:

- a. NCR-CDO - A monthly deduction of P3,500 is being made from the salary of the concerned accountable officer since August 2014 as payment of his shortages and an administrative case was already filed. They are strictly implementing the processes embodied in the NFA SOPs/Memorandum on the payment of stocks and MTS shortages to hasten collection.
- b. NCR-NDO - Demand letters are being served to SAOs to collect shortages with final TOLA computation and over-issuance of stocks. Upon the lapse of 15 working days from receipt of the letter, if the SAO still failed to pay the amount of shortage, a notice of failure to settle stock accountabilities is issued addressed to the Security Services and Investigation Department (SSID), LAD, Internal Audit Services Department (IASD) and ASD for legal course of action to be taken; and a follow-up letter dated June 11, 2015 was sent to the LAD for updates on the SAOs with Notice of Failure to settle stock accountabilities.
- c. Region II – Management had assured that the audit recommendations will be implemented, committed to enforce internal control policies and make concerned SAOs liable for their respective shortages.
- d. Region VI – Management is still waiting for the resolutions on the case of the accountable officers from the Ombudsman. It will be enforcing the necessary provisions of SOP No. FS-GP20 and GMO No. AO-2K10-01-003 once the resolutions are received. A follow-up was made with the Legal Affairs Directorate through wire as to the status of these cases.
- e. Region XI-Davao City PO - They are coordinating with the NFA-HO regarding the shortages of the retired SAOs. Payment was made amounting to P22,397 in November 2014 by one SAO and the balance will be charged to his terminal leave pay. Demand letter will be issued to the other SAO.

6.11 As audit rejoinder, we uphold the strict compliance of the provisions of SOP No. FS-GP20 and GMO No. AO-2K-10-01-003.

7. Stock shortages totalling P2.440 billion had been lodged in the Other Assets account, most of which remained outstanding for more than five years, and cannot be reclassified to Due from Officers and Employees account due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of Tolerable Allowance (TOLA), thus adversely affecting the determination of the final shortages of the concerned SAOs and enforcement of collection/settlement from them could not be pursued.

7.1 Variances between the stocks reports and the volumetric or bag to bag count of stock accountabilities of SAOs or the Warehouse Supervisors (WSs) are recorded under the Other Assets-Shortages account, subject to conduct of stock examination by the PO and computation of TOLA by the Regional Tolerable Allowance Committee (RTAC) to determine the final shortages of the SAOs/WSs. Upon determination of final stock accountability, stock shortage will then be reclassified to Due from Officers and Employees account for settlement or payment of the SAOs/WSs concerned. As shown in Table 15, as of December 31, 2014, the total stock shortages that are still under the Other Assets account amounted to P2.440 billion.

Table 15 - Stock Shortages under Other Assets Account

Region	Without Stock Examination	With Stock Examination – Without TOLA Computation	With Stock Examination – for TOLA Computation	Total
I	P 29,966,218	P 11,488,903	P 1,265,968	P 42,721,089
II	52,226,463	15,770,770	40,431,818	108,429,051
III	36,195,431	2,607,261	8,740,644	47,543,336
IV	424,384,871	156,195,873	111,924,725	692,505,469
V	113,003,982	31,060,579	19,606,275	163,670,836
VI	124,863,166	32,144,234	22,329,125	179,336,525
VII	7,819,791	795,143	-	8,614,934
VIII	43,360,004	78,505	194,384	43,632,893
IX	18,624,433	11,765,204	3,437,692	33,827,329
X	116,834,397	32,400,798	32,487,696	181,722,891
XI	38,654,027	2,009,731	218,495	40,882,253
XII	94,394,914	223,855	8,563,472	103,182,241
XIII	26,575,100	15,090,241	23,416,809	65,082,150
XIV	379,357,276	114,311,053	132,708,828	626,377,157
XV	67,075,491	33,356,697	1,552,626	101,984,814
Total	P 1,573,335,564	P 459,298,847	P 406,878,557	P 2,439,512,968
Percentages	64.49	18.83	16.68	100.00

7.2 Shortages without stock examination amounting to P1.573 billion, representing 64.49 per cent of the total stock shortages, were shortages arrived at by comparing the balances in the last stock report against the result of volumetric count or bag to bag count in the warehouses. These shortages could not be submitted for TOLA computation without the required stock examination. Shortages with stock examination but without TOLA computation totaling P459.299 million were shortages wherein a stock examination was already made but the results are not yet submitted to RTAC, while the P406.879 million represents shortages wherein a stock examination was already submitted to the RTAC for TOLA computation. As the final shortages have not been established, such shortages could not be classified under Due from Officers and Employees account.

7.3 Status of stock shortages under Other Assets account in the ROs/POs is presented in Table 16.

Table 16 - Status of Stock Shortages under Other Assets account in the ROs/POs

RO/PO	Status
NCR- CDO	Stock shortages amounted to P19.643 million, of which P17.688 million or 90.05 per cent pertains to accountabilities of SAOs dating back to 1993 to 2010.
NCR- EDO	The delay in the stock examination for TOLA computation on the stock accountabilities of SAOs for more than a year to nine years has resulted in the accumulation of temporary stock shortages amounting to P39.931 million.
NCR- NDO	Stock shortages under Other Assets account amounted to P69.263 million, including P20.975 million that had remained outstanding for five years and over, in which P16.719 million were stock accountabilities of SAOs who are now deceased. A request for authority to write-off in the amount of P24.561 million which includes the accountabilities of said deceased SAOs was submitted to COA on April 30, 2013.
Region II	Preparation of stock examination reports and TOLA computations were very slow. Stock shortages of SAOs still in the service without stock examination amounted to P23.418 million, while shortages of SAOs who are separated from the service already amounted to P23.575 million. Likewise, the stock examination reports of the Ws submitted to NFA RO for TOLA computation in the amount of P46.148 million were still unreleased by the RO TOLA Working Group.
Region III	Stock accountabilities of P1.082 million have remained without TOLA computation for 33 years already. The SAOs are no longer in the service.
Region IV-B Calapan PO	Stock shortages of P12.629 million remained unliquidated and unsubmitted for final TOLA computation to the RO.
Region IV-B Occidental Mindoro PO	Stock accountabilities of Ws totalling P218.277 million are doubtful due to the slow pace stock examination, determination of TOLA, and final liquidation of the stock shortages, contrary to existing guidelines.
Region IV-B Palawan PO	Stock Shortages under Other Assets account further increased by P3.780 million from P69.647 million in 2013 to P73.427 million in 2014, most of which remained outstanding for more than 10 years.
Region V - Albay PO	Stock shortages totalling P154.435 million include dormant accounts of P116.452 million, of which P21.710 million could not be examined as pertinent documents are no longer available having been allegedly destroyed by typhoon Reming in November 2006. The bulk of the dormant accounts were traced to accountabilities with TOLA computation and resolved appeal already that had not been transferred to Due from Officers and Employees – Shortages account in the amount of P85.729 million.
Region VI - Negros Occidental PO	The Other Assets account includes stock shortages amounting to P17.602 million of which P16.308 million were without stock examination; thus, the computation of TOLA cannot be performed to determine the final shortages of the SAOs for collection/settlement.
Region X - Cagayan PO	Stock shortages of P3.372 million aged four to 35 years remained outstanding due to delay of final Stock Examination Report (SER) and TOLA.
Region X - Bukidnon PO	Stock shortages of P3.643 million remained uncollected due to failure of Management to strictly implement existing guidelines.

7.4 NFA SOP No. GM-WH13 dated April 22, 2003 covers the policies and procedures for both past and on-going accountabilities of SAOs. The SOP requires management and other concerned offices to facilitate and speed up the whole stock examination process especially those needing TOLA computation. 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.

7.5 However, it was observed that the stock examination and TOLA computation was still very slow, considering that some of the SAOs concerned are no longer connected with the NFA due to retirement, death, resignation and absence without leave. The common causes identified were missing/incomplete warehouse documents/stock reports which are necessary for the completion of the stock examination since the accountabilities were incurred as far back in the 1980s (even prior to 80s) and lack of personnel for the conduct of examination.

7.6 Due to inadequate effort in the conduct and completion of the stock examination and TOLA computation and the absence of necessary documents, significant amount of P2.440 billion stock shortages remained outstanding for more than 10 years. The final shortages on these accountabilities could not be established and the collection/settlement from accountable officers concerned could not be pursued. Considering the amount involved, NFA could have used the collections to augment its funds for food security program and for its other mandates.

7.7 As this issue is also one of our last year's audit findings, we reiterated our recommendations that Management:

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

d. 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.

7.8 The Management's comments are:

a. NCR-NDO

a.1 The Stock Examination Group is already considering the secondary documents such as stock reports (accounting/auditing copy) in order to facilitate the stock examination and TOLA computation of stock shortages.

a.2 Based on the information gathered, the incurrence of shortages could be attributed to factors such as the decrease in moisture content due to long period of storage of the stocks, infestation which is inevitable and prevalent despite regular fumigation and efficiency of weighing scales which is subject to mechanical and human errors.

a.3 The procedure of stock examination as per SOP No. GM-WH13 takes longer than 30 days to have the final result of TOLA; hence, the sufficiency of the number of SAOs who will handle the stocks in the warehouses will be a concern if the SAOs will be relieved from their post while stock examination is on-going.

a.4 Demand letters are being served to SAOs to collect shortages with final TOLA computation and over-issuance of stocks. Upon the lapse of 15 working days from receipt of the letter, if the SAO still failed to pay the amount of shortage, a notice of failure to settle stock accountabilities is issued addressed to the SSID, LAD, IASD and ASD for legal course of action to be taken.

a.5 A follow-up letter dated June 11, 2015 was sent to the LAD for updates on the SAOs with Notice of Failure to settle stock accountabilities.

b. Negros Occidental PO - An accountability amounting to P0.577 million was already granted TOLA. Accordingly, adjustments will be made in the books upon receipt of memorandum from NFA RO VI, Iloilo City. Stock examinations for current accountabilities were already started with established cut-off date due to warehouse turnover and warehouse termination. For past accountabilities, difficulties were encountered because of incomplete and unreadable documents. Efforts are exerted to expedite the stock examination process and eventually reduce the balance of the accountabilities that could not be ascertained.

c. Region II - NFA POs committed to fast track the completion of the pending stock examination reports for submission to the RO.

d. Region V - It is now in the process of retrieving documents to support for dropping those accountabilities for which documents were destroyed by typhoon Reming considering that these SAOs have retired or are deceased already. It has also recorded the balances of accountabilities to proper accounts, and in accordance with NFA SOP No. GM-WH13-A, appropriate charges had been filed last year to those SAOs who have stock shortages.

e. Region X - CDO PO

e.1 It has relieved the accounting clerk from all other assigned tasks to prioritize the encoding of stock examination of SAO's past accountabilities.

e.2 As regards TOLA, it had transmitted letters dated September 22, 2014 and May 6, 2013 to the Chairman of the RTAC requesting confirmation of the receipt of SERs submitted to RTAC for TOLA computation.

e.3 On the setting up of timeline, per Provincial Office Performance and Commitment Review's (OPCR) target, 90 per cent of SAO's past accountabilities shall be submitted to the RO within the semester. Part of the Regional OPCR's target is to review, analyze and compute the TOLA within 20 days after receipt of the stock examination from the PO to speed up the determination of final shortages.

Property and Equipment

8. The reliability of the Property and Equipment (PE) account with net book value (NBV) of P2.454 billion remained doubtful in view of the unreconciled variance of P90.566 million between the book balance and the established inventory count in the NFA-HO and Field Offices (FOs); inclusion of "For Reconciliation" items of P16.475 million; and non-reclassification of unserviceable properties of P12.585 million to Other Assets account pending their disposal.

8.1 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. It provides, among others, that inventory count must be reconciled with the book balances. Further, NFA SOP No. GS-PD14 states that the disposal of unserviceable properties shall be done semi-annually (every June and November) or otherwise depending upon the volume and condition of the properties.

8.2 Likewise, Sections 490 and 491, Volume I of the Government Accounting and Auditing Manual (GAAM), require that the inventory report shall be reconciled with the Accounting Department's general ledger accounts and Property, Plant and Equipment (PPE) ledger cards and the Property Office's records, and that any discrepancy must be investigated and cleared immediately. On the other hand, Section 143, Volume III of the Manual on the New Government Accounting System (MNGAS), states that the Other Assets account is used to record the value of obsolete and unserviceable assets awaiting final disposition as well as those assets still serviceable but is no longer being used. These items are not subject to depreciation.

8.3 As of December 31, 2014, the PE account is valued at cost in the amount of P5.340 billion. The accumulated depreciation and adjustments amounted to P2.886 billion, thus the NBV of P2.454 billion. However, comparison between the book balance of the PE accounts as of December 31, 2014 and the Report on the Physical Count of PPE (RPCPPE) in the HO and FOs revealed a net variance in the total amount of P90.566 million, as shown in Table 17.

Table 17 - Physical Inventory Count of PE vs. Book Balances

Office/Region	Per Books	Per RPCPPE	Variance
HO	P 840,251,161	P 821,950,442	P 18,300,719
NCR	80,688,000	12,886,000	67,802,000
RO II	68,940,588	65,918,820	3,021,768
RO XII	9,932,623	8,490,993	1,441,630
Total	P 999,812,372	P 909,246,255	P 90,566,117

8.4 In NFA-HO, based on the submitted RPCPPE as of July 31, 2014, the Audit Team established the actual physical inventory as of December 31, 2014 by considering the acquisitions, transfers and reclassifications/adjustments from August 1, 2014 to December 31, 2014.

8.5 Comparison of the established inventory balances and the balances per books showed that there were accounts with greater balances than the established physical inventory which indicate that there could be missing items with a total value of P33.031 million. On the other hand, those accounts with lesser balances than the established physical inventory would connote that there were unrecorded items with a total value of P14.730 million. These amounts, if subtracted, would result in net variance of P18.301 million. Further, test of transactions and review of records of PPE account disclosed the following factors that contributed to the noted variances:

- a. Expired licensed software with finite useful life amounting to P2.599 million booked under IT Equipment and Software account still had carrying value.
- b. Non-reclassification/dropping of the Sports Equipment acquired in 1979 and the amount of P0.695 million out of the P0.715 million balance under Other Transportation Equipment account, the items of which were acquired from 1981 to 2013. These pieces of equipment were no longer included in the RPCPPE as of July 31, 2014, thus preventing the General Services Department (GSD) from including them in the Inventory and Inspection Report of Unserviceable Property (IIRUP).
- c. The existence of negative or abnormal balances in the subsidiary ledgers of PE account resulted from recording of acquired PE at negative cost.

8.6 Of the total PE of P80.688 million in NCR, only items totalling P12.886 million were included in the inventory report, rendering the remaining items costing P67.802 million or 84.03 per cent unaccounted at year-end due to perennial non-reconciliation of the property and accounting records after the annual physical inventory. The report on the physical inventory conducted at Metro Transport Office for 2014 remained unsubmitted as at audit date.

8.7 In Region II, particularly in Allacapan PO, it was identified that one of the reasons for the noted variance was due to the discrepancy between the acquisition costs recorded by the Property and Supply Section and the amount recorded by the Accounting Section in the books.

8.8 In Region XII, per inquiry with Management, the variance was caused mainly by its failure to conduct periodic reconciliation of the respective PE records of the Accounting Office and the Property Office which should have been made upon completion of the physical count.

8.9 The balance in the NFA-HO books as of December 31, 2014 also included items "For Reconciliation" covering eight PE sub-accounts in the total amount of P16.475 million that further rendered the account balances unreliable.

8.10 The same audit issues had been raised in prior years' audit, but reconciliation between the accounting and property records had not been fully undertaken.

8.11 Furthermore, out of the total of P29.572 million unserviceable properties which remained undisposed as of December 31, 2014, various properties identified as unserviceable in the NFA-HO and five FOs/ROs amounting to P12.585 million were still included/recorded under PE account.

8.12 Review of the IIRUP of NFA-HO including the Food Development Center (FDC) disclosed that unserviceable properties with total acquisition cost of P18.075 million have accumulated since the last quarter of CY 2012 and remained undisposed as at audit date. The major portion of these unserviceable properties constitutes electronic equipment such as computer hardware, printers, air conditioners, Uninterrupted Power Supply (UPS) and other technical and scientific equipment. It is worthy to mention that electronic equipment may contain substances that are hazardous to human health if not properly managed or are made up of combustible materials which expose the storage area to risk of fire.

8.13 Moreover, comparison of sample unserviceable properties listed in the IIRUP as of December 31, 2014 against the PPE Ledger Card (PPELC) as of the same period disclosed that PE items amounting to P1.151 million were still included in the PPELC indicating that these remained not reclassified to Other Assets-Junked Assets account.

8.14 In Region II, NFA Kalinga, Nueva Vizcaya and Quirino POs did not reclassify and dispose their unserviceable properties which amounted to P1.023 million, P496,166 and P185,446, respectively.

8.15 In Region III, unserviceable properties amounting to P0.612 million were not reclassified to Other Assets account. On the other hand, properties amounting to P0.675 million declared as unserviceable as early as July 2012 have been dropped from the fixed asset account and reclassified to Other Assets-Junked Assets account but these remained undisposed. Likewise, the preparation of IIRUP and reclassification to Other Assets account were made without ocular inspection by the Provincial COA in violation of Section 79 of PD No. 1445 which provides that when government property has become unserviceable for any cause, or is no longer needed, it shall upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned.

8.16 In Region VI, damaged and unserviceable properties amounting to P0.650 million and P0.770 million were still booked under the PE accounts of the RO and Iloilo PO, respectively, and these remained undisposed as of December 31, 2014.

8.17 In Region VIII, verification of the Fixed Assets Inventory Report as of December 31, 2014 of Eastern Samar PO disclosed that the PE account still included serviceable properties amounting to P2.234 million which are not being used by the agency for almost five to ten years and unserviceable properties amounting to P0.590 million or a total of P2.824 million. In Western Samar PO, unserviceable properties amounting to P82,835 are still carried in the books as PE account and remained undisposed.

8.18 In Region XII, analysis of the PE account and verification of the Physical Inventory Report revealed that the account includes unserviceable properties aggregating P1.450 million. Likewise, in the PE Reconciliation Statement submitted by the NFA-Sultan Kudarat PO, the unserviceable properties totalling P3.341 million were included in the computation of PE adjusted account balances as of year-end.

8.19 Due to the non-reclassification of the unserviceable properties, the PPE and Other Assets accounts are both misrepresented. In addition, because of their pending disposal, the Agency was not only deprived of whatever remaining benefits that can be derived from these unserviceable properties, but also restricted from the optimum utilization of the storage areas which these properties presently occupy.

8.20 The discrepancy between the balances recorded in the books and balances as reported in the RPCPPE, the inclusion of "For Reconciliation" items in the Subsidiary Ledgers of PE account and the non-reclassification of unserviceable properties to Other Assets account cast doubt on the reliability of the balance of PE account at year end.

8.21 We reiterated our prior year's audit recommendation that Management require the ASD and GSD of NFA-HO to conduct complete and thorough verification and reconciliation of the property and accounting records, including the PE items "For Reconciliation," to determine the cause/s of discrepancies so that necessary corrections/adjustments can be effected in both records to arrive at correct/reconciled balances.

8.22 We likewise recommended that Management:

a. Reclassify to the Other Assets-Junked Assets account all the PE that are reported as unserviceable or items that are not being used in order to reflect the correct balances of affected accounts; and

b. Strictly observe proper disposal procedures of unserviceable properties expressly stated in Section 79 of PD No. 1445 in order to effectively and efficiently utilize government resources. Initiate immediate disposal for the interest of the government.

8.23 Management gave the following comments:

a. On the noted variance:

a.1 In NFA-HO, Management submitted another RPCPPE as of December 31, 2014 and compared its balances with the balances in the books which resulted in a net difference of P3.823 million or a P14.478 million decrease from the noted variance.

a.2 Adjustments for the following items will be made after thorough verification is completed:

i. The GSD will remove from the inventory report the Full Face Gas Masks amounting to P3.804 million since these were already transferred to different FOs in May 2014.

ii. Inventory of expired software license is being prepared to determine/support necessary adjustments.

iii. Sports equipment balances were misclassified by GSD as small tangible items and will be reclassified to PE.

iv. The itemized matching of properties per books versus inventory report has been completed and the breakdown of variances are being analyzed and evaluated for necessary adjustments.

a.3 In Allacapan PO, Region II, Management had already made its reconciliation and adjustments. The Property Officer was also furnished with a copy of the year-end Fixed Asset Reconciliation Report so as to be able to make any adjustment on the variances in the property records.

b. On unreclassified and undisposed unserviceable properties:

b.1 The GSD, NFA-HO informed that it had made an initial step for the disposition of unserviceable properties by conducting a bidding last July 7, 2015, and that 65 per cent of the unreclassified PE as reported in the Audit Observation Memorandum (AOM) has been lodged to Other Assets-Junked account, while the remaining 35 per cent are for reconciliation and verification.

b.2 In Region II, the IIRUP prepared in November 2014 was already approved by the RO and received by the PO in February 2015. The Provincial Disposition Committee had already concluded the disposition of the unserviceable assets thru public bidding on February 24, 2015.

b.3 In Region III, Management had conducted the re-inspection of unserviceable PE items in the presence of a representative from the Audit Team and disposition was undertaken.

b.4 In Region VI, the IIRUP as of July 31, 2014 was already prepared and approved by the Regional Director on December 15, 2014. The determination of the appraised value of these unserviceable properties is now being undertaken after which the determination of minimum bid price and request for inspection by the COA technical personnel shall be done. A Disposal Committee shall be activated for the disposal activity. Likewise, JEV will be prepared for the reclassification of unserviceable property from the PE account to Other Assets account.

b.5 NFA Iloilo PO (Region VI) and Western Samar PO (Region VIII) had instructed the Property/Supply Officer to prepare the IIRUP so that the unserviceable equipment will be reclassified to Other Assets account. The Supply Officer of Western Samar PO was also instructed to immediately make canvass from interested takers of the unserviceable properties.

b.6 In NFA Eastern Samar PO, the serviceable properties of P2.234 million were not transferred or reclassified to Other Assets account since it is still exerting efforts to repair the properties for possible use. The unserviceable properties amounting to P0.590 million were reclassified on July 31, 2014 and are still undergoing evaluation and negotiation to determine the appraised value and the minimum bid price.

b.7 The RO XII Management committed to act on the audit recommendations.

b.8 Sultan Kudarat PO informed that it is exerting effort to determine all the unserviceable properties, but encountering some difficulties in tracking the documents during the merging of SPGC and Isulan PO. It already prepared the IIRUP and appraisal report for physical inspection by COA technical personnel last March 13, 2013 but not undertaken due to lack of other documents needed.

8.24 As audit rejoinder, our review of the newly-submitted RPCPPE showed that the inventory report included a total of 1,165 items labeled as junked properties. Moreover, the removal of balances from the inventory report of items that were already transferred to FOs in May 2014 simply indicates deficiencies in the conduct of inventory taking.

Deferred Credits

9. The Deferred Credits account with a balance of P738.898 million as of year-end is unreliable as this still included, among others, P3.259 million abnormal balance; dormant balances of P20.699 million in NFA-HO and several Field Offices (FOs) as stocks remained unwithdrawn for five years and more; and overages of stock accountable officers of P219.282 million which remained not established.

9.1 As of December 31, 2014, the Deferred Credits account has a balance of P738.898 million. This account is comprised of the balances shown in Table 18.

Table 18 - Breakdown of Deferred Credits

Sub-accounts	HO	FOs	Total	Advances 2005-2010
Advance payments				
Government agencies	P 434,764	P 35,698,867	P 36,133,631	P 434,764
Legislators and Party List				
Representatives	12,264,118	1,356,492	13,620,610	12,264,118
Retailers	-	367,764,763	367,764,763	-
Millers, Contractors and Operators	-	8,591,743	8,591,743	-
Non-Government Organizations	25,587,330	2,611,044	28,198,374	8,000,000
Other Deferred Credits	41,899,459	26,665,882	68,565,341	-
Other deferred-overages	-	219,282,344	219,282,344	-
Negative balances	-	(3,258,718)	(3,258,718)	-
	P 80,185,671	P 658,712,417	P 738,898,088	P 20,698,882

9.2 The Deferred Credits account refers to advance payments made for the purchase of rice by various government and non-government agencies and for services not yet rendered for donated assets. As such, any outstanding balance as of a certain period represents unwithdrawn/undelivered stocks or unbilled services.

9.3 In NFA-HO, verification of the status of compliance by Management with our prior year audit recommendations on Other Deferred Credits account showed that there were several adjustments made under the account. It was noted, however, that except for the balance of the National Disaster Coordinating Council (NDCC) which had increased by P397,062, the balances of the Federation of Filipino Chinese Chamber of Commerce and Industry, Inc. (FFCCCI), Party List Representative and various legislators remained the same as in 2013, indicating that there were no reconciliation or adjustments made.

9.4 As to the unwithdrawn account of the FFCCCII amounting to P8.000 million, in a letter dated June 16, 2014 of then GMOD Manager to the FFCCCII President, inquiring if the latter had still plans to donate rice to calamity stricken areas and if so the GMOD Manager requested for the areas, volume and beneficiaries of the rice intended for donation. In response, the FFCCCII Secretary General, in his letter dated June 27, 2014, informed NFA that it still intends to utilize the fund in future relief operation and will inform GMOD of its chosen areas, quantity, and beneficiaries of the rice intended for donation. As at audit date, the FFCCCII had not provided GMOD with such information.

9.5 Moreover, Table 19 shows the status of the balances of Deferred Credits as of December 31, 2014 as reported by some NFA FOs.

Table 19 - Status of the Deferred Credits Account in some FOs

FO	Balance (in Million)	Status
NCR-CDO	P 36.000	The balance included stocks long paid but not withdrawn and advances made during the year by the DSWD for its disaster stock pile, with no storage fees deducted for unwithdrawn stocks. It also included overages of inventories of warehouse stock accountable officers in the amount of P8.424 million, with P8.400 million or 99.72 per cent aged more than two years, adjustments of which could only be made upon completion of stock examination and computation of TOLA.
NCR-Batanes PO	1.554	Of the balance, P1.547 million or 99.55 per cent were long outstanding dormant accounts which have not been cleared to date as documentation and analysis were not completed.
Region II	1.893	The balance remained dormant for more than four years. It was previously noted that the records for the Food for School Program were not verified and adjusted; the customers who made the advance payment were not identified; the stocks overages were not validated and adjusted; and donated assets not identified and included in the appropriate PE account.

9.6 The Deferred Credits account also includes overages of P219.282 million. The accountabilities of warehouse accountable officers were not yet established as stock examination and computation of TOLA have not been completed. Overage is determined when the semi-annual physical count of stocks is bigger than the stock records of the accountable officer. However, the final accountability on stock is determined after the conduct of stock examination and computation of TOLA which have not been conducted over the years.

9.7 The non-withdrawal of stocks which have been long paid, the existence of dormant accounts, the non-deduction of storage fees and the overages of accountable officers that remained unadjusted due to non-completion of stock examination cast doubt on the existence and accuracy of the Deferred Credits account balance as at year-end.

9.8 We reiterated our prior year’s recommendations that Management prioritize the in-depth analysis to clear the long outstanding balances in the Deferred Credits account and instruct the concerned NFA-HO departments/offices and NFA-ROs to include, among others, the following:

- a. Gather documents supporting the transactions pertaining to the advance payment of the legislator and on the conduct of stock examinations on stock accountable officers (SAOs) with overages;
- b. Identify from the Deferred Credits subsidiary ledgers the warehouse accountable officers and their overages incurred per physical inventory count per year and take note those who have retired or were separated from service;
- c. Obtain information and guidance on the following:
 - c.1 Appropriate disposition of the advance payment made by the legislators since the stocks apparently have already been long withdrawn;
 - c.2 Status of accountability of the warehouse accountable officers; and
 - c.3 Appropriate disposition of the long outstanding overages of retired/separated stock accountable officers with or without final TOLA computation.

9.9 We likewise recommended that Management sustain its efforts in securing the necessary information from FFCCCII in order to utilize the fund for its intended purpose, and in case FFCCCII cannot provide such information, consider requesting authority to identify/suggest beneficiaries/areas and volume for rice donation for those in need in times of calamities.

9.10 Management's comments are:

- a. NFA-HO - The balance of FFCCCII is to be refunded per letter dated July 20, 2015 of the President of FFCCCII. As to the account of NDCC and Philippine Army, the balance was fully distributed to their FOs per GMOD collection bill and wire authority to the FOs. Party List Representative and various Legislators' accounts are still under reconciliation.
- b. Region II - The Senior Account Specialist had started to review the records and noted that some balances were erroneous entries made in prior years, hence, need to be adjusted.
- c. NCR-CDO - The amount of stocks set up in 2009 is fully reconciled and the stocks are not withdrawn by the retailers. It will reclassify the amount to Other Income account as it believes that the concerned retailers would no longer withdraw the stocks since the cost of storage fee which CDO will charge is higher than the cost of stocks purchased; and it will effect the necessary adjustments in compliance with SOP No. GM-DN09 (storage fee) upon issuance of certifications by Warehouse Supervisors II for the unwithdrawn stocks of various retailers.

Accounts and Various Payables

10. The Accounts Payable account amounting to P6.404 billion as of December 31, 2014 is doubtful due to the absence of necessary supporting documents, existence of dormant accounts for 28 years, non-recording of payments and incorrect valuation of foreign currency denominated monetary items. The incorrect valuation understated the Accounts Payable account as well as the Loans and Notes payables accounts totalling P35.202 million. In NCR, various payable accounts aggregating P32.883 million were dormant and long outstanding for over five years. All of these affect the reliability, validity and accuracy of the payable accounts.

Dormant and inadequately documented accounts and various payables

10.1 Accounts Payable is the account used in recording obligations incurred for the purchase of goods and services or any contractual obligations in connection with the agencies' operation/trade/business.

10.2 Section 4(6) of Presidential Decree (PD) No. 1445 requires that claims against government funds shall be supported with complete documentation. On the other hand, Department of Budget and Management (DBM)-COA Joint Circular (JC) No. 99-6 dated November 13, 1999 prescribes the guidelines and procedures relative to the reversion of accounts payable which have remained outstanding for two years.

10.3 The status of the Accounts Payable account as of December 31, 2014 in some NFA Offices is shown in Table 20.

Table 20 - Status of the Accounts Payable Account in some ROs/POs

RO/PO	Balance (in Million)	Status
Region I- Ilocos Sur PO	P 1.950	11.12 per cent or P216,668 lacked the creditor's bills, invoices and other data.
Region VI- RO	2.013	10.73 per cent or P216,481 without necessary supporting documents; 46.35 per cent or P0.933 million was already paid during the year but still included in the balance.
Region VI- Capiz PO	5.172	5.43 per cent or P281,238 is undocumented; includes dormant accounts aged eight to 28 years.
Region VI- Iloilo PO	8.594	16.64 per cent or P1.430 million is not supported with the necessary documents; includes outstanding accounts for more than five years.
Region XI- Davao Oriental PO	1.543	32.92 per cent or P0.508 million remains unsettled for more than two years due to non-submission of complete documentary requirements.
Region XI- Davao del Norte PO	4.159	4.16 per cent or P172,720 remains unsettled for more than six years.
Region XI- Compostela Valley PO	1.303	10.82 per cent or P141,131 is outstanding for more than two years.
NCR- RO	5.061	100 per cent dormant for five years.

10.4 In Ilocos Sur PO, the P216,666 payable recorded in December 2014 represents the outstanding contractual obligations to PDBL Manpower Handling and Trucking Services, for the handling services of grains and logistics and manpower requirements for general hygiene/cleanliness, sanitation of warehouse premises, perimeter and

compound. However, the correctness and validity of the recorded obligations cannot be determined in the absence of bills, invoices or statement of account. Such documents would also serve as basis in matching with the recorded obligations.

10.5 According to Management, the bases of accrual are warehouse documents like Warehouse Stock Issues (WSIs), Warehouse Stock Receipts (WSRs), Empty Sack Issues (ESIs), and Empty Sack Receipts (ESRs). The said documents, which bear the gross weight and nature of transactions, are valid documents wherein the actual handling expenses incurred for the period can be computed. Furthermore, statements of accounts or billings are validated through these documents.

10.6 For the Capiz PO accounts, interview with the Sr. Accounting Specialist revealed that the payables existed since 1986 and supporting documents were already destroyed by leaking pipes in the stockroom, while others were eaten by termites. Hence, no pieces of evidence whatsoever to substantiate these claims. In Iloilo PO, the supporting documents were lost during typhoon Frank according to the Accountant.

10.7 In Region XI-Davao Oriental PO, the P0.508 million represents unsettled amount to Solid Guard Security Services, Inc. This is due to the failure of the latter to submit complete documentary requirements such as, among others, proof of payment of wage differentials. Likewise, it was also mentioned that there were pending cases filed at the Department of Labor and Employment (DOLE) and National Labor Relations Commission (NLRC) by various guards against the respondent Solid Guard Security Services, Inc., for non-payment of wage differentials. Incidentally, the NFA being an indirect employer was sued as party respondent to the case.

10.8 In Davao del Norte PO, the amount of P172,720 represents payable to Lucky Smile Trucking Corporation (LSTC). Checks were prepared in December 2009, but LSTC failed to claim them when a notification letter was sent in March 2010. Hence, the checks were cancelled and the corresponding payable was set up in July 2010.

10.9 In Compostela Valley PO, the amount of P141,131 represents payable to Solgus Corporation for the wage differentials of its security guards. Such claim was returned to the Corporation due to lack of required signatures by the concerned recipient-security guards. A letter will be sent to the Corporation regarding the matter.

10.10 In NCR-RO, 100 per cent of various payable accounts such as Due to Officers and Employees and Guaranty Deposits Payable (container deposits, light and water, telephone installation, and others) aggregating P12.234 million and P13.000 million of P15.587 million or 83.40 per cent of Performance/Bidder's Bonds are more than two to 10 years dormant.

Incorrect valuation of the monetary items in foreign currency denomination

10.11 The NFA has assets and liabilities in foreign currency denominations, and in order to present them in the financial statements in domestic currency, these should be translated using the prescribed exchange rate. Any exchange differences arising on the settlement of monetary items and translating monetary items at rates different from those at which they were translated on initial recognition are recorded using the account Gain/Loss on Foreign Exchange and the related real accounts are adjusted accordingly.

10.12 Paragraph 8 of PAS 21 defines monetary items as units of currency held and assets and liabilities to be received or paid in a fixed or determinable number of units of currency. Further, Paragraph 23 thereof requires that at the end of each reporting period, foreign currency monetary items shall be translated using the closing rate.

10.13 For 2014, the NFA reported a total of P117.558 million gain on foreign exchange transactions. As of December 31, 2014, payables accounts shown in Table 21 denominated in foreign currency were translated into Philippine Peso.

Table 21 - Difference Between Balances per Books and per Audit

Particulars	Foreign Currency	Per Books	Per Audit	Difference
Loans Payable – Foreign	US\$ 4,666,801	P 208,218,679	P 208,699,341	P 480,662
Japanese Rice Loan- ¥297,745,041 (Original)	2,479,621	110,633,237	110,888,651	255,414
United States Public Law (USPL) Title I	2,187,180	97,585,442	97,810,690	225,248
Due to Suppliers	127,067,630	5,669,376,428	5,682,464,414	13,087,986
Vinafood II	64,464,641	2,876,218,877	2,882,858,746	6,639,869
Department of Foreign Trade (DFT) – Thailand	62,602,989	2,793,157,551	2,799,605,668	6,448,117
Notes Payable	216,518,666	9,660,413,333	9,682,714,743	22,301,410
Development Bank of the Philippines (DBP)	148,681,760	6,633,734,081	6,649,048,307	15,314,226
Deutsche Bank	67,836,906	3,026,679,252	3,033,666,436	6,987,184
	US\$ 348,253,097	P 15,538,008,440	P 15,573,878,498	P 35,870,058

10.14 Review of documents disclosed that the rate used to translate the foreign currency monetary items into domestic currency was P44.617 to US\$1, which was the weighted average rate as of December 23, 2014, instead of the closing rate as at the end of reporting period of 2014 of P44.720 to US\$1 based on the Bangko Sentral ng Pilipinas (BSP) Reference Exchange Rate Bulletin. Thus, using the closing rate, the amounts “Per Audit” column in Table 21 should be the balance of the affected payables accounts and the corresponding impact (Difference column) on the accounts at the end of the period.

10.15 The use of incorrect exchange rate understated the related payables accounts and overstated the Gain on Foreign Exchange account by P35.870 million.

10.16 **We recommended that Management:**

- a. **Require all creditors to promptly and regularly provide the Agency with bills, invoices or other needed data to support their claims and to serve as basis for recording liability accounts in the books at year-end, thereby ensuring the correctness and validity of obligations;**
- b. **Instruct the Sr. Accounting Specialist to review the Internal Control System in operations to: (i) see to it that adequate safeguards are implemented to preclude recording of claims not founded on complete and valid documents, (ii) improve coordination with the NFA - HO and other government offices to avoid further accumulation of dormant accounts, and (iii) ensure that monitoring of current balances is regularly performed;**

c. Require the Accountant to continue prioritizing the in-depth analysis, verification and full extent of validation of dormant accounts from available records as basis for adjustments; and to review the payables and prepare necessary adjusting entries on accounts without valid claims, dormant and paid account;

d. Consider the applicability of the guidelines and procedures prescribed under DBM - COA JC No. 99-06 dated November 13, 1999 on the reversion of accounts payable; and

e. Instruct the ASD to observe the provisions on PAS 21 on the foreign exchange rate to be used at the end of the reporting period and prepare appropriate adjusting entries, if warranted, to come up with reliable and accurate balances to be presented in the financial statements.

10.17 Management gave the following comments:

a. NFA-HO - The items were translated and valued correctly since the rate used was weighted average rate on the last business day of the year which is December 29, 2014, and that the closing rate is not necessarily the last recorded or final closing rate.

b. Region VI-RO and Capiz PO - They will review the balances of Accounts Payable for each of the individual/supplier accounts. Adjusting entries will be made if deemed necessary including the already paid payables.

c. Iloilo PO - It will evaluate its payables which have been dormant and revert these to Retained Earnings, if necessary.

d. Davao Oriental PO - Management assured that, once the security agency presents a "proof of payment" and all other pertinent documents are compiled with as required in the contract and unless, there is no adverse decision from DOLE and/or NLRC, it shall immediately reimburse/ release the amount of claim due to the security agency.

10.18 As audit rejoinder to NFA-HO comments, the rate of P44.617 to US\$1 is the weighted average rate published by the BSP and made available on December 29, 2014. In BSP's write-up relative to the Foreign Exchange Market, it clearly stated that the rate for the day (e.g. December 29, 2014) represents the weighted average of all done deals at the Philippine Dealing System (PDS) during the preceding day (or December 23, 2014). Simply stated, the rate published for the day is not the rate of the day's transactions. Further, even though the gap of measurement (December 23 *vis-a-vis* December 29) is only one day, the latest rate is a more representative rate at the end of the period rather than the earlier day. We, therefore, maintain that the rate at the end of the reporting period is to be used so that the balances reflected in the financial statements are more reliable, and in order to achieve the fairness, transparency, accuracy and comparability of the financial statements.

Loans Payable

11. The total Loans Payable account amounting to P105.736 billion as of December 31, 2014 was presented as long-term liabilities in the Balance Sheet although P1.854 billion of which is current or due within 12 months after year-end, contrary to Philippine Accounting Standards (PAS)/International Accounting Standards (IAS) 1, thus the Balance Sheet did not provide sufficient and reliable information as to the liabilities that are due for settlement within 12-month period.

11.1 In support of the grain stabilization activities and for the financing requirements, the NFA is allowed to borrow short-term and long-term loans for its operation. These loans consist of borrowings from different banks, suppliers of imported rice for Government-to-Government importation, Bureau of the Treasury (BTr) net lending program and other government agencies.

11.2 As of December 31, 2014, the Loans Payable account has a balance of P105.736 billion, the composition of which is presented in Table 22.

Table 22 - Loans Payable as of December 31, 2014

Creditor	Amount
Domestic	P 105,528,119,395
Ten-year notes/loans from different banks syndicated by Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP) due on Nov. 28, 2021	75,000,000,000
LBP due on Dec. 23, 2021	12,915,000,000
Ten-year notes/loans syndicated by DBP and LBP due on Oct. 29, 2024	9,000,000,000
ROP long-term notes – BTr due on Feb. 8, 2018 (callable on 2013)	8,000,000,000
Human Settlements Development Corporation (HSDC)	509,093,711
DBP- Minprocor	91,200,000
Corn Development Fund (CDF)	12,500,000
Agrarian Credit Line	205,000
Ministry of Agriculture and Food	120,684
Foreign	208,218,679
Japanese Rice Loan	110,633,237
United States Public Law (USPL) Title I	97,585,442
	P 105,736,338,074

ROP - Republic of the Philippines

11.3 These payables are classified as long-term liabilities in the Balance Sheet. However, review of documents disclosed that of the total P105.736 billion, the amount of P1.854 billion, as shown in the Table 23 (next page), is due within 12 months after December 31, 2014.

11.4 PAS/IAS 1, on the Presentation of Financial Statements, provides that an entity shall present current and non-current assets and liabilities, as separate classifications in its statement of financial position, except when a presentation based on liquidity provides information that is reliable and more relevant. It further provides the following:

- a. The criteria to classify a liability as current which is when: (i) it expects to settle the liability in its normal operating cycle; (ii) it holds the liability primarily for the purpose of trading; (iii) the liability is due to be settled within twelve months after the reporting period; or (iv) it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. An entity shall classify all other liabilities as non-current.

b. An entity classifies its financial liabilities as current when they are due to be settled within twelve months after the reporting period, even if: (i) the original term was for a period longer than twelve months, and (ii) an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the financial statements are authorized for issue.

c. If an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing), the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

d. Financial liabilities that provide financing on a long-term basis (i.e. are not part of the working capital used in the entity's normal operating cycle) and are not due for settlement within 12 months after the reporting period are non-current liabilities.

e. Proper presentation of the current and non-current items in the Balance Sheet provides useful information by distinguishing the net assets that are continuously circulating as working capital from those used in the entity's long-term operations. It also highlights assets that are expected to be realized within the current operating cycle, and liabilities that are due for settlement within the same period. Proper classification and presentation also ensures the comparability of the financial statements with the other entities.

Table 23 - Current Portion of Loans Payable as of December 31, 2014

Creditor/Loan	Currency	Principal	Due within 12 Months after Dec. 31
LBP Loans due on Dec. 23, 2021	Peso	18,000,000,000	P 1,800,000,000
• dated Dec. 23, 2009; payable in 40 equal quarterly amortizations of P135 million to start at the end of the 9 th quarter		5,400,000,000	540,000,000
• dated Jan. 7, 2010; payable in 40 equal quarterly amortizations of P102.500 million to start at the end of the 9 th quarter		4,100,000,000	410,000,000
• dated Jan. 14, 2010; payable in 40 equal quarterly amortizations of P112.500 million to start at the end of the 9 th quarter		4,500,000,000	450,000,000
• dated Jan. 14, 2010; payable in 40 equal quarterly amortizations of P100 million to start at the end of the 9 th quarter		4,000,000,000	400,000,000
CDF Loans		20,000,000	2,000,000
• dated Apr. 25, 2008; payable in 20 semi-annual amortization of P500,000.00 starting November 2010		10,000,000	1,000,000
• dated Aug. 24, 2009; payable in 20 semi-annual amortization of P500,000.00 starting Feb. 2012		10,000,000	1,000,000
Japanese Rice Loan		541,354,626	10,054,155
• dated July 1996; payable in 20 annual installments of ¥27,067,731.30 starting July 2006 to July 2025	Yen	541,354,626	10,054,155
USPL Title I	US Dollar	14,998,293	41,920,229
• dated Aug. 1997; payable in 16 annual installments of \$624,999.35 starting Aug. 2001		9,999,990	27,949,971
• dated Jan. 1998; payable 16 annual installments of \$312,393.97 starting Jan. 2002		4,998,303	13,970,258
Total			P 1,853,974,384

11.5 As the current portion of the NFA's loans payable was not presented in the Balance Sheet, this did not provide sufficient information as to the liabilities that are due for settlement within the 12-month period.

11.6 We, therefore, recommended that Management strictly observe the provisions of PAS/IAS 1 on the presentation of the current portion of long-term liabilities in the Balance Sheet in order to provide sufficient and reliable information on the Loans Payable accounts.

11.7 Management informed that the recommended presentation of the current portion of Long-Term Payables in the Balance Sheet will be adopted for 2015 Financial Statement and onwards.

Tax Subsidy

12. The non-recognition of corresponding tax subsidy to cover the amount of import duties for the November 2013 to September 2014 importations of rice amounting to P15.888 billion rendered the NFA's reported income unreliable.

12.1 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.

12.2 The NFA received the following pertinent issuances relative to the tax subsidies to cover the duties for the 1.800 million MT of imported rice as shown in Table 24.

Table 24 - Pertinent Documents on Tax Expenditure Subsidy

Pertinent Documents	1,300 Million MT	500,000 MT
FIRB Resolution	No. 7-14 dated August 15, 2014 amounting to P11,665,460,172.	No. 1-15 dated March 26, 2015 amounting to P5,017,162,500, provided that the initial CES shall be limited to P4,891,157,497. This amount was previously approved through FIRB Resolution No. 8-14 dated December 9, 2014, but unutilized since the Statements of Account (SOAs) were issued by the Bureau of Customs (BOC) only on February 24, 2015.
Certificate of Entitlement to Subsidy (CES)	No. 0162 dated December 11, 2014 amounting to P10,997,122,091.	No. 0165 dated March 30, 2015 amounting to P4,891,157,497.
SARO and Advice of SARO	No. SARO-BMB-F-14-002 4163 dated December 18, 2014 of P10,997,122,091 and released to the BTr but exempted from the issuance of Notice of Cash Allocation (NCA).	No. SARO-BMB-F-15-0003928 dated March 31, 2015 amounting to P4,891,157,497 released to the BTr but exempted from the issuance of NCA.

SARO – Special Allotment Release Order

12.3 However, review of the financial statements as of December 31, 2014 disclosed that the subsidy granted to NFA and released to BTr to cover the import duty obligations of the NFA was not taken up in the books, although disclosed in the Notes to Financial Statements; hence, the net income for the year was understated by P15.888 billion (P10.997 billion + P4.891 billion).

12.4 We, therefore, recommended that Management require the ASD to effect the necessary adjustments for the non-recognition of the tax subsidy, and the corresponding liability to BOC in 2014; and henceforth, to take up in the NFA's books of accounts the tax subsidy received from the National Government (NG) to cover the customs duties for the importation of rice and the liability to BOC.

12.5 Management was not able to submit a written comment on the AOM. However, during the exit conference, they informed that the necessary adjustments will be effected in 2015.

Trust Liabilities

13. The accuracy of trust liability accounts with total balance of P599.363 million in NFA-HO continued to be doubtful due to the inclusion of accounts totaling P216.356 million that have remained idle for the past seven years, fund balances of P291.106 million that did not reconcile with the corresponding bank balance, and misclassified accounts in the total amount of P29.241 million.

13.1 Section 3 of PD No. 1445 provides that *“Trust funds refer to funds which have come officially into the possession of any agency of the government or of a public officer as trustee, agent, or administrator, or which have been received for the fulfillment of some obligation.”*

13.2 COA Circular No. 94-013, dated December 13, 1994, prescribes the rules and regulations in the grant, utilization and liquidation of funds transferred to Implementing Agency (IA). Section 4.9 thereof specifically provides that the IA shall return to the Source Agency any unused balance upon completion of the project.

13.3 As of December 31, 2014, the balance of trust funds in the possession of NFA-HO amounted to P599.363 million which were taken up under three accounts as presented in Table 25.

Table 25 - Trust Liability Accounts

	Amount
Due to other national government agencies (NGAs)	P 283,972,123
Due to other government-owned and controlled corporations (GOCCs)	15,703,998
Other payables	299,686,772
Total	P 599,362,893

13.4 Aging of the trust liabilities, excluding trust receipts consisting of retention fees, guaranty deposits, insurance premiums and the like, showed that 86.88 per cent or P520.733 million pertains to funds received by NFA from several government agencies in previous years for the implementation of various projects, in which P216.356 million or

41.55 per cent of the said funds received had been carried in the books and remained unutilized since 2007. The breakdown is presented in Table 26.

Table 26 - Unutilized Trust Funds Since 2007

Project/Source Agency	Amount
Due to Other NGAs and GOCCs	
Bureau of Customs (BOC) Duties-Sugar	P 181,195,200
DA - Donated Chinese Yellow Corn	11,078,611
Agricultural Credit Policy Council (ACPC)	1,261,020
Department of the Interior and Local Government (DILG) - Australian Imported Rice	1,150,885
Philippine Charity Sweepstakes Office (PCSO)	288,952
National Post-Harvest and Research Institute (NPHRI)- SVLF	184,135
2001 Consultative Fund-Lifting of Rice Monopoly on Importation	171,876
Quedan and Rural Credit Guarantee Corporation (QUEDANCOR)	
Corn Development Fund (CDF)	3,657,667
Special Vehicle Loan Fund (SVLF)	31,892
Philippine Crop Insurance Corporation (PCIC)	37,371
	199,057,609
Other Payables	
Mindanao El Niño Victims	15,835,341
Rice Subsidy Program	1,070,677
Food and Agricultural Organization (FAO) - Grains Post Harvest	313,820
Philippine Rice Maligaya – IRR1	39,666
Philippine Foods and Feedstuffs (PFF)	26,932
Philippine Council Industrial Research & Development (PCIRD)	11,531
	17,297,967
Total	P 216,355,576

Table 27 - Bank and Book Balances at Year-end

No. of Projects/Accounts	Depository Bank	Balance as of 12/31/14		Variance
		Bank	Books	
With Positive Variance				
5	LBP SA RCA 0712102896	P 75,319,608	P 37,604,356	P 37,715,252
1	LBP Dollar Account	91,555,859	62,685,342	28,870,517
1	PNB CA GOF 1127-5370-2405	16,380,903	4,324	16,376,579
2	PNB Dollar Account 293-7024986	14,495,745	76,792	14,418,953
1	PNB SA GPE 1127-5370-2502	3,582,288	565,320	3,016,968
1	CDF Accounts	156,212,400	155,373,383	839,017
4	PNB SA GOF 293-531708-0	2,208,368	1,451,085	757,283
1	PNB/LBP STW Accounts	583,448	582,953	495
16		360,338,619	258,343,555	101,995,064
With Negative Variance				
9	PNB SA MSC 1127-5370-2463	3,209,761	4,511,747	(1,301,986)
1	PNB RSF accounts	7,789,395	7,859,790	(70,395)
5	LBP CA Trust 0712-1039-22	20,371,759	20,390,720	(18,961)
15		31,370,915	32,762,257	(1,391,342)
31	Total	P 391,709,534	P 291,105,812	P 100,603,722

SA – Savings Account; CA – Current Account; GPE-Grains Production Enhancement; STW – Shallow Tube Well
RSF – Rapid Seed Financing

13.5 Moreover, the report on the bank details of the trust liability accounts revealed that out of the P599.363 million, only 52.16 per cent or P312.648 million representing 33 projects have been identified by the ASD with bank details. Of this amount, 93.11 per cent or P291.106 million covering 31 projects did not reconcile with their corresponding bank balances. Comparison of the balances, as shown in Table 27, revealed negative variance of P1.391 million indicating that the bank balance was not sufficient to cover the

balance of trust liabilities, and positive variance of P101.995 million which could mean excess funds covering the trust liabilities.

13.6 The positive variance of P101.995 million was due to projects that do not have a separate bank account, and were merged with regular accounts such as the Rice Collection Account (RCA), Grain Operating Fund (GOF) and dollar accounts of the Agency. These projects are under verification and awaiting reconciliation from ROs/POs.

13.7 On the other hand, the negative variance of P1.391 million showed that balances of the Cash-in-Bank where the trust funds are supposedly kept are insufficient, particularly projects which balances are in the Philippine National Bank - Miscellaneous savings account (PNB-MSA). Such condition is an indication of improper recording of transactions that resulted in the misstatement of the accounts.

13.8 The inability to reconcile and support the substantial discrepancy of these projects with the details supposedly available from the subsidiary ledgers rendered the reported balances unreliable.

13.9 As to the accounts with total balance of P216.356 million that remained non-moving for the past seven years and balances that did not reconcile with the corresponding cash balance, the accuracy of trust liability accounts amounting to P599.363 million as of December 31, 2014 continued to be doubtful. In addition, the continuing existence of the dormant accounts in the NFA's books may not only be contrary to the purpose for which these funds had been set up, but likewise, may put at risk the funds to possible misuse/misapplication. Moreover, unwarranted retention of these funds or the non-return of the unutilized trust funds deprived the Source Agencies of resources that could be put to better use in other activities.

13.10 Despite the issuance of Audit Observation Memoranda (AOMs) on the same audit issues, which were incorporated in our 2012 and 2013 Annual Audit Reports (AARs) on NFA, trust funds recorded in the Due to Other GOCCs and NGAs accounts still comprised the bulk of long dormant accounts. Verification of the Agency's Action Plan and the actions taken on prior years' audit recommendations revealed that the delay in the reconciliation of the trust fund balances was due primarily to lack of documentations regarding the accounts.

13.11 Furthermore, the report submitted by the ASD also disclosed that the Due to Other NGAs account balance included cash proceeds received from rice sales as advance payments made by various NGAs for the purchase of rice from NFA in the total amount of P29.241 million, as presented in Table 28. These were deposited to PNB RCA 1127-5370-2578.

**Table 28 - Advance Payments for the Purchase of Rice
Misclassified as Due to Other NGAs**

Account	Amount
Office of the Civil Defense (OCD)	P 26,207,501
Office of the Vice President (OVP)	1,935,000
Philippine Charity Sweepstakes Office (PCSO)	605,000
Office of the President-Adviser on Peace Process (OP-APP)	187,500
National Commission for Muslim Filipinos (NCMF)	306,250
Total	P 29,241,251

13.12 The new e-National Government Accounting System (e-NGAS) Chart of Accounts, which the NFA adopted, defined Due to Other NGAs account as amounts received from other national agencies for the implementation of specific programs/projects subject to liquidation. As such, the above transactions should not have been taken up under the said account but instead under Other Deferred Credits account.

13.13 The receipt of cash from OCD was covered by a MOA dated January 5, 2012. As to the accounts of the OVP, PCSO, OP-APP and NCMF, there were no contracts or MOAs executed but they were issued official receipts for the advance payments made.

13.14 Pertinent provisions under Item II of the MOA between OCD and NFA states that *“The OCD shall remit payment in advance to the NFA Central Office for all purchases to be made under this Agreement. The corresponding amount of rice purchase shall be deducted from the amount held in trust by NFA.”* These indeed manifested that the funds received by NFA from OCD constitute sale of rice that should be accounted under Other Deferred Credits account. Thus, the Due to Other NGAs account was overstated by P29.241 million, while the Other Deferred Credits account was understated by the same amount.

13.15 **We reiterated our prior years’ recommendations that Management:**

- a. **Cause the thorough verification of the nature or purposes of projects long outstanding and determine the status whether already completed, discontinued or abandoned;**
- b. **Fast track reconciliation of the balances against relevant records, determine the actual existence and proper valuation of accounts, ascertain and validate discrepancies between the recorded amounts and the actual existing balances;**
- c. **Make the necessary adjustments in the books to determine actual balances and cause remittance to the National Government (NG) thru the BTr; and**
- d. **On the projects that did not reconcile with the cash balances, fast track the reconciliation process, ascertain and validate discrepancies between the recorded amounts and the actual existing balances and appropriate adjustments be made to reflect the correct balances of the accounts.**

13.16 **We likewise recommended that the ASD reclassify the advance payments received from NGAs for the sale of rice from Due to Other NGAs account to Other Deferred Credits account.**

13.17 Management commented that:

- a. The lack or absence of supporting documents prevents it from taking appropriate action. It has exerted efforts to locate documents from storage areas, coordinated with different departments and POs and conducted meetings to discuss further actions to be taken to reconcile long outstanding and dormant accounts.

b. Due to Other GOCCs account - Most of the accounts are only beginning balances which were forwarded to e-NGAS and are currently still under reconciliation in which additional documents and information are still being located.

c. Due to Other NGAs and GOCCs accounts - Reconciliation and verification are still on-going for the accounts of the BOC-Sugar, DILG-Australian Imported Rice, DA-Donated Yellow Corn, ACPC, NPHRI, QUEDANCOR-CDF and SVLF, PCIC, and PCSO accounts. For the accounts of the 2008 Farm Level Grains Center and Ramon Magsaysay Project, vouchers are being processed for the return of the remaining balance. For the 2001 Consultative Fund-Lifting of Rice Monopoly on Importation account, liquidation report is being prepared by the ISD.

d. Other Payables account such as the Mindanao El Niño Victims, Rice Subsidy Program and Philippine Rice Maligaya - Reconciliation and verification are also still on-going. For the FAO-Grains Post Harvest and PFF accounts, they are awaiting instructions from Philippine Council for Agriculture and Fisheries (PCAF) for the return of the unexpended balance.

e. Trust liability accounts which do not reconcile with bank balances are due to the following:

e.1 Trust liability accounts are debited for gross amount of expenses. Only the amount net of withholding taxes is credited to cash. Withholding taxes are remitted on the succeeding month.

e.2 Revolving funds are being maintained by Special Disbursing Officers for some trust liability accounts.

e.3 Deposits/disbursements are sometimes inadvertently deposited/disbursed to/from wrong bank accounts.

e.4 Not all projects have separate bank accounts because there was a time in the past that COA did not favor the maintenance of too many bank accounts.

f. The advance payments received from government agencies for the sale of rice amounting to P29.241 million has been reclassified in 2015 from Due to Other NGAs account to Other Deferred Credits account per JEV No. 2015-05-009448.

14. The amount of P9.186 million received from the Department of Agriculture (DA) in 2011 for the implementation of the Irrigated Rice Production Enhancement Project (IRPEP) and its utilization was not taken up in the NFA-HO's books, thereby affecting accounts such as Cash, Other Prepaid Expenses, Due to Other NGAs and Other Payables.

14.1 Section 122, Volume I of the Government Accounting and Auditing Manual (GAAM) requires that receipts for specific purposes which are received by government

office acting as a trustee or an administrator shall be treated as a trust liability of the Agency concerned for the fulfilment of an obligation.

14.2 Likewise, Section 8.1 of COA Circular No. 94-013 dated December 13, 1994 which prescribes the rules and regulations in the grant, utilization and liquidation of funds provides, among others, that the Auditor of the Implementing Agency (IA) shall ensure that the fund transferred is taken up as trust liability in the books and that a separate subsidiary ledger is maintained.

14.3 On July 20, 2011, a Memorandum of Agreement (MOA) was executed between the DA and the NFA, with the latter as the lead agency to implement the provision of marketing and post-harvest processing facility component of the IRPEP that will provide the farmer-members of Irrigators' Associations in selected provinces in Regions VIII and X with adequate and correct market information, facilitate their access to existing NFA/other government facilities and structures, provide post-harvest facilities (dryers and rice mills) for their use, and promote on-farm marketing mechanisms to improve farm-gate prices and reduce transaction costs for their produce.

14.4 As stated in the MOA, the NFA has to improve its existing information system and upgrade its post-harvest facilities in order for it to carry out its role, while the DA will provide the necessary funds to implement the program.

14.5 Under Item A.1 of the MOA, the DA shall transfer to the NFA the amount of P11.886 million, as shown in Table 29, to be used for the improvement of the information system of NFA, upgrading of its post-harvest facilities, and conduct of policy dialogue on its Rice Price Stabilization Policy and Government Food Subsidy Policy Program, including administrative and other expenses incidental to the implementation of the program, in accordance with the Financing Loan Agreement.

Table 29 - Fund Source for IRPEP

Fund Source	Amount
International Fund for Agricultural Development (IFAD) Loan (LN No. 767-PH)	P 5,748,537
European Community (EC) Grant (C-EC-76-PH)	3,114,198
Government of the Philippines (GOP) Counterpart	3,023,491
Total	P 11,886,226

14.6 On September 28, 2011, the DA transferred to NFA the amount of P9.186 million under LBP Check No. 612983 dated September 21, 2011, receipt of which was acknowledged by NFA under Official Receipt (OR) No. 0662451.

14.7 The receipt by the NFA of the fund from the DA and all other subsequent transactions under the IRPEP were recorded by the ASD in separate books of accounts maintained for the project. Based on the recorded transactions, a monthly Trial Balance is prepared. The receipt by the NFA of the P9.186 million from the DA was recorded in the IRPEP books as a debit to Cash-Collecting Officer account and credit to Due to Other NGAs-DA-IRPEP account. On the other hand, the deposit made to the depository bank for the IRPEP fund was recorded as a debit to Cash-in-Bank account and a credit to Cash-Collecting Officer account. The Due to Other NGAs account is debited for expenses incurred chargeable against the fund, while Cash account is credited for payments made for the expenses incurred. Other disbursements made out of the

IRPEP funds which could not be considered as expenses were recorded under Other Prepaid Expenses or Other Payables accounts.

14.8 However, it was noted that the receipt of fund and its utilization were not consolidated with the books of NFA, thereby affecting several accounts in 2014, i.e., Cash (P2.673 million), Other Prepaid Expenses (P1,123), Due to Other NGAs (P2.620 million) and Other Payables (P53,878).

14.9 The non-consolidation of the accounts maintained for IRPEP transactions to the NFA's books of accounts is in effect non-recognition of the trust liability in the financial statements of NFA as a whole, contrary to the provisions of Section 122 of the GAAM, Volume I and Section 8.1 of COA Circular No. 94-013.

14.10 We recommended that Management require the ASD to consolidate the accounts maintained for IRPEP to the NFA's books of accounts and to prepare necessary adjusting entry accordingly.

14.11 Management informed that the IRPEP accounts have already been incorporated in the NFA's books in May 2015 under JEV 2015-05-009756.

15. The balance of the Lingap Para sa Mahihirap Program (Lingap) Fund of P24.525 million as of December 31, 2014 continued to be questionable as this balance remained unreconciled by the NFA-ASD with the balance as audited by the NFA-Internal Audit Service Department (IASD) in 2008 which had showed that the P400 million Lingap Fund received by the NFA was already fully utilized.

15.1 Executive Order (EO) No. 92 dated April 12, 1999 provides the general guidelines and institutional arrangements for the Lingap Fund. As mentioned in this EO, the amount of P2.500 billion was provided in the 1999 General Appropriations Act (GAA) under the Lingap Fund to be used exclusively to satisfy the minimum basic needs of poor communities and disadvantaged sectors through several programs, one of which is the program "Price Support for Rice and Corn" for which P400 million was released to the NFA. The fund was taken up under Other Payables account.

15.2 In our last year's AOM, we mentioned that based on the Memorandum dated September 16, 2008 of the NFA-IASD to the then NFA Deputy Administrator, the amount of P400.020 million was used to pay for various expenses, as presented in Table 30.

Table 30 - Utilization of the P400.020 Million Lingap Fund

Expenses	Amount (In Million)
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
Total	P 400.020

15.3 Records of the ASD, however, showed that the fund still has an unliquidated balance of P30.288 million as of December 31, 2013. We then recommended that supporting documents to the expenses listed under the implemented projects of the P400 million Lingap Fund be submitted as these were previously requested in our letters dated October 16, 2013 to the then NFA Deputy Administrator and December 3, 2013 to the then ASD Manager and IASD Officer-in-Charge. We further recommended that the records of ASD and the IASD be reconciled to reflect the correct balance and cause the liquidation of the remaining balance, if any.

15.4 As of December 31, 2014, the P30.288 million fund balance as of December 31, 2013 was reduced to P24.525 million, or a total net reduction of P5.763 million for certain adjustments which were recorded through JEVs.

15.5 It was noted that the balance of P24.525 million as of year-end had not been reconciled with the results of audit conducted by the NFA-IASD which showed that the P400 million Lingap Fund had already been fully utilized. Thus, such year-end balance remained questionable.

15.6 **We reiterated our previous year's recommendations that Management:**

a. Require the ASD and the IASD to reconcile their records, effect the necessary adjustments which are adequately documented in order to reflect the correct fund balance; and

b. Cause the liquidation of the remaining balance, if any.

15.7 Management informed that continuous verification and reconciliation is undertaken to fully liquidate the account.

Intra-agency Receivable and Payable Accounts

16. 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.

16.1 Intra-agency receivables and payables represent the receipt of funds and other assets like supplies, inventories, equipment, etc. for use in NFA Central, Regional and Provincial Offices (CO, ROs and POs) and were recorded as receivable (Due from) in the issuing office and payable (Due to) by the receiving office. These accounts are being reverted and closed to Equity account after the originating office acknowledges and confirms the reconciliation of accounts with NFA ROs/POs.

16.2 NFA SOP No. FS-GP13 dated April 21, 1997, as amended on December 18, 2008 and October 24, 2014, provides the guidelines and procedures on inter-branch accounting and defines the responsibilities of concerned offices and employees in reporting, recording and monitoring of inter-branch transactions, including the preparation of reconciliation statements. It also includes the sanction on administrative offense based on violation of Reasonable Office Rules and Regulations, with penalty ranging from reprimand, suspension or dismissal.

16.3 Section 3 of PD No. 1445 provides that the accounts of the agency shall be kept in such details as necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by the fiscal or control agencies of the government. Moreover, the highest objectivity and consistency shall be observed in the keeping of the accounts to safeguard against inaccurate or misleading information.

16.4 The PAS 27 requires that in the consolidation of the Financial Statements of a group of entities under the control of a parent, the intra-group balances, transactions, income and expenses are eliminated in full; hence, it is expected that the balances of the intra-agency accounts of NFA will be eliminated in full and will present zero balance in the consolidated financial statements.

16.5 The composition of the intra-agency receivables and payables as of December 31, 2014 is presented in Table 31.

Table 31 - Intra-Agency Receivables and Payables

Intra-agency Receivables Accounts	Amount	Intra-agency Payables Accounts	Amount
Due from Regional Office (FOA)	P 50,238,482,154		
Due from Operating Units (FOA)	145,258,625,225		
	<u>195,497,107,379</u>	Due to Central Office (HOA)	P 201,200,077,536
		Due to Regional Office (FOA)	5,977,781,057
		Due to Operating Units (FOA)	<u>139,899,873,786</u>
Due from Central Office (HOA)	149,907,394,687		145,877,654,843
Due from Regional Office (ROTA)	1,879,274,322	Due to Operating Units (BOTA)	3,364,778,041
Due from Operating Units (BOTA)	20,740,071,777	Due to Regional Office (ROTA)	17,009,349,002
Due from Operating Units (ROCA)	16,093,320,083	Due to Operating Units ROCA)	16,225,839,379
Due from Operating Units (HOCA)	16,306,247,124	Due to Operating Units (HOCA)	16,835,982,454
Due from Central Office (COCA)	20,517,772,489	Due to Central Office (COCA)	23,418,875,001
Due from Regional Office (ROA)	4,807,822,408	Due to Operating Units (POA)	5,788,296,269
Due from Operating Units (POA)	6,485,981,177	Due to Regional Office (ROA)	5,362,836,729
Due from Regional Office (BOCA)	2,847,049,332	Due to Regional Office (BOCA)	-
Total	P 435,082,040,778		P 435,083,689,254

FOA – Field Office Account

HOA – Home Office Account

ROTA – Regional Office Transaction Account

BOTA – Branch Office Transaction Account

ROCA – Regional Office Clearing Account

HOCA – Head Office Clearing Account

COCA – Central Office Clearing Account

ROA – Regional Office Accounts

POA – Provincial Office Accounts

BOCA – Branch Office Clearing Account

16.6 Verification of various reports and entries revealed the following:

a. Region II - The JEVs submitted showed various adjustments in Allacapan PO and adjustments amounting P227.817 million in Cagayan PO were without computation of how the amounts were arrived at, neither reconciliation statements and/or copy of JEV from the receiving/issuing NFA office were attached or presented, hence, causing difficulty in verification.

b. Region II - Quirino and Nueva Vizcaya POs, all of P875.775 million balance of Due from CO are not reconciled with the CO.

c. Region IV - The unreconciled intra-agency receivables of P3.039 billion and intra-agency payables of P2.105 billion constitute 99.6 percent and 82.3 percent, respectively, of the total receivables and payables accounts of Batangas, Infanta, Quezon and Romblon POs. Receivables of P778.743 million and payables of P20.818 million in Quezon PO have been dormant since 1989 but included as part of the current assets and current liabilities as at year-end.

d. Region V- Albay PO - The biggest increase in receivables was traced to Due from Operating Units (OUs) - Province within the Region at P722.470 million, up by 736.76 per cent from P98.060 million last year to P820.530 million this year, while the biggest decrease in receivables was traced to Due from CO at P551.910 million, down by 7.38 per cent from P7.470 billion last year to only P6.920 billion this year. Likewise, the Due from OUs - Province outside the Region and Due from RO, both increased by 1.0 per cent (P6.160 million) and (P0.550 million), respectively.

On the other hand, the biggest increase in payables was traced to Due to CO at P1.510 billion, up by 6.32 per cent from P23.890 billion last year to P25.400 billion in CY 2014; while Due to RO and Due to OU - Province within the Region, both increased slightly by 2.5 per cent (P10.3 million) and 1.0 per cent (P6.82 million), respectively. The biggest decrease in payables was traced to Due to OU - Province outside the Region at P576.870 million, down by 39.24 per cent from P1.470 billion in CY 2013 to P893.130 million this year.

e. Region VI-Negros Occidental PO - Debit/Credit Advices issued in prior years for the transfers of refined sugar to NDO that were submitted for audit were not the original copies. The Sr. Accounting Specialist commented that the original copies were sent to the receiving party (NDO) for confirmation and posting. However, the Debit/Credit Advices were not returned, thus the necessary adjustments, if any, were not reflected in the books of the PO. This was already reported in previous audit but remained not acted upon.

f. Region VIII-RO - There appears under Due from RO and OUs - Outside the Region accounts of P155,812 and P57,921, respectively, without a particular reciprocal office(s) indicated. The balances remained in the books every year-end. The Regional Accountant explained that the pertinent documents could not be located, but still in the process of verification/reconciliation of the accounts.

In the audit of 2012 transactions, the Audit Team made the same observation on the non-reconciliation of the accounts. As compared with the 2012 audit, the variance of the account balance in 2014 had increased by 62.6 per cent and 89.2 per cent, respectively. However, despite the audit recommendations, full reconciliation of the accounts is not yet attained. The Regional Accountant explained that due to lack of accounting personnel and difficulty in locating the documents relative thereto, they could not fast track the reconciliation of the accounts more so in the preparation of the statement of reconciliation of the said accounts.

g. Region X-Misamis Occidental PO - The Due from CO has a balance of P747.479 million as at year-end. Of this amount, 86.34 per cent or P645.349 million are unreconciled prior years' (PY) transactions and 13.66 per cent or P102.130 million for the current year (CY). In 2014, the PO received only two reconciliation statements from CO. The first contained reconciled items for PY transactions of P54.278 million, reducing the unreconciled balance in PY by mere two per cent, while the other statement covered the January to June 2014 transactions, leaving untouched the July to December 2014 transactions.

As for the Due to CO amounting to P2.607 million as at year-end, 94.51 per cent or P2.464 million are unreconciled balance of PY. PO did not receive even a single reconciliation statement for the CY from CO.

h. Region XII RO - The reciprocal accounts Due from and Due to OU showed a discrepancy of P145.307 million which remained unreconciled as at year-end. Further, review of the composition of the reported inter-branch accounts disclosed that the old account under the Due to CO is the negative (abnormal) balance of P599.836 million which pertains to Inventory received from CO and had remained unreconciled. Moreover, the reciprocal accounts recognized in the respective books of the POs showed a discrepancy of P12.089 million.

According to a concerned employee, the noted unreconciled balances in the aggregate amount of P145.307 million are attributed to delayed preparation of Schedule of Inter-branch Transactions, non-preparation of Monthly Reconciliation Statement of Inter-branch Transactions, and delayed confirmation of advices received from/transmitted to the concerned POs.

i. CARAGA-Surigao del Sur PO - Due to the failure of the Accountant to institute the necessary protocol in the reporting and documentation of inter-branch transactions, the transfer of 1,000 bags of Iron Fortified Rice amounting to P1.560 million on December 21, 2012 from GID Mangagoy to Cateel Warehouse was erroneously recorded as Due from OUs-Davao del Norte instead to Due From OUs-Davao Oriental, which is still unadjusted as at audit date.

j. ARMM RO - The receivable and payable accounts included unreconciled and inactive/dormant accounts of P380,095 and P400,530, respectively.

k. NCR-RO - The balances of intra-agency accounts amounting to P37.310 billion and P29.966 billion for intra-agency receivables and payable accounts, respectively, remained unreconciled at year-end. Most of these balances have not been reconciled for several years while some dormant transactions were recorded way back in 1997.

l. NCR-Batanes Provincial Unit (PU) - The total balances of intra-agency receivable and intra-agency payable of P11.988 million and P254.071 million, respectively, remained unreconciled at year end. Most of these balances have not been reconciled for two years and beyond. The intra-agency payable to Ilocos Norte PO and RO I, La Union comprised transactions in 1995 or 19 years ago.

m. NCR-Cavite PO - The balances of the intra-agency receivable and payable accounts of P1.135 billion and P1.798 billion, respectively, remained unreconciled at year-end. Most of these balances have not been reconciled for two years and beyond. These intra-agency balances likewise contained dormant transactions for several years.

n. NCR-EDO - The accounts remained unidentified and unadjusted either by EDO or concerned NFA office for more than five years due to non-coordination of involved offices in the past years.

o. NCR-NDO - The review of the Subsidiary Ledgers from 2009 to 2014 of the accounts Due from and Due to OU showed that 42 accounts amounting to P6.437 million have been dormant and non-moving for five years or more, while seven accounts in the amount of P80.612 million have abnormal or negative balances, hence, there has been no regular reconciliation of balances.

Moreover, the following deficiencies affected the accuracy of the account balances as at year-end:

o.1 Various adjustments to the amount of recorded receipts of imported rice for the year totalling P42.475 million were made without supporting documents, thus casting doubt on the accuracy of the adjustments.

o.2 Closing entries for reconciled inter-branch transactions amounting to P23.368 million was inappropriately debited to Due to OU. The entry should have been a credit to the Due from OU-SDO based on the corresponding entry made by the receiving/issuing office, SDO, for the said transaction which was debit to the reciprocal account Due to OU-NDO. The incorrect entry made by NDO resulted in negative balance of the Due to OU-SDO in the amount of P23.066 million as at year-end.

o.3 Closing entries for reconciled inter-branch transactions amounting to P28.731 million was incorrectly credited to the account Due from OU-Batangas instead of crediting the appropriate reciprocal account Due to OU-Batangas since the corresponding entry prepared by the receiving/issuing office, Batangas PO, was debit to the account Due from OU-NDO. As a result, the previous negative balance of the Due from OU-Batangas was further increased to P28.624 million, net of other adjustments.

o.4 Cancellation of previous erroneous entries in the amount of P476,000 was taken up as addition instead of deduction to the affected Due from and Due to OU accounts resulting in the overstatement of both accounts by the same amount.

p. NCR-CDO – The amounts of P13.127 billion or 73.02 per cent of the total Intra-agency Receivables of P17.978 billion and P14.393 billion or 77.81 per cent of the total Intra-agency Payables of P18.498 billion remained unreconciled for five years and beyond. For the NCR-SDO - the intra-agency receivables and payables remained unreconciled for five years and beyond.

q. Benguet PO - Due from and Due to CO accounts are misstated due to erroneous recording of reconciling items required by CO.

16.7 To further check the accuracy of the balances, results of confirmation from other NFA offices are shown in Table 32.

Table 32 - Confirmation Results

Region/Office/Unit	Discrepancy	
	Intra-agency Receivables	Intra-agency Payables
HO	P 47,696,825	P 87,058,257
Region I - Eastern Pangasinan PO	40,639,991	13,401,648
Region I - Western Pangasinan PO	14,575,748	13,219,414
Region II - Allacapan PO	483,290,250	318,872
Region II - Cagayan PO	820,318,894	11,850,949
Region III - Bulacan PO	21,556,551	91,985,720
Region III - Pampanga PO	118,516	8,824,711
Region V - Albay PO	457,856,841	326,120,860
Region VI - Negros Occidental PO	156,473,387	867,408,310
Region VIII - RO	143,417,538	2,585,915,143
NCR - RO	1,245,113,511	1,233,286,535
NCR - CPO	494,237,261	848,049,493
NCR - BPU	11,565,683	40,755,474
NCR - EDO	1,311,557,764	170,533,351
NCR - NDO	24,479,394	225,810,302
NCR - CDO	297,554,556	683,720,135
NCR - SDO	532,228,660	1,210,948,456
CARAGA - Agusan del Norte PO	1,371,793	4,821,213
CARAGA - Agusan del Sur PO	1,151,825	754,551
CARAGA - Surigao del Sur PO	3,102,365	1,314,615
Total	P 6,108,307,353	P 8,426,098,009

16.8 Reconciliation Statements for Eastern and Western Pangasinan POs as of November 30, 2014 from CO were just on file as of February 28, 2015, thus, not in conformity with the deadline set in NFA SOP No. FS-GP13. Had there been a timely and regular preparation of reconciliation statement as required in the regulation, the existence of variances might be avoided.

16.9 In Region II-RO and Isabela PO, the results of confirmation from various NFA offices within and outside the region disclosed that the differences and/or adjustments were not yet taken up either by the RO or PO in the absence of the advices from concerned NFA offices. On the part of the RO to OU, a reconciliation statement was prepared by the RO showing that the funds transferred by the RO to the OU were duly acknowledged and accounted by the OU.

16.10 These reciprocal accounts should normally be eliminated during consolidation of the accounts at year-end, as they are intended merely as clearing accounts for intra-agency receivables and payables. However, the non-reconciliation of accounts, as also observed in prior years' audit, resulted in huge amounts of discrepancies which affected a group of real and nominal accounts. It also shows that the guidelines and policies were not strictly observed and followed in view of the significant difference of the existing balances of the accounts from the reciprocal accounts of the other offices. The continuous non-reconciliation of these accounts resulted in long existing overstatement and understatement of affected accounts carried over to the current balances, which continuously affected the reliability and soundness of the reported balances of the accounts in the financial statements of the Agency.

16.11 **We reiterated our prior years' recommendations that Management:**

- a. **Require the concerned Accountants to take active action to prioritize the reconciliation of intra-agency accounts in order to have accurate and reliable balances and strictly monitor compliance with NFA SOP No. FS-GP13, with emphasis on the regular preparation of schedule of inter-branch**

transactions and Monthly Reconciliation Statement to identify variances, if any, within the reporting period and immediately coordinate with other offices to resolve the differences and prepare the necessary adjustments; and

b. Ensure that policies and guidelines on inter-branch transactions are strictly observed, especially the sanctions provided in NFA SOP No. FS-GP13 as deterrent to the accumulation of variances.

16.12 Overall, Management of NFA-HO and the concerned FOs commented that the intra-agency accounts are progressive accounts which are balances of cumulative transactions. The reconciliation of the accounts is still in progress and they face difficulties in reconciling the PYs' transactions mainly due to the absence of necessary supporting documents. Nevertheless, they gave assurance in doing all the necessary actions to attain fully-reconciled inter-branch accounts. Close coordination and monitoring are being undertaken by both the FOs and NFA-HO concerned personnel for the current transactions like the preparation of the monthly reconciliation statements.

16.13 As audit rejoinder -

a. We maintain that the Negros Occidental PO Management direct the Accountant to exert extra effort to reconcile intra-agency receivables and payables. Coordinate with other NFA offices regarding request for detailed statement of Due to/Due from accounts and effect adjustments in order to come up with fair presentation of accounts in the financial statements.

b. For Region III-Pampanga PO, the Provincial Accountant should submit copies of reconciliation reports on the variances noted at least on a quarterly basis for reference purposes. Likewise, whenever practicable, the Accountant should confer personally with counterparts in other NFA offices to expedite the reconciliation of the balances.

c. For Region VIII-RO, the reconciliation of the account balances mentioned by the Regional Accountant was part of the previous years' unreconciled account balances. The books of accounts still show substantial amount of unreconciled balances of the intra-agency accounts as of December 31, 2014 which affects the presentation of the Equity account in the financial statements.

Grant of Special and Regular Monetization of Leave Credits

17. The grant of special monetization of leave credits amounting P2.599 million to 212 personnel and regular monetization of 40 days to a personnel at the NFA-HO instead of 30 days were not in accordance with Sections 22 and 23 of the Civil Service Commission (CSC) Omnibus Rules on Leave. In NCR-NDO, payments for special monetization of leave credits of P1.255 million were not supported with valid/justifiable reason or medical abstract or procedures to be undertaken, contrary to NFA SOP No. HR-PB55 and COA Circular No. 2012-001. Thus, the validity and propriety of the payments could not be fully established.

17.1 Section 22 of the CSC Omnibus Rules on Leave (Rule XVI of the Omnibus Rules implementing Book V of EO No. 292) provides that in the monetization of leave credits, officials and employees in the career and non-career service whether permanent, temporary, casual, or coterminous, who have accumulated fifteen (15) days of vacation leave credits shall be allowed to monetize a minimum of ten (10) days provided, that at least five (5) days is retained after monetization and provided further that a maximum of thirty (30) days may be monetized in a given year.

17.2 Section 23 of the same Rules on Leave provides that monetization of 50 per cent or more of the accumulated vacation/sick leave credits may be allowed for valid and justifiable reasons, among which is health, medical and hospital needs of the employee and the immediate members of his/her family. Also provided in the same section, that the monetization of 50 per cent or more shall be upon the favorable recommendation of the agency head and subject to availability of funds.

17.3 On January 7, 2011, the then NFA Administrator approved NFA SOP No. HR-PB55, or the SOP on leave of absence (Revised 2011). Item II.A.1.1.15.a to c of the SOP provides the following rules on monetization of leave credits which NFA personnel can avail:

- a. Regular monetization – officials and employees who have accumulated fifteen (15) days or more vacation leave credits shall be allowed to monetize a minimum of ten (10) days and a maximum of thirty (30) days, provided that at least five (5) days for Forced Leave (FL) purposes is retained after monetization. The availment of regular monetization of leave credits can be in any month of the year, but subject to availability of funds.
- b. Monetization of 50 per cent or more of the employee's accumulated vacation/sick leave credits may be allowed for the same valid and justifiable reasons as what are provided in the Omnibus Rules on Leave of the CSC.
- c. Special monetization of not more than 10 days for reasons cited under Item No. II.A.1.1.1.14.b shall be allowed for employees who are not eligible to avail of the regular monetization; provided that five (5) days leave credit is retained in the vacation leave balance. If the 5-day vacation leave credits could not be retained due to insufficient vacation leave balance, the special monetization can still be granted chargeable to sick leave balance.

17.4 Under Item 5.14 of COA Circular No. 2012-001 dated June 14, 2012, the documentary requirement for monetization of 50 per cent or more of employee's accumulated vacation/sick leave credits in case of health, medical and hospital needs is the clinical abstract or medical procedures to be undertaken.

17.5 Audit revealed that in 2014, the amount of P2.599 million was paid to 212 employees who availed of special monetization of their leave credits based on NFA's SOP No. HR-PB55 despite non-conformity with the leave credits balance requirement provided under existing rules and regulations. These employees were paid special monetization even if their accumulated leave credits were less than the required 15 days before an employee can monetize, and that their vacation leave credits after considering the required five days leave credits to be retained at the time of monetization are not sufficient to cover the number of days monetized.

17.6 It was also noted that, while the NFA SOP provides that special monetization of not more than 10 days shall be allowed, 10 of the 212 employees were able to monetize their leave credits in excess of 10 days which amounted to P244,069.

17.7 The CSC rules on the monetization of leave credits provided only for the grant of monetization under Sections 22 and 23 of the Omnibus Rules on Leave and did not include special monetization of leave credits. While Management's grant of special monetization was in accordance with its approved SOP on leave, the provision of the SOP on said grant was not in accordance with Sections 22 and 23 of the CSC Omnibus Rules on Leave which is an implementing guideline of Book V of EO No. 292, otherwise known as the Revised Administrative Code of 1987. The provisions of the NFA SOP No. HR-PB55 cannot prevail over the provisions of the CSC Omnibus Rules on Leave. As such, the payments made for special monetization of leave credits were considered irregular.

17.8 Moreover, an employee who availed of the 50 per cent special monetization of leave credits was also granted 40 days regular monetization of leave credits which exceeded the maximum 30 days limit of regular monetization prescribed under Section 22 of the Omnibus Rules on Leave.

17.9 In NCR-NDO, review of payrolls and disbursement vouchers (DVs) for CY 2014 showed that payment for the monetization of accumulated vacation and sick leave credits amounted to P1.255 million composed of: (a) special monetization of not more than 10 days vacation/sick leave credits of 78 employees totaling P493,536; and (b) monetization of 50 per cent of the employee's accumulated vacation/sick leave credits by nine officials totaling P0.761 million.

17.10 The payment of the special monetization of P493,536 was based on NFA SOP No. HR-PB55. The formula for the computation of the special monetization (SM) provided in the SOP is $SM = [(VL-5 \text{ days}) \times 50\%] + [SL \times 50\%]$. From this formula, it can be inferred that the special monetization is similar with the monetization of 50 per cent of leave credits, although limited to a maximum of 10 days only.

17.11 However, verification of supporting documents disclosed that all the application for special monetization of the 78 employees were duly approved despite the absence of any valid/justifiable reason in their application, which is one of the conditions set in the above-mentioned SOP provisions.

17.12 Likewise, applications for monetization of 50 per cent of the accumulated leave credits of the nine employees for health or medical reason amounting to P0.761 million were duly approved despite the absence of the required clinical abstract or medical procedures to be undertaken. In lieu of this requirement, only a notarized medical certificate indicating the nature of ailment was submitted by each claimant.

17.13 Thus, the validity and propriety of the payment for special monetization of leave credits amounting to P1.255 million in NCR-NDO could not be fully established due to non-compliance with the conditions of NFA SOP No. HR-PB55 and applicable provisions on documentary requirements of COA Circular No. 2012-001.

17.14 We recommended that Management:

- a. Strictly comply with the provisions of Sections 22 and 23 of the CSC Omnibus Rules on Leave on the grant of monetization of leave credits to its officials and employees;**
- b. Ensure that all requirements for monetization of leave credits are complied with before any payment is made; and**
- c. Revisit NFA SOP on the grant of monetization of leave credits for possible revision to conform to the CSC Omnibus Rules on Leave.**

17.15 The NFA-HO Management informed that a Team had reviewed the existing internal SOP No. HR-PB55 on Leave of Absence. As soon as the amendments thereon are approved, it shall accordingly furnish COA a copy.

17.16 The NDO Management commented that all applications for the 50 per cent monetization of leave credits were supported by the documents required in Item II.A 1.15b of SOP No. HR-PB55 and were processed and recommended for approval by the NFA HO - Human Resource Management Department before the final approval of the Administrator and that they shall require employees to specify in the Application for Leave of Absence their valid/justifiable reasons in subsequent applications for special monetization.

17.17 As audit rejoinder, we maintain that the basic documentary requirement under Item 5.14 of COA Circular No. 2012-001 for monetization of 50 per cent or more of accumulated leave credits specifically in case of health, medical and hospital needs, which is the medical abstract or procedures to be undertaken, must also be complied with in addition to the supporting documents required under the NFA SOP.

Grant of Rice Allowance and Reimbursable Expenses

18. The NFA Council members and alternates were granted rice allowance of P113,216, contrary to Section 23 of Republic Act (RA) No. 10149 and Section 8 of EO No. 24. Moreover, reimbursable expenses for meals totaling P2.882 million and P0.884 million charged to the budgets for the Chairman's Fund and Office of the Council Secretary, respectively, were granted without sufficient information on the purpose of such meal expenses and the attendees of the meetings held; thus, the validity/propriety of the expenses could not be fully established.

18.1 Section 23 of RA No. 10149, otherwise known as GOCC Governance Act of 2011, provides Governance Commission for GOCCs (GCG) with the power to set limits to the per diems, compensation, allowance, and incentive entitlement of the members of the Board using as reference, among others, EO No. 24 dated February 10, 2011.

18.2 EO No. 24 provides, among others, the following limitations to the compensation, per diems, allowances and incentives to be granted to the GOCC's Board of Directors/Trustees:

Section 8 -

Compensation Structure - The compensation of members of the Board of Directors/Trustees shall have the following components:

a) *Compensation shall be in the form of per diems and subject to limits as provided for under Sections 9 and 10 hereof;*

X x x x

d) *Salaries, Allowances, Benefits, and other Bonuses shall not be allowed unless specifically authorized by law or Charter and approved by the President, provided that the total of the foregoing compensation and per diems shall not exceed the limits stipulated under Sections 9 and 10 hereof.*

Section 12 -

*All necessary expenses of members of the Board of Directors/Trustees to attend Board and other meetings and discharge their official duties shall be paid directly by the GOCC. However, when due only to the **exigency of the service** and subject to the submission of receipts, it is necessary for members of the Board of Directors/Trustees to advance the same, they may be reimbursed but only for the following items incurred in the performance of official functions subject to budgeting, accounting, and auditing rules and regulation:*

X x x x

b) *Meals during business meetings.* [Emphasis supplied]

18.3 For 2014, NFA allocated in its Corporate Operating Budget (COB) for Maintenance and Other Operating Expenses (MOOE) of the Office of the Council Secretary the amount of P1.370 million and the NFA Council Chairman's Fund the amount of P4.000 million or a total of P5.370 million to defray various expenses. Of the total amount, P4.748 million or 88.42 per cent was reportedly utilized.

18.4 The fixed annual budget for the Chairman's Fund of P4.000 million was authorized by the NFA Council under its Resolution No. 394-2K8-D based on the excerpts from the minutes of the NFA Council's 51st regular meeting on April 11, 2008 as certified by the then Board Secretary.

18.5 Review of expenses of the NFA Council which were paid during the year disclosed, that the members and alternates were paid rice allowance in the total amount of P113,216 charged to the budget of the Office of the Council Secretary in the NFA-HO, NCR-CDO and General Santos PO. They were also granted reimbursable expenses for meal expenses incurred which were recognized as Representation Expenses in the total amount of P3.766 million, P2.882 million of which was charged to the budget for the Chairman's Fund that exceeded the budget for the same expense by P0.643 million, and the amount of P0.884 million from the budget for the NFA Council Secretary, as summarized in Table 33.

Table 33 - Rice Allowance and Reimbursable Expenses Granted to NFA Council

Position	Period Covered	Agency	Rice Allowance	Representation Expenses Charged to the Budget for			Overall Total
				Chairman's Fund	Council Secretary	Total	
Chairman	1/1-5/19/14	DA	P 6,962	P 1,102,022	P -	P 1,102,022	P 1,108,984
Chairman	5/20-12/31/14	OP	7,273	1,734,713	-	1,734,713	1,741,986
Vice- Chairman	1/1-5/23/14	NFA	6,962	45,600	-	45,600	52,562
Vice- Chairman	6/24-9/25/14	NFA	4,136	-	-	-	4,136
OIC- Vice Chairman	9/30-11/13/14	NFA	2,067	-	-	-	2,067
Vice- Chairman	11/14-12/31/14	NFA	1,070	-	22,800	22,800	23,870
Member	4/1-12/31/14	OP	14,236	-	91,178	91,178	105,414
Member	1/1-12/31/14	FSR	12,496	-	164,519	164,519	177,015
Alternate Member	1/1-12/31/14	DOF	14,236	-	91,200	91,200	105,436
Alternate Member	1/1-3/31/14		-	-	-	-	-
	7/1-12/31/14	BSP	14,236	-	68,828	68,828	83,064
Alternate Member	1/1-12/31/14	DBP	-	-	74,751	74,751	74,751
Alternate Member	1/1-12/31/14	DTI	14,236	-	89,866	89,866	104,102
Alternate Member	1/1-12/31/14	LBP	14,236	-	91,200	91,200	105,436
Alternate Member	12/1-12/31/13	PNB	1,070	-	-	-	1,070
Revolving Fund - OCS	1/1-12/31/14		-	-	189,694	189,694	189,694
			P 113,216	P 2,882,335	P 884,036	P 3,766,371	P 3,879,587

DA- Department of Agriculture

OP- Office of the President

FSR- Farmers Sector Representative

DOF- Department of Finance

BSP- Bangko Sentral ng Pilipinas

DBP- Development Bank of the Philippines

DTI- Department of Trade and Industry

LBP- Land Bank of the Philippines

PNB- Philippine National Bank

18.6 The NFA Council members were granted rice allowance at the rate of P800 per month while the difference in rate per sack was charged to General Operations-Operating Expenses-Payment in Kind which is prohibited under Section 8 of EO No. 24.

18.7 Likewise, the NFA Council members and alternates were allowed to reimburse meal expenses charged to the budgets for Chairman's Fund and Office of the Council Secretary in the total of P3.766 million. Review of the disbursement vouchers (DVs) and supporting documents for the paid reimbursements revealed the following deficiencies which cast doubt on the validity/propriety of the expenses incurred:

a. The DVs were supported only with receipts and without indication of the purpose of such meal expenses and the attendees of the meetings held, contrary to the provisions of Section 4(6) of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012. Although there were certifications in the DVs, however, these were self-serving since the certifications only state that these (expenses) were incurred during the performance of official functions/business meetings, and such were signed by the claimants themselves. Thus, the validity/propriety of the expenses could not be fully ascertained.

b. Based on the dates of the receipts attached to the DVs, as if the Council members and alternates had attended meetings one to 30 days in a month with three to eight days in a month on Saturdays, Sundays and holidays. The NFA Council had conducted only 12 meetings during the year with accumulated meal expenses amounting to P187,694 charged against the budget of the Office of the Council Secretary. This would indicate then that the meal expenses through reimbursements by the Council members and alternates charged to the Chairman's Fund were incurred during meetings other than NFA Council

meetings. In addition, during the year, the Office of the Council Secretary incurred representation expenses of P0.884 million including the meal expenses incurred during Council meetings.

c. The ex-officio members designated their respective alternates on specific dates of meetings. Other than these meetings, it could not be determined if the rest of the meetings where meal expenses were incurred were in connection with NFA operations.

d. Among the receipts supporting the reimbursements charged to the Chairman's Fund were 11 receipts with various dates in the total amount of P153,500 from Toppings Queen Food Catering with address at Polytechnic University of the Philippines (PUP), Sta. Mesa, Manila. Based on the dates of the receipts, only the receipt dated September 30, 2014 matched with the date of Council meeting. However, the meal expenses for this particular Council meeting, was charged to the Office of the Council Secretary.

e. Some alternate members also reimbursed meal receipts on the same dates when Council meetings were conducted. These members claimed reimbursements charged to Council Secretariat even if they were present or absent during such Council meetings.

18.8 We recommended that Management:

a. Require the NFA Council members and alternates to refund the rice allowance granted to them;

b. Require the NFA Council members and alternates to submit documents showing that the meal expenses reimbursed were utilized during official business meetings, otherwise require the refund of the amounts paid to them, and henceforth, ensure that all expenses are properly supported with complete documentation pursuant to Section 4(6) of PD No. 1445 and COA Circular No. 2012-001;

c. Discontinue allocating funds for the NFA Council Chairman's Fund. Instead, allocate funds for all authorized and necessary NFA Council expenses for a year under the Office of the Council Secretary; and

d. Henceforth, exercise prudence in the utilization of NFA Council funds and adhere strictly to the provisions of RA No. 10149 and EO No. 24 on the limitations for the grant of compensation/allowances to NFA Council members and alternates.

18.9 Management provided the following comments:

a. The NFA Council is always mindful to spend or disburse within its budget as the funds allocated to the NFA Office of the Council Secretary and NFA Council-Chairman's Fund for 2014 were not fully utilized. Far from overspending, therefore, the NFA Council is consistent in observing prudence in the utilization of its budget.

b. On the grant of rice allowance amounting to P113,216 in 2014 to NFA Council members and alternates, pending further study, the grant of rice allowances to NFA Council members was suspended.

c. On reimbursable expenses for meals in the total amount of P2.882 million and P0.884 million charged to the budgets for the Chairman's Fund and Office of the Council Secretary, respectively, NFA Council members are allowed to claim reimbursable expenses under Section 10 of EO No. 24. In 2011, to guide NFA Council members and to be elucidated on proper accounting and auditing rules and regulations on the reimbursable expenses, the NFA Council Board Secretary met with the NFA Resident COA Auditor and drafted the "*Guidelines on the Use of the Council's Fund*" and "*Guidelines on Payment of Per Diem and Reimbursable Expenses of NFA Council Members*" as cleared with NFA Resident COA Auditor.

The guidelines set a limit on the amount allowed to be reimbursed by NFA Council members and contained a checklist of the requirements for processing of a "claim." More importantly, it contained three exhibits to sufficiently satisfy the requirements of Section 12 of EO No. 24, including, in the case of claims for reimbursable meal expenses, the form of a certification compliant under law.

Still, on October 8, 2012, after another audit observation on representation expenses, the NFA Accounting Services Department (ASD) issued "*Additional Guidelines on the Use of Council Fund*" stating therein that all food expenses amounting to more than ten thousand Philippine pesos (P10,000) shall indicate the purpose for the incurrence of the said expenses.

Finally, in compliance with rules and regulations, and to the rationale that reimbursable meal expenses were incurred due to exigency of service and during the times when it is impossible for the NFA Council to directly pay the meal expenses, the certification contained in the report of reimbursable meal expenses was changed.

d. On representation expenses of P0.884 million charged to the budget for Office of the Council Secretary including meal expenses incurred during Council meetings, the NFA Council charges meal expenses against NFA Council Revolving Fund and not against reimbursable expenses of the Office of the Council Secretary. Indeed, the amount of P0.884 million is the total reimbursable meal expenses of the NFA Council Vice Chairperson and of its members from OP, FSR, DOF, BSP, DTI, LBP and PNB.

e. As regards reimbursable meal expenses charged against the Chairman's Fund which do not coincide with a Council meeting except one receipt which was charged against the Office of the Council Secretary, this is better understood by the rationale of seeking reimbursement. The amount reflected in one receipt coinciding with a Council meeting was charged against the NFA Council Revolving Fund because all meal expenses during the Council meetings are paid directly by the NFA.

The amounts reflected in 10 receipts charged against Chairman's Fund are reimbursable meal expenses made in the performance of official duties but which

were not paid directly by the NFA Council as these were incurred due to exigency of service and during the times when direct payment was not possible.

18.10 As audit rejoinder, the funds for the Office of the Council Secretary and Chairman's Fund might not have been properly allocated, hence, the allocated amounts were not fully utilized during the year. As discussed, the reimbursable expenses of P2.882 million charged to the budget for the Chairman's Fund under Representation Expenses had exceeded the budget for such expenses by P0.643 million.

18.11 Moreover, the copies of "Guidelines on the Use of the Council's Fund" which was allegedly cleared with the NFA Resident COA Auditor and the "Guidelines on Payment of Per Diem and Reimbursable Expenses of NFA Council Members" which was unsigned by the approving authorities were both provided to the Audit Team, thus casting doubt on the authenticity of these Guidelines. Based on the "Guidelines on the Use of the Council's Fund," the documents required for hosting of receptions/meals of guests included, among others, the list of participants/attendance sheet and official receipts signed by the Chairman. However, these requirements were not even complied with to establish the validity of the expenses. The reimbursable expenses for meals claimed were not properly documented to determine if such were of public character, beneficial to the interest of the public service and connected with the exercise of the powers and functions of NFA.

18.12 In addition, it was not stated in the pertinent provisions of EO No. 24 or in PD No. 1445 that the purpose for the incurrence of the expenses should be indicated only in claims above P10,000. As provided in Section 4(6) of PD No.1445, claims against government funds shall be supported with complete documentation; thus, the mere presentation of official receipts and certification by concerned Council members/alternates cannot be considered as complete documentation.

Disbursement Acceleration Program (DAP)

19. A total of P2.160 million was still obligated and disbursed despite the declaration of the Supreme Court (SC) on July 1, 2014 that some acts and practices under the DAP, National Budget Circular (NBC) No. 541 and related executive issuances were unconstitutional for being in violation of Section 25(5), Article VI of the 1987 Constitution and the Doctrine of separation of powers, thereby making the expenses irregular. Moreover, the unobligated balance of DAP Fund of P1.812 million remained unremitted to the BTr as of May 31, 2015, contrary to the SC Decision.

19.1 On March 19, 2012, the Department of Agriculture (DA) entered into an agreement with the NFA to provide P121.000 million funds as supplemental subsidy for the NFA to acquire incremental mechanical drying capability which will serve as support in the DA's Food Staple Self-Sufficiency Program (FSSP).

19.2 In line with the agreement, the DBM released to the BTr on December 28, 2012 the allotment of P121.000 million under Special Allotment Release Order (SARO)-BMB-F-12-0034950 with Funding Source 2001-90167-3 to cover the release of the National Government (NG) subsidy to the NFA for the rehabilitation and acquisition of mechanical dryers, etc. The release was sourced from the FY 2012 General Appropriations Act

(GAA), in accordance with the FY 2012 DAP, as approved by the President on December 21, 2012. The Notice of Cash Allocation (NCA) No. BMB-F-12-0025847 in the same amount was issued to the BTr to cover the cash requirements of the SARO.

19.3 Of the P121.000 million DAP funds granted by the DBM, the NFA received a total of P33.945 million which was released in two tranches by the BTr. The releases were made on April 4 and December 12, 2013 in the amount of P23.165 million and P10.780 million, respectively, which were credited to LBP-FSSP Current Account. From the P23.165 million funds, the NFA-HO released a total of P22.940 million to the ROs/POs for the implementation of various projects, and P225,350 was retained at NFA-HO while the remaining P31.50 was a bank charge incurred for the transfer of fund from LBP to PNB-FSSP Current Account to enable remittance to ROs/POs without LBP accounts.

19.4 In 2013, the Budget, Treasury and Fund Management Department (BTFMD) had remitted funds to the other ROs/POs out of General Operating Funds (GOF) amounting to P10.938 million and incurred administrative expenses amounting to P11,471. These will be reimbursed upon receiving the remaining balance of the P121.000 million DAP fund. Thus, when the P10.780 million was received on December 12, 2013, the fund was eventually transferred to LBP-GOF bank account to cover the said advances and leaving a balance of P169,762 which can be covered from the cash retained in the two bank accounts. Hence, the total actual DAP funds remitted to the ROs/POs amounted to P33.720 million (P22.940 million + P10.780 million).

19.5 In anticipation of receiving the remaining DAP funds from the BTr, the NFA-HO remitted to the different ROs/POs additional funds of P27.128 million as of December 31, 2014 from its own funds through the realignment of P56.563 million. However, due to lack of monitoring and control on the movement of DAP funds, the total funds reported by the BTFMD and Technical Research Services and Development (TRSD) as DAP remitted to regions amounted to P33.878 million (P22.940 million + P10.938 million), instead of P33.720 million (P22.940 million + P10.780 million) only. Since they were unaware that there is still remaining balance of DAP funds at the two FSSP bank accounts amounting to P225,350, they based their allocation of funds on the P33.945 million (P23.165 million + P10.780 million). The discrepancies are still unaccounted as at audit date. Nevertheless, the total funds remitted to the ROs/POs for the implementation of projects under the FSSP both from DAP and NFA funds amounted to P60.848 million (P22.940 million + P10.780 million + P27.128 million).

19.6 To cover the amount advanced, on May 15, 2014, the NFA requested from DBM for a cash release of P56.834 million which remained not acted upon until the SC declared on July 1, 2014 that some acts and practices under the DAP, NBC No. 541 and related executive issuances were unconstitutional for being in violation of Section 25(5), Article VI of the 1987 Constitution and the Doctrine of separation of powers, as follows:

- a. The withdrawal of unobligated allotments from the implementing agencies, and the declaration of the withdrawn unobligated allotments and unreleased appropriations as savings prior to the end of the fiscal year without complying with the statutory definition of savings contained in the GAA;
- b. The cross-border transfers of the savings of the Executive to augment the appropriations of other offices outside the Executive; and

c. The funding of projects, activities and programs that were not covered by any appropriation in GAA.

19.7 The SC further declared void the use of unprogrammed funds despite the absence of a certification by the National Treasurer that the revenue collections exceeded the revenue targets for non-compliance with the conditions provided in the relevant GAAs. Due to the motion for reconsideration of the authors of DAP, the SC, under G.R. No. 209287 dated February 3, 2015, allowed the funding of projects, activities and programs that were not covered by any appropriation in the GAA.

19.8 Based on the BTFMD's report on remittances to NFA Field Offices (FOs) and TRSD's report on status of projects, the total funds remitted plus the administrative expenses for the improvement of NFA's existing mechanical dryers as of December 31, 2014 was P60.848 million, while the total obligated funds was P90.508 million. The difference of P26.958 million between the P33.889 million DAP funds remitted and the total remittance of P60.848 million to the NFA FOs was charged to their aligned funds. Details of remittances and obligated funds are presented in Table 34.

**Table 34 - Remittance to Regions and Obligations Charged to DAP Fund
Per BTFMD Report as of December 31, 2014**

Region / Expense	DAP Funds		NFA Realigned Funds		Total	
	From HO to RO	Awarded/ obligated	From HO to RO	Awarded/ obligated	From HO to RO	Awarded/ Obligated
I	P 547,223	P 547,223	P 854,140	P 5,730,697	P 1,401,363	P 6,277,920
II	10,280,000	10,280,000	3,168,700	6,644,333	13,448,700	16,924,333
III	4,621,154	4,621,154	4,708,647	6,616,780	9,329,801	11,237,934
IV	120,000	120,000	6,444,461	10,210,711	6,564,461	10,330,711
V	4,722,500	4,722,500	5,189,072	8,000,522	9,911,572	12,723,022
VI	6,530,000	6,530,000	1,260,000	4,110,000	7,790,000	10,640,000
VII	420,000	420,000	500,000	975,000	920,000	1,395,000
VIII	-	-	-	475,000	-	475,000
IX	647,931	647,931	3,099,434	5,891,838	3,747,365	6,539,769
X	1,560,000	1,560,000	-	-	1,560,000	1,560,000
XI	3,203,620	3,203,620	1,222,291	4,767,415	4,425,911	7,971,035
XII	-	-	409,385	3,094,385	409,385	3,094,385
XIV	359,896	359,896	-	-	359,896	359,896
XV	865,586	865,586	-	-	865,586	865,586
Total Remittance	33,877,910	33,877,910	26,856,130	56,516,681	60,734,040	90,394,591
Administrative Expenses (HO)	11,471	11,471	102,260	102,260	113,731	113,731
Grand Total	P 33,889,381	P 33,889,381	P 26,958,390	P 56,618,941	P 60,847,771	P 90,508,322

19.9 However, verification of the utilization of DAP funds by the concerned ROs/POs disclosed that as of May 31, 2015, of the 33.878 million DAP funds remitted to 12 regions, P32.915 million and P31.713 million were obligated and disbursed, respectively, leaving a total unobligated and unutilized cash balances of P0.963 million (P33.878 million – P32.915 million) and P2.165 million (P33.878 million – P31.713 million), respectively. The unutilized cash balance of P2.165 million included the amounts of P31.50 bank charge that was not considered in the obligated funds reported by Management and P409,315 representing unpaid obligation for the on-going project that was obligated prior to the SC Decision. Thus, by deducting these amounts, the total unutilized cash balance from the regions amounted to P1.756 million. The uncovered advances made in 2013 amounting to P169,762 can be compensated by the cash retained in the two banks amounting to P225,350 leaving a cash balance of P55,588 (P225,350 – P169,762).

19.10 In RO VI, the amount of P390,444 representing unobligated/unutilized DAP funds was already remitted to NFA-HO through GOF Account No. 112-753702-405. On the other hand, RO III had already informed the Audit Team assigned thereat that it will comply with the audit recommendation to return the total cash balance of P0.518 million to NFA-HO.

19.11 In view of the unconstitutionality of the DAP, the amount of P1.812 million that remained unobligated and unutilized beyond July 1, 2014 by NFA should have been remitted to the BTr. The amount consists of the unobligated/unutilized balance in the regions of P1.756 million and the amount of P55,587 representing the balance of the LBP-FSSP and PNB-FSSP Current Accounts.

19.12 Moreover, it was also noted that of the DAP funds received, the aggregate amount of P2.165 million was still obligated after the issuance of the SC Decision on July 1, 2014, instead of remitting the same to the BTr, as presented in Table 35.

Table 35 - Obligated DAP Funds After July 1, 2014

Region	Obligated		Particulars	Disbursed	
	Date	Amount		Date	Amount
Region I	07/19/14	P 454,973	Repair of Dryer House in Rosales, Pangasinan	8/1/2014	P 454,365
Region II	07/02/14- 11/28/14	348,375	Payment for the materials, labor and Travel Expense Voucher (TEV) incurred for the repair of Shin Hueng Dryer, Cimbria Dryer, Dryer Shed and Agricom Furnace; Procurement of construction materials for reinforcement and repainting of dryer shed.	07/21/14- 11/28/14	348,375
Region III	11/20/14	784,042	Supply, delivery, installation and testing of 50KVA transformers in Aliaga & Guimba Food Centre contracted with Nueva Ecija II Electric Cooperative, Inc. (NEECO)	4/13/15- 04/14/15	784,042
Region V	12/23/14- 02/27/15	380,000	Supply, delivery, installation of dust & smoke collection system and paddy cleaner dryers; Installation of Mechanical Drier maintenance catwalk	12/23/14- 02/27/15	380,000
Region VI	10/15/14- 12/29/14	78,482	Antique - upgrading of power supply	2/26/15- 03/26/15	78,482
Region VII	10/29/14- 11/10/14	41,069	Installation services of electrical wiring lines and accessories; procurement of electrical materials.	11/19/14	41,069
Region XI	08/15/14	78,000	Replacement/ Spare Parts and Repair/ Fabrication of Batch Recirculating Mechanical Grain Dryer (Banaybanay Davao Oriental)	08/28/14	74,100
Totals		P 2,164,941			P 2,160,433

19.13 We recommended that Management oblige the concerned NFA-ROs with unobligated/unutilized DAP funds to return the same to BTFMD; and require the latter to remit to BTr the unutilized DAP fund of P1.812 million and the amount of P2.160 million which was obligated after July 1, 2014.

19.14 Management provided the following comments:

- a. On unobligated/unutilized DAP funds - Management believes that it is not obliged to remit the amount of P1.973 million to BTr, but instead, invokes the Doctrine of Operative Fact* by requesting the DBM to release the additional funds amounting to P31.332 million.

**Doctrine of Operative Fact – Acts done pursuant to law which was subsequently declared unconstitutional remains valid, but not when the acts are done after the declaration of unconstitutionality. Under the operative fact doctrine, the law is recognized as unconstitutional but the effects of the unconstitutional law, prior to its declaration of nullity, may be left undisturbed as a matter of equity and fair play.*

- b. On DAP funds that were obligated and disbursed beyond its declaration of nullity - Management informed that it did not make any irregular expenses on the DAP funds to acquire incremental mechanical drying capability as support in the DA's FSSP. Instead, it utilized the funds for the intended/obligated/awarded projects legally, prudently, and rationally, in parallel with the said DA's program.

19.15 As audit rejoinder, the Doctrine of Operative Fact was considered in the conduct of audit. The projects that were funded by DAP and funds that were obligated prior to declaration of DAP's nullity were not disputed. However, any savings after the completion of these projects should also be remitted as these funds are deemed unutilized. Furthermore, as clearly stated in the said doctrine, "but not when the acts are done after the declaration of its unconstitutionality," simply supports and affirms our observation regarding the irregularity of expenses or projects' funds that were obligated after July 1, 2014.

PERFORMANCE

Rice Importation

20. The validity and propriety of the rice importations of 1.800 million MT of rice amounting to US\$818.825 million made from November 2013 to September 2014 could not be fully assessed due to non-provision of a copy of Inter-Agency Committee (IAC) reports on the rice situation for 2013 and 2014 with recommendations on the volume of rice importation and the absence of documents on the approval by the President of the Philippines on the importations.

20.1 The NFA performs its mandate through several marketing activities, one of which is rice importation. This mode of rice procurement is resorted to only when there is an actual or projected shortage of rice. The IAC conducts quarterly evaluation of the national supply/demand situation and submits report on the volume of importation, if needed, to the NFA Council. The NFA Council evaluates the IAC report and makes recommendation to the President of the Philippines for his approval. If approved by the President, NFA undertakes rice importation either through public bidding, Government-to-Government (G to G) or availment of the Minimum Access Volume (MAV).

20.2 In the conduct of public bidding, the procedures prescribed in RA No. 9184, the Government Procurement Reform Act, are followed. This process takes two months at the most from pre-procurement to contract signing. On the other hand, the G to G is resorted to when market situation calls for immediate or shorter period of import arrivals. Under this mode, the participants are state corporations of governments with existing Memorandum of Agreement (MOA) with the NFA and are done through sealed bid offers. As of September 2014, the NFA had existing MOA with Vietnam, Cambodia and Thailand.

20.3 The availment of the MAV of 187,000 MT of rice entitles the NFA to import from any country of origin subject to 40 per cent duties/tariffs in compliance with the General Agreements on Tariffs and Trade/World Trade Organization (GATT/WTO) for rice Quantitative Restrictions (QR).

20.4 As shown in Table 1, from November 2013 to September 2014, the NFA entered into contract with Vietnam Southern Food Corporation (Vinafood II), Vietnam Northern Food Corporation (Vinafood I) and Department of Foreign Trade (DFT), Ministry of Commerce, Thailand for the importation of 1.800 million MT of rice amounting to US\$818.825 million. The suppliers were selected through the conduct of G to G and public bidding as modes of procurement.

20.5 Examination of the documents relative to rice importations showed that these were not supported with copy of IAC report as basis for the NFA Council in arriving at a resolution for the volume and type of rice to be procured through importation. Despite repeated requests, NFA was not able to provide the Audit Team with copy of IAC reports on the rice situation for CYs 2013 and 2014 with recommendations on the volume of importation. This report is the primary requirement before NFA undertakes any rice importation. Without this report, the volume of rice to be imported could not be fully validated, thus may result in either over or under importation which ultimately affects the basic function of NFA of providing stable rice supply for the country.

20.6 The former Administrator informed that in the previous years, NFA was provided with the industry assessment report of the IAC which in case of deficit specifically recommends the volume of importation for rice and corn. Further, in the past three years, the results of the IAC assessments were presented to the NFA Council but copy of the report was no longer provided to the NFA.

20.7 While the NFA Council resolutions authorizing the importations made had mentioned that the IAC has determined the probable import requirement for 2014, the propriety of the importations becomes questionable without the report containing such. For the 1.800 million MT of rice imported/delivered in 2014, the recommendations of IAC were made basis for the volume of importations made as contained in the various NFA Council resolutions issued as shown in Table 36.

Table 36 - IAC Recommendations on Rice Importations

Volume of Importation (In MT)	Supplier	Contract Date	NFA Council Resolution No./Date	IAC Recommendations as Mentioned in NFA Council Resolution
500,000	Vinafood II	11/26/13	700-2013-K 11/15/13	Determined that the probable import requirement for 2014 will be from 944,000 MT to 1.296 million MT using an annual per capita rice consumption of 114.26 kgs. Recommended the immediate importation of 500,000 MT considering NFA's projected inventory of five days by the end of the year.
800,000	Vinafood I and II	04/28 & 30/14	719-2014-B 02/27/14	Based on the February 9, 2014 IAC assessment, a range of 458,000 to 1,300,000 MT of rice were recommended for importation in 2014 to augment government stocks on top of the 500,000 MT importation contracted on November 26, 2013.
500,000	Vinafood II and Thailand	09/30/14	741-2014-H 8/29/14	IAC recommendation was not mentioned. Nevertheless, NFA Council approved the G to G mode of importing 500,000 MT of rice.

20.8 Considering the above rice importations, the rice inventory/buffer stock as of December 31, 2014 as reported by the GMOD was posted at 17 days which is two days above the required 15 days.

20.9 Further, Section 7 of PD No. 1770, on *Reconstituting the National Grains Authority to the National Food Authority, Broadening Its Functions and Powers and for Other Purposes*, provides that in addition to the powers, functions and exemptions under PD No. 4, as amended, the Agency can import/export or cause the importation/exportation of food products/commodities and/or raw materials, equipment and facilities needed in the manufacture/processing of food commodities as may be determined by the Council, and as approved by the President of the Philippines. However, a copy of the approval by the Office of the President (OP) to support the importations was also requested but not provided to the Audit Team.

20.10 While the NFA Council is chaired by the Presidential Adviser for Food Security and Agricultural Modernization (PAFSAM) under the OP and another member of the Council is a representative from the OP as well, absence of OP approval casts doubt on the authority of the NFA Council to approve the transactions and the validity and propriety of the rice importation.

20.11 We recommended that the Administrator, in coordination with the NFA Council, exert utmost efforts to secure a copy of the IAC reports and approval by the OP on the importations made in order to support the NFA Council resolutions and validate the importation undertaken from November 2013 to September 2014. Henceforth, ensure that all rice importations to be undertaken are properly supported.

20.12 Management was not able to submit written comments and supporting documents, if any, on the observation. However, during the exit conference, it commented that the copies of official IAC assessments and recommendations were

previously provided, but due to the confidentiality requirement as stated in a Special Order signed by the Secretary of the DA, these were no longer provided to NFA.

20.13 As audit rejoinder, we maintain that Management must secure copies of the IAC reports and furnish COA so as we can validate the same as these were the basis of the NFA Council in arriving at resolution for the volume and type of rice to be procured by the Authority through importation.

21. Of the rice importation of 500,000 MT contracted with Vinafood II and the Government of the Kingdom of Thailand to be fully delivered by December 15, 2014, only 486,988.60 MT had arrived at designated Philippine ports, of which a total of 401,708.6736 MT was received at NFA’s designated warehouses as of February 3, 2015. Delay could have affected the required rice stock levels of the country in 2014 to ensure national food security and stabilization of supply and price of staple cereals.

21.1 On August 28, 2014, the NFA Council, through Council Resolution No. 740-014H, authorized the NFA to import maximum of 500,000 MT, 25% Broken, Long Grain White Rice, Well-Milled on Cost, Insurance and Freight-Duties Delivered Unpaid (CIF-DDU) terms via G to G Procurement. In CIF-DDU, the seller is responsible for making safe delivery of goods to a named destination (warehouse), paying all the expenses except the customs duty.

21.2 As shown in Table 1, out of the 500,000 MT of rice importation, the supply and delivery of the 200,000 MT of rice was awarded to Vinafood II, while for the 300,000 MT of rice, the supply and delivery was awarded to the DFT, Ministry of Commerce of the Government of the Kingdom of Thailand. The contracts of NFA with them were both executed on September 30, 2014, Section IV thereof provides the delivery/arrival period, as shown in Table 37:

Table 37 – Delivery Schedule of 500,000 MT Rice Importation

Delivery Schedule	Volume (in MT)	
	Vinafood II	Thailand
Not later than October 15, 2014	80,000 MT	120,000 MT
	or 40% of the volume awarded	or 40% of the volume awarded
Not later than November 15, 2014	80,000 MT	120,000 MT
	or 40% of the volume awarded	or 40% of the volume awarded
Not later than December 15, 2014	40,000 MT	60,000 MT
	or 20% of the volume awarded	or 20% of the volume awarded

21.3 Review of the Vessel Status Report as of February 3, 2015 for the 500,000 MT rice importation disclosed that the actual total quantity that arrived at designated Philippine ports was only 486,988.60 MT leaving a balance of undelivered rice of 13,011.40 MT. Of the total quantity of 486,988.60 MT of imported rice that arrived at designated Philippine ports, a total of 401,708.6736 MT was received at NFA’s designated warehouses. Based on said report, the balance of 85,279.9264 MT were still

unloaded and/or on board. Per schedule in the contracts, complete delivery should not be later than December 15, 2014.

21.4 The delivery of imported rice beyond the contracted arrival period is to the disadvantage of the Philippine government as the required buffer stock which NFA is mandated to maintain may not be attained. Considering that the contracts executed by the NFA with the suppliers contained provisions on the imposition of penalty for undelivered/delivered rice beyond the schedule provided therein, penalty should have been imposed against the supplier(s) who failed to deliver the procured rice within the agreed delivery/arrival period.

21.5 **We recommended that Management require the GMOD to:**

a. Impose penalty against concerned supplier(s) for undelivered and rice delivered beyond the period provided for in the NFA's contracts with them; and

b. Ensure that the delivery of rice by the suppliers is in accordance with the contract provisions in terms of quantity, arrival period and location/designated warehouse/s in order to maintain the required buffer stocks of NFA in general and district/provincial warehouses in particular.

21.6 Management was not able to submit written comments on the AOM. However, during the exit conference, it explained that the NFA sent bills to the DFT of the Kingdom of Thailand for the payment of penalties for the shipments beyond the arrival periods. Since this require diplomatic approach because of the nature of transaction which is G to G, the NFA Council will send demand letter through diplomatic course.

21.7 As audit rejoinder, since there were no documents submitted to support the claim of Management that it has imposed penalties, the Audit Team will monitor the implementation of the audit recommendations particularly the collection of penalties from the Kingdom of Thailand.

22. The computation of customs duties for the 500,000 MT and 800,000 MT rice importations on November 15, 2013 and April 4, 2014, respectively, still included the estimated expenses in bringing the rice from port of loading to NFA designated warehouses in arriving at the dutiable value, despite the shift in importation terms from CIF-FOB price to CIF-DDU, resulting in the overvaluation of customs duties in the amount of P3.092 billion.

22.1 Under the GAA, the Fiscal Incentives Review Board (FIRB) of the DOF is authorized to grant tax subsidy to GOCCs such as the NFA. A certification that items for which tax subsidy is 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, is one of the requirements for availment of tax subsidy.

22.2 The application for tax subsidy dated November 15, 2013 for the 500,000 MT and April 4, 2014 for the 800,000 MT rice importations together with all the supporting documents in the total amount of P11.808 billion were submitted to the FIRB on November 20, 2013 and April 15, 2014, respectively.

22.3 The DOF, after evaluating the application of NFA for tax subsidy, issued Resolution No. 7-14 dated August 15, 2014 approving the tax subsidy amounting to P11.665 billion to cover customs duties (CD) for rice importations which were approved on November 15, 2013 for the 500,000 MT and on April 4, 2014 for the 800,000 MT under NFA Council Resolution Nos. 700-2013-K and 709-2014-B, respectively.

22.4 Prior to April 3, 2013 rice importation, NFA had imported rice on CFR-FO basis, which means that the assessed CD were based on FOB cost, freight charges and insurance in compliance with Section 3.2.4 of the Bureau of Customs (BOC) Memorandum No. 22-2007 dated September 6, 2007. For November 26, 2013 and April 15, 2014 rice importations under the CIF-DDU terms, the dutiable cost should consist only of estimated FOB cost, freight charges and insurance premium.

22.5 However, for the 500,000 MT importation of rice, the NFA still did not consider the shift in importation terms. The basis for requesting for Tax Expenditure Subsidy (TES) was the contract cost of US\$462.250 per MT, which included the estimated expenses in bringing the rice from port of loading to NFA designated warehouses in the dutiable value, instead of only US\$395.066 per MT; hence, the overvaluation of CD. This issue was already raised in the 2013 AAR on NFA.

22.6 For the 800,000 MT rice importation, while the request for TES of US\$7.421 billion was based on FOB, freight and insurance costs as indicated in the Approved Budget of the Contract (ABC), the TES granted to NFA was still higher than the TES per audit/re-computation using the dutiable costs of US\$372.405 and US\$372.736 per MT. The copy of Memorandum of Understanding (MOU) made available to the Audit Team which was submitted by NFA to the BOC-FIRB as basis for the issuance of the Certificate of Entitlement Subsidy (CES) and Special Allotment Release Order (SARO) No. BMB-F-14-0024163 dated December 18, 2014 was not supported with computation. Table 38 shows the details of the actual contract costs and dutiable costs per audit.

Table 38 - Contract Costs and Dutiable Costs

Import Date	Quantity (In MT)	Contract Cost (US\$)	Dutiable Costs (US\$)			Total
			FOB Cost	Freight Charges	Insurance Premium*	
11/26/13	500,000	462.250	364.065	30.000	1.001	395.066
04/15/14	200,000	437.500	338.973	32.500	0.932	372.405
	600,000	437.830	339.303	32.500	0.933	372.736
Total	1,300,000					

* 0.275% of FOB Cost

22.7 The estimated applicable costing for the 500,000 MT rice importation and the breakdown of the ABC for the 800,000 MT rice importation as basis of the Audit Team in arriving at the dutiable costs are presented in Table 39 (next page).

22.8 For the total 1.300 (0.500 + 0.800) million MT rice importation, the DOF-FIRB granted total tax subsidy of P11.665 billion, which is higher by P2.915 billion over the audited CD amounting to P8.750 billion only. While the NFA, based on the MOU, submitted the BOC and the approved application for the TES which showed total CD of P10.997 billion, also higher by P2.247 billion than the audited amount. The overvaluation was due to the inclusion of other expenses to the FOB cost, freight charges and insurance premium in the computation of dutiable value.

Table 39 - Basis for the Computation of Dutiable Costs Per Audit

Item No.	Cost Items	Quotes from Oryza and TRT as of Nov. 25, 2013 in US\$ (500,000 MT)	ABC	
			200,000 MT	600,000 MT
1	FOB	375.000	378.750	378.750
2	Freight	30.000	32.500	32.500
3	Premium Cost	10.000	10.000	10.000
4	Cost of Surveyor	0.067	0.067	0.067
5	Unloading Expenses	32.193	20.760	20.760
6	Cost of handling	19.865	29.040	29.040
7	Sub-total	467.125	471.117	471.117
8	Spillage	3.980	4.050	4.050
9	Shortlanded	2.080	2.110	2.110
10	Total Cost (Computed CIF DDU price)	473.185	477.277	477.277
11	Less: Average World Market Price	375.000	378.750	378.750
12	Estimated expenses incurred in bringing the rice from port of loading to NFA designated warehouses = Item No. 10 minus Item No. 11	98.185	98.527	98.527
13	NFA Contract price in CIF - DDU	462.250	437.500 [^]	437.830 ^{^^}
14	Estimated Actual FOB Cost = Item No. 13 less Item No. 12	364.065	338.973	339.303

[^] Vinafood I (200,000 MT)- average contract price for Lot 1=US\$436 and Lot 2=US\$439

^{^^} Vinafood II (600,000 MT)- average contract price for Lot 1=US\$436.50, Lot 2=US\$437.75, and Lot 3=US\$439.25

22.9 Moreover, the BOC billing per Bill of Lading (BL) showed total CD amounting to P11.842 billion, which is also higher than the audited amount by P3.092 billion.

22.10 We reiterated our prior year's audit recommendations that Management require the GMOD to:

a. Perform independent review of the computation of the dutiable value of importation before the submission of the MOU to BOC with consideration of the contract terms to ensure the accuracy of customs duties being charged to the tax subsidy granted to NFA; and

b. Coordinate with the BOC as regards the difference in the computation of the dutiable cost and resulting customs duties in the 2013 and 2014 rice importations for appropriate adjustment and application of the over computation of customs duties on future importations.

22.11 In an attempt to correct the system, Management informed that:

a. It has incorporated in the Terms of Reference for all future rice importations for the breakdown and itemization of all costs incurred under the Cost-Insurance-Freight/Delivered At Place (CIF-DAP) terms. Same shall be reflected in the Commercial Invoice of every shipment under the Contract. Through this measure, NFA shall be able to compute the tariff/duties based on the FOB cost.

b. Several meetings between NFA and BOC officials were undertaken previously to take up NFA's request for the re-computation/re-evaluation of the duties paid by NFA for its 2013 and 2014 rice importations. However, the BOC Deputy Commissioner informed the group that re-computation of duties was no longer feasible due to a BOC ruling that any protest from the importer should be made within fifteen days after the final assessment of the shipment, and all excess payments incurred particularly in 2013 have already been reported in the

books of BOC which means that the collections are already final.

c. As per the Tentative Statement of Account, all computations for the duties are subject to BOC adjustment after final assessment by the port of discharge. The BOC is an independent body governed by its own rules and regulations.

d. For future imports, several measures have been mutually agreed upon between NFA and BOC to ensure cooperation and for the correct computation of tariff/duties due NFA rice shipments, one of which is for all BOC District Collectors in NFA disport provinces to observe and consider the declared tariff of NFA as the basis of their tax assessment.

22.12 As audit rejoinder, while we recognize the actions taken by Management, the issue on over valuation of import duties is yet to be resolved.

23. The NFA-Central District Office (CDO) received a total of 2,626,109 bags of imported rice in 2014 from the 2013-2014 importations instead of the allocation of 2,564,840 bags only, or an excess of 61,269 bags or 2.39 per cent mainly due to the receipt by the CDO of rice stocks intended for another district without authority. This could result in unaccounted movement of stocks from one district to another.

23.1 For 2014, a total of 2,626,109 bags of imported rice were received by NFA-CDO from the 2013 and 2014 importations of 1,800,000 MT.

23.2 Based on the summary reports on the 2014 allocations and unloaded imported rice from the different vessels issued by the Integrated Port Services Office (IPSO), the Office in NFA-NCR in charge for overseeing the importation of rice, the allocation for CDO for the above importations totaled 2,564,840 bags only. As such, the total number of bags received exceeded the authorized allocation by 61,269 bags or 2.39 per cent.

23.3 Inquiry disclosed that NFA-CDO lacked the authority to receive the excess stocks. The absence of authority might result in unaccounted movement of stocks from one warehouse/district to another.

23.4 We recommended that NFA-CDO Management instruct the concerned personnel to refrain from receiving stocks in excess of the allocated number of bags to be received without authority to avoid unaccounted movement of stocks.

23.5 Management commented that:

a. All importation for the years 2013 and 2014 are under CIF-DDU, therefore, no unaccounted receipt of stocks would occur, since accountability of stocks starts upon arrival in the warehouse. All stocks received by the warehouse shall be covered by corresponding Warehouse Stock Receipts (WSRs) reported to the District through reports submitted daily, which are the General Statement of Facts and Statement of Receipt.

b. The policy of “No Surveyor-No Unloading” shall be adhered since all documents and reports emanating from the receiving warehouse must be countersigned by the representative of the cargo handler, surveyor and insurance agents. Upon discharging of the vessel concerned is completed, the warehouse supervisor will submit the Certificate of Complete Delivery Receipt (CCDR) and will be forwarded to the RO and GMOD for consolidation purposes.

23.6 As audit rejoinder, we maintain that an authority or documentation on the receipt of imported rice stocks in excess of allocation be made/submitted to ensure that all stock receipts are authorized and accounted for.

Maintenance of Buffer Stock

24. In NFA-NCR, the mandated rice stock levels of 15 days for food security at any given time and 30 days for the start of lean months (July 1) were not consistently maintained, thus, could compromise the NFA’s capability to effectively and immediately respond in times of disaster and emergency situations.

24.1 In line with NFA’s mandate to maintain food security stocks at any given time in order to effectively and immediately respond during disaster/emergency situations, it issued the Food Security Policy per Memorandum 2013 AO-2K13-02-037 dated February 18, 2013. The policy provided that NFA shall maintain a Strategic Rice Reserve equivalent to at least 15-day consumption requirement and likewise, must maintain the Government Rice Buffer Stock at 30-day level by July 1 of each year, inclusive of the 15-day operational stocks for the traditional rice lean months which starts in July.

24.2 As computed in the 2014 NFA Daily Consumption Requirement (DCR), the required number of bags of rice as buffer stocks per office in NFA-NCR is presented in Table 40.

Table 40 - Mandated Stock Levels

NCR Office	Required Number of Bags of Rice			
	Per day	January -	July 1	July 2 -
		June	30 Days	December
East District Office (EDO)	21,655	15 Days 324,825	30 Days 649,650	15 Days 324,825
North District Office (NDO)	16,135	15 Days 242,025	30 Days 484,050	15 Days 242,025
South District Office (SDO)	21,535	15 Days 323,025	30 Days 646,050	15 Days 323,025
Central District Office (CDO)	27,435	15 Days 411,525	30 Days 823,050	15 Days 411,525
Cavite Provincial Office (PO)	18,700	15 Days 280,500	30 Days 561,000	15 Days 280,500
Batanes Provincial Unit (PU)	100	15 Days 1,500	30 Days 3,000	15 Days 1,500
Total	105,560	1,583,400	3,166,800	1,583,400

24.3 The NFA-NCR and its component offices are the depot or terminal points that supply rice to other regions. They should therefore maintain buffer stocks that should also be able to provide for other regions especially in times of calamities and emergencies.

24.4 However, verification of the Summary of Weekly Stock Receipts, Issues and Balances submitted by the Warehouse Supervisors (WSs) showed that the required rice stock levels were not maintained at any given time as the month-end rice stock levels in the five offices of NFA-NCR ranging from six (6) to 12 months during the year fell short of either the 15-day or 30-day buffer stock requirement resulting in stock deficit that ranged from a low of 0.36 days or 7,857 bags to a high of 21.19 days or 396,216 bags, as shown in Table 41.

Table 41 - Month-end Rice Stock Levels in 2014

Month	Available Stocks at Month-end		Required Buffer Stocks		Deficit	
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days
EDO						
January	244,464	11.29	324,825	15	80,361	3.71
February	207,420	9.58	324,825	15	117,405	5.42
March	316,968	14.64	324,825	15	7,857	0.36
April	274,657	12.68	324,825	15	50,168	2.32
May	198,743	9.18	324,825	15	126,082	5.82
June	230,298	10.63	649,650	30	419,352	19.37
July	231,019	10.67	324,825	15	93,806	4.33
August	258,705	11.95	324,825	15	66,120	3.05
September	250,742	11.58	324,825	15	74,083	3.42
October	261,999	12.10	324,825	15	62,826	2.90
November	231,791	10.70	324,825	15	93,034	4.30
December	175,832	8.12	324,825	15	148,993	6.88
NDO						
June	461,163	28.58	484,050	30	22,887	1.42
September	213,904	13.26	242,025	15	28,121	1.74
October	194,211	12.04	242,025	15	47,814	2.96
November	141,571	8.77	242,025	15	100,454	6.23
December	207,030	12.83	242,025	15	34,995	2.17
SDO						
May	200,829	9.33	323,025	15	122,196	5.67
June	277,671	12.89	646,050	30	368,379	17.11
July	264,995	12.31	323,025	15	58,030	2.69
October	301,868	14.02	323,025	15	21,157	0.98
CDO						
June	620,239	22.61	823,050	30	202,811	7.39
November	363,675	13.26	411,525	15	47,850	1.74
Cavite PO						
January	123,139	6.58	280,500	15	157,361	8.42
February	60,800	3.25	280,500	15	219,700	11.75
March	263,434	14.09	280,500	15	17,066	0.91
April	272,518	14.57	280,500	15	7,982	0.43
May	228,707	12.23	280,500	15	51,793	2.77
June	164,784	8.81	561,000	30	396,216	21.19
July	191,628	10.25	280,500	15	88,872	4.75
August	232,023	12.41	280,500	15	48,477	2.59
September	252,083	13.48	280,500	15	28,417	1.52
November	266,995	14.28	280,500	15	13,505	0.72
December	250,883	13.42	280,500	15	29,617	1.58

24.5 Moreover, review of the CDO's records showed that the levels of rice inventories maintained immediately before and after typhoon Ruby, a strong typhoon, on December 8, 2014, were below the minimum 15-day and/or 30-day buffer stock levels. As presented in Table 42, the inventories in the pile layouts of the seven warehouses of

CDO as of November 30, December 15 and December 31, 2014 were only good for 10.640 to 15.673 days which are significantly below the required buffer stock of 15 days. This could have had affected the accomplishment of CDO's mandated function to timely respond to rice requirements especially during calamities.

Table 42 - CDO's Rice Stock Levels Before and After Typhoon Ruby

Warehouse	No. of Bags as of		
	Nov. 30, 2014	Dec. 15, 2014	Dec. 31, 2014
Visayas	74,888	55,996	67,027
Minprocor	737	737	14,137
MFC 1B	132,052	127,580	181,827
Kingswood E/F	45,090	28,680	48,041
Kingswood H	37,900	28,231	37,256
Kingswood 7	21,900	29,804	40,987
Kingswood 8/9	51,108	20,877	40,709
Total	363,675	291,905	429,984
Equivalent No. of Days	13.256	10.640	15.673

24.6 It was also noted that the CDO was not able to deliver the authorized volume of rice to the Department of Social Welfare and Development (DSWD) for relief operations during 2014. Of the 37,180 bags authorized volume, only 34,180 bags were delivered or short by 3,000 bags.

24.7 The stock deficits were attributed to the following:

- a. Delayed delivery of stocks to NCR and Cavite PO warehouses;
- b. Port congestion and inadequate coordination with the cargo handler to deliver the authorized allocation;
- c. Withdrawal by Institutionalized Farmers As Distributors (IFAD) Program avalees in significant quantities at CDO and Cavite PO;
- d. Increased sales of NFA rice due to high prices of palay;
- e. Non-procurement of local rice;
- f. Inadequate imported rice allocation; and
- g. Increased number of accredited retailers.

24.8 The inability by the NFA-NCR offices to maintain the mandated buffer stock requirement could expose the cities/municipalities under their jurisdiction to risk of supply shortage and eventually higher prices of commercial rice in the market and also affect its capability to immediately address the rice supply and demand situation specifically during times of emergencies and calamities.

24.9 **We reiterated our prior year's audit recommendation that Management strengthen the monitoring of rice stock levels to ensure at all times the required 15-day and 30-day buffer stock levels for the NFA to attain its mandate to respond within 48 hours to rice requirements during calamities, restore rice supply at levels prior to calamity and achieve national food security through stabilized supply and price of rice.**

24.10 **We also recommended that Management:**

- a. Evaluate the factors causing delay in delivery of the stocks which shall be taken into consideration in preparing the strategic plan for future importations; and**
- b. Improve coordination with government agencies and cargo handler to fast track berthing of vessels at Manila port and delivery of authorized stocks allocation to NCR and Cavite PO warehouses.**

24.11 Management of the concerned NFA-NCR offices provided the following comments/explanations:

a. Cavite PO - While it agreed to make proper representations with concerned NFA-NCR officials regarding the schedule of rice importation, arrival, unloading and on time deliveries at NFA warehouses, it further explained that the very low 2014 inventory of rice was mainly caused by delayed arrival and unloading of rice at Port of Manila despite actions taken by NFA-NCR to address the problem such as coordination and frequent meeting with supplier/shipping agent/cargo handler and port management to facilitate deliveries to NFA warehouses.

b. NFA-CDO - It was only by end of June and November 2014 that the District's inventories were deficit by 202,811 bags (7.392 days) and 47,850 bags (1.744 days), respectively, which were caused by the delay in the unloading of the additional 800,000 MT imported rice. As programmed, the District was expected to receive 486,000 bags for May and June 2014. However, the delay in the arrival of vessels and unloading of imported milled rice (IMR) due to port congestion affected the District's non-attainment of the 30 days buffer stock level by July 1, 2014. Close coordination by NFA top Management and NCR Management to Asian Terminal Incorporated (ATI), Harbor Center and Land Transportation Franchising and Regulatory Board (LTFRB) was undertaken for a quick response to facilitate unloading of the rice requirement.

c. NFA-NDO - The revisions in the approved 2014 Marketing Plan on target distribution, importation allocation and dispersal (unprogrammed transfer of NDO stocks to other districts with dwindling inventory) to address concerns/issues that prevailed in the market particularly the spike in prices of commercial rice especially during the lean months affected the buffer stock inventories. The monthly ending inventories during the lean months and towards the end of the year were within safe and manageable levels since the 15-day and 30-day requirements are for worst-case scenario, i.e., if 100 per cent of the population within the areas under their jurisdiction consumed NFA rice.

d. NFA-SDO - As a matter of NFA policy, maintaining at least 15 days buffer stocks at any given time and 30 days for food security is strictly being followed at HO and Regional level. The consolidated inventory of all district and provincial offices should not, as much as possible, be lower than 15 days buffer based on the consolidated (regional) DCR. Management assured, however, that it will strictly follow the rice distribution policies and procedures in order to maintain the

required stocks/inventory level and adhere/comply with the audit recommendations.

e. NFA-EDO - The buffer stock deficits could be attributed to the delayed arrival of imported stocks at its warehouses; not fully served imported rice allocation; and high demand for NFA rice during lean months (usually starting July).

24.12 During the exit conference, Management also explained that the 15-day and 30-day levels are on a Regional basis. The NCR maintains a depot at the NFA Valenzuela which could easily provide them with additional stocks when there is an immediate need.

24.13 As audit rejoinder, the region-wide level of stock deficit at end of June 2014 was pegged at 13.22 days, while in November and December 2014 were 2.31 and 1.70 days, respectively. Considering that the stock deficits during these months were felt region-wide, dispersal within the region may not be feasible during calamity. **Hence, we further recommend that the NCR Management revisit and re-evaluate the annual marketing plan for setting targets based on current data and scenarios and consider closer coordination with the NFA-HO on sufficient imported rice allocation to achieve better inventory management and maintain the year round Strategic Rice Reserve at a minimum level of 15 days of the region's rice consumption requirement at any given time and rice buffer stocks equivalent to a minimum of 30 days by July 1 of each year in preparation for the lean months.**

Rice Distribution

25. The maximum weekly rice allocation to grains businessmen as determined in accordance with NFA SOP No. GM-DN09 was not observed resulting in inequitable rice distribution among accredited retailers, thus casting doubt on whether the intention of the allocation system was served as this could lead to diversion of stocks or could be construed as giving undue advantage to a few select retailers.

25.1 The Rice Distribution Program aims to ensure that prices of staple rice and corn are reasonable and affordable to consuming public. This is undertaken through the various distribution strategies wherein rice is sold at different accredited market outlets such as accredited retailers, government agencies, private institutions/others.

25.2 The NFA Administrator is the approving authority for the implementation of distribution schemes on market stabilization in response to the ever changing prices and volume of grain supply and demand.

25.3 NFA SOP No. GM-DN09 dated November 4, 1994, entitled Revised Rice and Corngrits Distribution and Retailing Policies and Procedures, as amended under NFA SOP No. GM-DN09.A dated November 20, 2006, covers the general policies on the concept of distribution and retailing including rules and regulations on the same and documentation and reporting system. As mentioned in the SOP, part of NFA's strategy towards market stabilization in response to the volatile supply and demand of grains in terms of price and volume is to resort to different distribution schemes.

25.4 One of the schemes cited in Item II.A.1 of NFA SOP No. GM-DN09 is the regular distribution, which pertains to selling strategies regularly implemented by NFA. The selling strategies include, among others, cash sales to accredited individual retailers wherein grains are sold based on authorized price ceiling and quota. The allocation system for retailers is specifically provided in Item II.D of the same SOP, as follows:

As basis for determining the quantity that shall be sold to retailers, a weekly allocation per retailer shall be set. NFA POs shall determine the weekly allocation based on the following:

- a. *NFA stock position*
- b. *Prevailing market supply/demand/price situation*
- c. *NFA distribution program*
- d. *Projected rice and corngrits requirement per area*
- e. *Retailers declared capitalization*

The weekly allocation shall be primarily based on the retailer's declared capitalization, computed as follows:

Capitalization per Retailer
Selling Price of Cereal

Where:

Capitalization – is the amount of capital per type of grain declared in the license applied for.

Selling Price of Cereal – is the NFA prevailing selling price of the variety of cereal that the retailer is buying.

25.5 The final determination whether a grains businessman licensed for retailing and other lines of activity like wholesaling, is entitled to allocation is at the discretion of the Provincial Manager. However, in four offices of NFA-NCR and two POs in Region VIII, a comparison of the supposed weekly allocation based on capitalization and the actual issuances on a sample basis revealed that the volume of rice actually issued in a week exceeded the computed weekly allocation of the retailers by 220,284 bags, as presented in Table 43 (next page).

25.6 In Cavite PO, verification of stock allocation of selected NFA accredited retailers disclosed that there were over allocation ranging from 40 to 210 bags, based on amount of declared capitalization and stocks purchased were assumed at lowest price at P1,250 per bag. In week June 23-27, 2014, 15 retailers with declared capital of P2.675 million or equivalent to maximum of 2,140 bags were able to purchase 4,020 bags worth P5.528 million, thus resulted in over allocation of 1,880 bags or P2.853 million above their capital. Follow-up verification in August 2014, likewise, disclosed that there were still over allocation by 10 to 70 bags, as presented in Table 43, despite the instruction per NCR-OCM-2K14-G-187 dated July 24, 2014, that there should be no increase in allocation of existing and newly accredited outlets.

**Table 43 - 2014 Rice Distribution - Regular
Weekly Allocation and Actual Issuance to Selected Retailers**

RO/PO	No. of Retailers	Classification	Sample Weeks (2014)	Maximum Weekly Allocation (In Bags)	Actual Weekly Issuances (In Bags)	Excess Allocation (In Bags)
NCR						
Cavite PO	15	IBSP, ITM	6/23-27	2,140*	4,020	1,880
	5		8/23-31	760*	990	230
				2,900	5,010	2,110
NDO	23	IBSP, ITM	6/23-27	2,017	2,832	815
			8/4-8	1,577	2,290	713
			10/20-24	550	680	130
				4,144	5,802	1,658
SDO	10	IBSP, ITM	9/22-26	40,336	70,000	29,664
			10/13-17	84,338	155,000	70,662
				124,674	225,000	100,326
CDO	174	BBSP, ITM, OTM	August (4 weeks)	42,280	101,404	59,124
			September (4 weeks)	49,930	105,279	55,349
				92,210	206,683	114,473
Region VIII						
Southern Leyte PO	44	OTM, BBO, BPO, ITM	Selected weeks- January - March, May - June	1,510	2,309	799
Eastern Samar PO	4	IBSP, BBO		212	1,130	918
Total						220,284

*Maximum volume allocation based on the selling price of P1,250.00 per bag

IBSP – Institutionalized Bigasan sa Palengke

ITM – Inside the Market

BBSP – Bigasang Bayan sa Palengke

OTM – Outside the Market

BBO – Bigasang Bayan Outlets

BPO – Bigasan sa Parokya Outlet

25.7 Although the Allocation System - Special Scheme was the basis of retailers' weekly stock allocation, as explained by Management, certain situations could trigger the increase in allocation to provide adequate supply in the market. However, approval of increase or decrease in allocation per retailer was not documented. There was no available database on authorized allocation vis-à-vis stocks issuances to accredited retailer, for proper monitoring and reporting. Unmonitored increases and decreases in allocation could lead to undetected diversion of stocks.

25.8 The Weekly Rice Allocation Card kept by Operations did not clearly indicate the maximum allocation of rice in number of bags. Even though the weekly issuances of accredited retailers fluctuated, the maximum bags allowed based on their capitalization were not specific. Over allocation may likewise lead to diversion of excess stocks and lower inventory level available for NFA rice consumers.

25.9 In NDO and SDO, verification of Official Receipt (OR), Authority to Issue (AI) and Warehouse Stock Issue (WSI) based on the sample data showed that the actual weekly rice allocations availed by the accredited retailers of NDO and SDO totalled 674,050 and 545,950 kilograms (kgs), respectively. Comparison of these actual allocations with the computed weekly rice allocation disclosed that there were over allocations by 82,920 kgs covering 23 weeks in NDO and by 100,326 kgs for 10 weeks in SDO. The average weekly allocation was used in the comparison since the total actual allocation per week was composed of rice varieties priced at P25 and P30 per kg.

25.10 In CDO, the rice issuances to 174 retailers exceeded their weekly allocation by 114,473 bags or 124 per cent in violation of the provisions on the allocations system under NFA SOP No. GM-DN09 and on the NFA Administrator’s instructions/conditions on increased target in rice distribution under NCR-OCM-2K14-G-187.

25.11 In NFA Southern Leyte PO, verification of the Weekly Warehouse Stock Reports for the year 2014 of the three warehouses disclosed that of the 145 accredited retailers of the market-based and non-market based outlets, 42 accredited and one non-accredited retailers were issued with imported rice in excess of their weekly allocations. By allowing the distribution of rice to retailers in excess of their weekly allocations defeated the purpose of setting up the weekly rice allocations. This disregard of the control measures also resulted in inequitable distribution of stocks.

25.12 In NFA Eastern Samar PO, review of the Warehouse Stock Inventory Reports disclosed that out of the total issuance of 1,130 bags of VACW42 Imported Rice to four retailers, there was an over-issuance of 918 bags compared against the weekly allocation set for each retailer.

25.13 In NFA Region VIII, as presented in Table 44, several deficiencies were noted to illustrate non-compliance by the POs with the prescribed weekly rice allocation.

Table 44 – Deficiencies Noted in the Rice Allocation in Region VIII

PO	Deficiencies
Leyte	The weekly rice issuances to 281 accredited retailers were at varying quantities. The distribution scheme was only estimated based on the level of stocks at NFA Leyte warehouses and the capitalization of the retailers. However, in some instances, the capitalization requirement was not followed or used in distribution/issuance to retailers.
Northern Samar	The Weekly Stocks Inventory Report, AI, and WSI showed that distribution of rice to 448 accredited outlets/retailers was made at varying quantities of rice issuances from one to 140 bags for each retailer per month. The retailers were not given their weekly allocation. Instead, they were allowed to purchase rice in varying quantities without regard to the volume of stocks and their capitalization.
Biliran	The issuances of rice to seven retailers exceeded the weekly allocation set for each retailer by 44 bags.

25.14 In Region IX, as of September 30, 2014, there were 1,598 accredited retailers registered in the region, 175 or 11 per cent were able to purchase rice more than their allowed weekly allocation with aggregate sales amounting to P97.387 million; hence, the guidelines on allocation system was not strictly observed which resulted in undue benefit gained by some retailers.

25.15 The issuance of rice to retailers in excess of their prescribed allocation casts doubt on whether the intention of the allocation system was served as this could lead to diversion of stocks or could be construed as giving undue advantage to a few select retailers.

25.16 We recommended that Management require the District/Provincial Managers to:

- a. Strictly adhere to the provisions of NFA SOP No. GM-DN09 and instructions under NCR-OCM-2K14-G-187 on the stock allocation of retailers;**
- b. Document the increase/decrease in the stock allocation of each accredited retailer, such that verbal requests from accredited retailers and approval be made in writing for check and balance and easy monitoring;**
- c. Maintain database of stock issuances per accredited retailer *vis-à-vis* authorized stock allocation, and indicate the maximum allocation of retailers in their respective Weekly Rice Allocation Card for monitoring of their weekly purchases; and**
- d. Instruct the Warehouse Supervisors and the personnel in charge in encoding to report/record in the WSIs and in the stock reports/accounting schedules, the full name of retailers, their categories whether BBSP, ITM, OTM, etc. and the markets where they belong, for complete data and reports on accredited retailers.**

25.17 Management provided the following comments:

- a. Cavite PO - The weekly allocation of accredited retailers varies depending on the monthly distribution target and market participation considering NFA stock position, distribution program, category and location of market and prevailing market supply/demand/price situation. The declared capitalization of accredited retailers is considered on a per purchase basis and not for the total week rice allocation. Written approval of the additional allocation is no longer necessary as this was the discretion of Management.
- b. NDO - The setting of weekly allocation of retailers is based on considerations provided in Item II.D of NFA SOP No. GM-DN09. The prescribed formula on the declared capitalization of the retailer *vis-a-vis* selling price of cereal, as one of the basis for determining the weekly allocation, is being implemented by NDO on a per payment/transaction basis as a limitation or control as to particular payment and not on a weekly basis, to arrive at the weekly rice allocation quotas for random retailer samples, thus resulting in over-allocation when compared to the actual weekly allocation of retailers covering the 25 weeks.
- c. CDO - It adheres to NFA SOP No. GM-DN09 and NCR-OCM-2K14-G-187. It only issues rice to retailers with approved accreditation. The minimum/initial allocation for retailers was set at 20 bags for OTM, 50 bags for ITM and 100 bags for IBSP. However, since NFA is mandated to stabilize prices, its distribution strategy is to replenish stocks by allowing succeeding payments within the week if only to arrest spiralling price of commercial rice.
- d. Southern Leyte PO - Management denied that its issuance of rice to retailers exceeded their weekly allocation. The weekly allocation to accredited

retailers under the GID warehouse was set at 15 bags per retailer per outlet and those under the GI Baybay warehouse, the weekly allocation was set at seven bags per outlet with increased allocation during the lean months of July to September.

As to the one non-accredited retailer, said retailer is the representative of Golden Bell Malinao Kabayan, Inc. of Barangay Malinay, Mahaplag, Leyte which it missed to reflect in the list of accredited retailers submitted. The withdrawal of the rice allocation at GID Baybay warehouse by said retailer was authorized by the RO.

During the exit conference, it explained that the list of accredited retailers with their weekly allocation submitted to the Audit Team was for the month of December 2014 only, hence cannot be used as basis for the issuance of rice prior to the said month. The Regional Manager directed the Provincial Managers to submit a copy of the weekly allocation and any deviation shall be submitted to the RO for appropriate action.

e. Eastern Samar PO - The four retailers issued with rice in excess of their allocation were GRECON officers, as a special allocation was granted to them pursuant to the verbal instruction of higher authorities.

f. Biliran PO - It only allowed retailers from the island of Higtangan, Maripipi and Calubian, Leyte to withdraw in excess equivalent to two-weeks during the time of "Habagat."

g. Leyte PO - The weekly rice allocation was not set in 2014 due to the low demand for rice, since it was a post "Yolanda" period and people were still receiving rice relief assistance from DSWD and other non-government organizations. Rice distribution accomplishment was only 59.33 per cent and same was way below the target such that maximum allocation was allowed based on available inventory and declared capitalization.

h. Zamboanga City PO - It allowed the withdrawal of more than once in a week especially when they need to dispose their old stocks and during lean months when commercial rice prices in the market tend to go high.

i. Dipolog PO - Due to the voluminous rice supply (14,000 bags) and the instruction of RO to dispose it before the end of December 2014, it initiated the sale of rice by bulk, with agreed tie up ratio of 1:4. It means that for every purchase of one bag of old stocks, retailers are given an option to purchase bags of new stock rice but limited to only four.

j. Pagadian PO - ISD Section failed to update the records of the retailers who increased their capitalization for the year. It further explained that only few accredited retailers were interested to buy the old stocks of SRO-variety.

k. Ipil PO - Due to the demand of rice in the market, retailers were allowed to withdraw their allocation twice a week and in excess of their allocation. Moreover, as per instruction from the Regional Director thru wire message, the

PO had to exert all efforts to dispose all old stocks in preparation for the arrival of 2014 stocks.

25.18 As audit rejoinder to Cavite PO Management's comment, written approval and documentation of additional allocation granted to accredited retailers is needed, considering that these are based on their cited discretion, market situation and monitoring reports, rather than requests from accredited retailers. Such documentation is entirely dissimilar to the approving authority to accept payment for financial transaction in the purchase of NFA rice. As such, we encourage Management to strengthen its control activities and monitoring as deterrent to abusive/manipulative accredited retailers.

25.19 As audit rejoinder to CDO Management's justification, the advices issued on the increases in market participation/intervention for particular periods during the year, as well as the authorization of the Provincial Manager on the increases in rice allocation of retailers, while at the same time showing that NFA SOP No. GM-DN09 and NCR-OCM-2K14-G-187 are not violated, be furnished to COA as references in the audit on rice distribution.

25.20 As audit rejoinder to NFA Region VIII, the distribution program is aimed to ensure that prices of staple rice are reasonable and affordable to consuming public. The distribution strategies are geared toward market stabilization in response to the ever changing and fluctuating grain supply and demand. It is precisely that NFA SOP on retailing policies and procedures has provided guidelines to be strictly adhered to particularly on the setting up of weekly allocations to retailers. Its intention is for every retailer to be allocated with a number of bags, whether through weekly allocations or during periods when NFA stocks are low for price supply stabilization. Even when the volume of stocks is low, still the stocks shall be allocated in proportion to each retailer's allocation.

25.21 As audit rejoinder, we do not agree to the justification of Management in Zamboanga City PO that the retailer's declared capitalization is the basis for the quantity of rice per single purchase. Based on this interpretation, a retailer is allowed to multiple purchases in a week and even beyond the approved weekly allocation per outlet for as long as any single purchase is within the retailer's declared capitalization. The allocation system provided in Item D-2.2 of NFA SOP No. GM-DN09 states that, "*The weekly allocation shall be primarily based on the retailer's declared capitalization xxx.*"

25.22 The provision did not mention for a single purchase but rather for the weekly allocation which in our opinion is the allowed quantity and amount of a rice retailer can avail in a week. Thus, the quantity shall not exceed the set-up weekly allocation and likewise the amount shall not exceed the retailer's declared capitalization. In some cases, there is a need for NFA to increase its market participation, hence, retailers are allowed to withdraw their allocation more than once, but for as long as they do not exceed their allocation and capitalization; otherwise, a directive or authority from higher authorities is necessary as it is a deviation from established NFA policy.

25.23 Despite the explanation given by Management and the submission of updated master list of accredited retailers of Pagadian PO which is subject to validation, we maintain our audit recommendations because the practice is a deviation from the SOP.

26. In NCR-CDO, the bags of rice distributed/sold to the retailers were reported/recorded based on the pegged 50 net kilograms (nkgs) per bag, instead of the actual nkgs per bag, resulting in the non-determination of the actual nkgs of bags of rice in the inventory of warehouse supervisors and/or actual nkgs of bags of rice distributed/sold which either understated or overstated Sales Income and other related accounts.

26.1 We further observed that the issuances/sales reported/recorded in the stock reports/accounting schedules were pegged at 50 nkgs per bag, instead of the actual nkgs that should have been reported/recorded per bag distributed or sold. The 206,683 bags of rice distributed/sold to the 174 retailers presented in Table 43 hereof totalled 10,334,150 nkgs (206,683 bags pegged at 50 nkgs per bag). This resulted in the non-determination of the actual nkgs of bags of rice in the inventory of warehouse supervisors and/or actual nkgs of bags of rice sold or distributed which either understated or overstated Sales Income and other related accounts.

26.2 The same trend on the distribution or sale of rice pegged at 50 nkgs per bag was also observed in the other months of the year. However, during surprise visits to some markets/talipapas in November and December 2014, several retailers complained that some of the sacks of rice bought from NFA weighed below 50 kgs per sack/bag, when in fact they paid for each sack at the prevailing price set for a sack/bag of 50 kgs.

26.3 Management informed that bags of rice sold/distributed were recorded at 50 nkgs per bag because when bags weighed less than 50 nkgs per bag during withdrawal at the warehouses, fillers were given to the retailers to complete the 50 nkgs per bag. However, verification of stock reports for August and September 2014 showed that with the numerous retailers who bought NFA rice daily, weekly or monthly, only a few retailers were given fillers. Hence, it was not probable that all the other bags of rice bought by numerous other retailers who were not given fillers exactly weighed at 50 nkgs per bag. There were even warehouses which did not give fillers to retailers, but bags of rice sold/distributed in these warehouses were pegged at 50 nkgs per bag. We also noted that retailers were each given one bag of rice as filler, without anyone given more or less than one bag.

26.4 We recommended that Management require the NCR-CDO Warehouse Supervisors/Provincial Operations Office and the Accounting Section to report/record the bags of rice distributed/sold based on the actual nkgs per bag and not pegged at 50 nkgs per bag, and to account the fillers given to retailers in number of bags and nkgs and not pegged at one bag per retailer.

Institutionalized Farmers as Distributors (IFAD) Program

27. The distribution of P15.244 million or 12,315 bags imported rice by NDO and EDO through the IFAD program was approved despite the non-allocation of stocks for the said program in the 2014 NCR Marketing Plan. This contributed to the non-maintenance of the overall buffer stock requirement of NCR. Further, the approval on the withdrawal of stocks at EDO and Cavite PO warehouses of rice allocation for 10 and 37 Farmers Organizations (FOs), respectively, under the program affected their 15-day buffer stock requirements at certain periods in January and February 2014, resulting in undue depletion of their buffer stocks.

27.1 The IFAD program was intended to give opportunity to the FORs to directly participate in the distribution of a portion of NFA imported rice and other rice varieties, subject to availability, to help them generate more income and uplift their economic and social well-being. The implementation guidelines are embodied in NFA SOP No. GM-DN29 dated December 6, 2009 on IFAD of NFA Rice Program, as amended by NFA SOP No. GM-DN29.A dated March 23, 2010.

27.2 On the other hand, NFA-HO AO-2013-L-049 pertained to the terms and conditions on the 2013 IFAD rice allocation payment and withdrawal, which specifically require, among others, the following:

a. FORs/Farmers Groups (FGs) shall pay and withdraw the rice allocation in the areas/provinces where the FORs/FGs are located. In the event FORs/FGs intend to pay and withdraw in other provinces, same shall be allowed once, provided there is a written request from the concerned FORs/FGs subject to the approval and authorization to be granted by the Grains Marketing and Operations Department (GMOD).

b. Withdrawal of rice stocks can be undertaken on a staggered basis provided, however, that the rice allocation should be totally withdrawn within 45 calendar days from the date of payment and should not be later than March 31, 2014.

27.3 The transfer of withdrawal point was duly approved by the GMOD Manager, duly responded by the NCR Regional Manager, in several fax and radio messages. As stated in the radio messages, the IFAD transfer of withdrawal point was accommodated, but emphasized that it was not included in their marketing plan and that their stocks were intended for the region's food security stocks and operational stocks for stabilization in 2014.

27.4 For 2014, the NDO was authorized by the NCR Regional Director via radio messages to accept payment and issue rice to three farmers' cooperatives under the IFAD Program. Based on these authorizations, a total of 690 bags amounting to P0.863 million were distributed to the three farmers' cooperatives on February 6, 2014.

27.5 Likewise, in 2014, EDO was also authorized by the NCR Regional Director via radio messages to issue rice to 10 FORs/cooperatives under the IFAD Program. Based on these authorizations, a total of 11,625 bags amounting to P14.381 million were distributed to the FORs/cooperatives on various dates.

27.6 However, review of the 2014 NCR Marketing Plan covered by Inter-Office Memo '13 NCR-ERS-L-92 dated December 10, 2013 revealed that IFAD Program was not included in the distribution targets. Based on the same marketing plan, the daily consumption requirement (DCR) of NDO was 16,135 bags; hence, buffer stock requirement for 15 days was pegged at 242,025 bags. The inventory level net of the IFAD issuances, per Summary of Weekly Stock Receipts, Issues and Balances for the period February 1-7, 2014 of the seven NDO warehouses at the Metro Food Complex (MFC), was 328,281 bags or equivalent to approximately 20.34 days. This showed that available stocks, after IFAD withdrawal, were more than sufficient to cover the DCR.

27.7 Although the stock withdrawal under IFAD Program did not make any impact on the buffer stock requirement for February 2014 at NDO, this could, however, contribute to whatever effect the Program implementation may have on the total buffer stock requirement of NCR as a whole.

27.8 The DCR of EDO, also based on the 2014 marketing plan, was pegged at 21,655 bags; hence, buffer stock requirement for 15 days was equivalent to 324,825 bags. The inventory level net of the issuances under IFAD, per Summary of Weekly Stock Receipts, Issues and Balances as of February 15, 2014 of the warehouses maintained by EDO, was 65,063.638 bags or equivalent to approximately three days buffer stock based on DCR. This showed that there were insufficient available stocks left after the stock withdrawal through IFAD.

27.9 At Cavite PO, there were 37 FORs from Nueva Ecija, Bulacan, Palawan, Oriental Mindoro and Occidental Mindoro-Mamburao with authority to transfer their IFAD stock withdrawal point to NFA-NCR, with a total of 49,198 bags amounting to P62.728 million.

27.10 The Cavite PO had a 15-day buffer stock requirement of 280,500 bags at 18,700 bags DCR. The audit disclosed that warehouse stock inventory level after the stock withdrawal of 49,198 bags resulted in insufficient buffer stock requirement ranging from 154,618 to 226,676 bags. The inventory level after the IFAD allocation withdrawal reached the lowest level equivalent to 2.88 days, or a deficit of 12.12 days buffer stock. The implementation of the IFAD Program resulted in undue depletion of the mandated buffer stock requirement of the Cavite PO from January 23 to February 28, 2014, caused by the authorized transfer of withdrawal issued by the GMOD in the absence of IFAD allocation in the NCR Marketing Plan for the year.

27.11 **We recommended that Management:**

a. To regularize the 2014 transaction under IFAD Program, submit an addendum or a revision to the 2014 NCR Marketing Plan providing for the inclusion of IFAD in the distribution targets or any such document which would serve as basis for the approval of the IFAD implementation at NCR. Henceforth, ensure that rice distribution through IFAD is considered in the NCR Marketing Plan; and

b. Revisit the terms and conditions of the IFAD Program implementation, specifically on the effect of approving requests of FORs for transfer of withdrawal point, to avoid undue depletion of level of stocks at the chosen region/province.

27.12 Management commented that:

a. NDO - The NFA-HO is in a better position to comment and take appropriate action regarding the matter as it is only executing higher Management's instructions on IFAD program.

b. Cavite PO - It acknowledged the lapses to maintain the 15-day buffer stock requirement as a result of the stock withdrawals under IFAD Program. The subject stocks withdrawn under the IFAD were due for replenishment from the rice importation, but such replenishment was not immediately done as there was

delay in the arrival and unloading of NFA rice at the Port of Manila. In March 2014, the arrival of stocks increased the inventory to 264,017 bags, equivalent to 14 days buffer stocks at the end of the month.

Stock Dispersal

Dispersal is one of the operational activities essential in the performance of the price stabilization function of the Agency. It covers the movement/transfer or positioning of stocks from the stock depositories to other areas where NFA warehouses are situated. NFA SOP No. GM-DL03 dated January 9, 1991, as amended, was issued to prescribe the policies and procedures on dispersal. This SOP also requires that the approval of transfer of stocks from one province to another within the region shall come from the Regional Director.

28. Losses from stock dispersal by sea amounting to P0.800 million 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 for losses on sea dispersal.

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

28.2 During the year, the NFA-Batangas and Occidental Mindoro POs transferred by sea dispersal a total of 188,000 bags or 9,376,855.00 nkgs to the NFA-Palawan PO. However, the records of the receiving warehouses showed a total of 188,000 bags equivalent to 9,342,425.75 nkgs only. The variance of 34,429.25 amounting to P0.800 million represented 0.1 to 0.7 per cent of the stocks transferred through sea and was fully charged as NFA Operational Expenses.

28.3 We reiterated our prior year's audit recommendation that Management consider the amendment of NFA SOP No. GM-DL03.C dated May 31, 2000 or other relevant NFA issuances to include the provision regarding tolerable limit for sea dispersal and the charging of the losses thereon.

28.4 NFA-Batangas and Occidental Mindoro POs commented that the issue has been raised to the NFA-HO and RO citing that the local NFA Office concurs with the recommendation of COA for the provision of tolerable limit for sea dispersal and the charging of losses thereon. The amount of dispersal losses being referred to pertained to aggregate dispersal losses on 2014 stocks transfers from Batangas and Occidental Mindoro to Coron and Puerto Princesa City. These are losses incurred in three stages of transfer: (a) losses from issuing warehouse at source province to load port using hauling truck; (b) losses from load port to disport by barge; and (c) losses from disport to receiving warehouse by hauling truck. In the absence of provisions regarding tolerable limit on sea dispersal, stringent measures to minimize losses on sea dispersal are implemented/adopted. But it committed to reiterate the recommendation to the NFA-HO and RO and coordinate with the issuing province to conduct weighing at load port to

determine the accountability of their trucker; and request from the local Philippine Ports Authority to calibrate their truck scale in order to facilitate the weighing at disport.

28.5 As audit rejoinder, the variances in sea dispersal activities that are charged to operations, if without limit as to how much would be tolerable losses that NFA and the shipper can absorb, will continue to contribute to NFA's expenses.

29. The dispersal monitoring and reconciliation system guidelines provided in NFA SOP No. GM-DL04 dated December 01, 1991 were not strictly observed by Zamboanga City PO, thus, completeness as to quantity and correctness as to quality of the 636,945 bags or 31,817,924.90 nkgs of stocks transferred to other POs could not be readily validated.

29.1 The NFA SOP No. GM-DL04 dated December 01, 1991, on Dispersal Monitoring and Reconciliation System, requires the preparation of certain forms for the stocks transfers, such as the Stock Dispersal Advice (SDA), Actual Stock Dispersal by Land Advice (ASDLA) or Actual Stock Dispersal by Sea (ASDS), Stock Dispersal by Land Acknowledgement Receipt (SDLAR) or Stock Dispersal by Sea Acknowledgement Receipt (SDSAR), that contains information such as quantity, source of stocks/location of the warehouse, unit cost, among others.

29.2 Verification of the dispersal operations of Zamboanga City PO for the period January 1 to September 30, 2014 revealed the following deficiencies:

- a. The SDA and ASDLA for stocks transferred by land to three POs in the region and ASDS for stocks transferred by sea to three POs in the Autonomous Region in Muslim Mindanao (ARMM) were not prepared;
- b. Issuance of 20,350 bags of rice to Tawi-Tawi PO under authority number RO9GMOB-101 dated February 18, 2014 was over by 350 bags as against the authorized 20,000 bags; and
- c. The transfer of 636,945 bags of rice with total nkgs of 31,817,924.90 to other POs within the region and the ARMM were not supported with SDLAR and SDSAR as proof that stocks transferred were actually received in the specified point destination, as itemized in Table 45.

Table 45 – Stocks Transferred from Zamboanga PO to other POs and ARMM

Destination/PO	No. of Bags	Nkgs
Dipolog City	194,550	9,702,462.00
Liloy	37,500	1,874,470.00
Pagadian City	131,000	6,543,040.00
Ipil	88,000	4,397,071.00
Malangas	41,000	2,059,410.00
Basilan	52,695	2,632,606.73
Tawi-Tawi	33,250	1,659,419.17
Jolo	23,950	1,196,756.00
Molave	35,000	1,752,690.00
Total	636,945	31,817,924.90

29.3 Thus, the completeness as to quantity and correctness as to quality of stocks transferred by the NFA Zamboanga City PO and received by other POs within the region and the ARMM could not be validated and losses incurred, if any, could not be determined. Also, the absence of the acknowledgement receipts from the receiving provinces casts doubt on the accuracy of the recorded Due from Operating Unit account.

29.4 We recommended that Management enforce strict compliance by responsible officers and employees with the guidelines provided in NFA SOP No. GM-DL04 and strict monitoring of stocks issued and balances to avoid excessive issuances from what is authorized. Likewise, require the receiving POs to strictly confirm stocks received using the required/prescribed forms.

29.5 Management explained that Zamboanga City PO has rectified and improved the existing procedures on dispersal operations effective February 2015. NFA SOP No. GM-DL04 will be strictly enforced and implemented and coordination with the concerned PO(s) will be strengthened and diligently monitored.

30. Variances of 84,782.450 nkgs amounting to P1.853 million were not immediately resolved due to lax monitoring and supervision of stocks unloading and deliveries during the intra-regional stock dispersal from NFA Cebu PO to NFA Leyte PO. Moreover, Merchandise Inventory was overstated by P70.737 million due to errors and absence of advice on Standard Transfer Cost (STC).

30.1 Item 4 of NFA SOP Amendment/Addendum No. GM-DL03.A requires that the Provincial Managers of both the issuing and receiving provinces shall always convene the Dispersal Committee during the 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 Manager shall give utmost importance to the job of the Dispersal Committee and shall act on its report immediately. The same SOP also provides control measures to reduce variance in sea transfer such as the use of truck scale in weighing the stocks, provision of escort in the different phases of transfer and shipment of stocks, as well as the sealing of the stocks.

30.2 As provided in Item 6 of NFA SOP No. GM-DL03.C, it is the responsibility of the Dispersal Committee to ensure security and efficiency in the handling, loading, shipment and unloading of rice deliveries to other regions/warehouses of NFA to avoid/minimize weight variances during transfers.

30.3 Verification of the accounting records showed that during the year, NFA Leyte PO received from NFA Cebu PO a total of 260,999 bags of imported rice with equivalent weight of 13,042,920 nkgs amounting to P285.398 million. This, however, does not reconcile with the balance per Stock Report of the Warehouse Supervisors and accounting records. The Stock Reports showed total receipt of imported rice from NFA Cebu PO of only 12,958,137.50 nkgs, thus a weight variance of 84,782.50 nkgs equivalent to P1.853 million. The variance is considered dispersal losses to be shouldered by NFA Leyte PO as the receiving province pursuant to NFA SOP Amendment/Addendum No. GM-DL03.A.

30.4 Further, the Bill of Lading (BL) for the stock transfer showed several deficiencies such as truck spillages, port sweepings and the use of cable tie seals instead of metal

seals. It was also observed that four out of 11 BLs were not signed by the Dispersal Committee of Cebu and two bags of rice under BL No. 171127 dated December 17, 2014 were lost in transit from NFA warehouse to Cebu Port.

30.5 The NFA Leyte PO as the receiving office, submitted its Dispersal Report to NFA Cebu PO with observations on the use of cable tie seals as vessel seal (busted and loose bags), the average weight per bag at source and the average weight per bag received, variance between total receipts against total weight per BL and the use of hooks at source.

30.6 Contrary to the reported stocks received of imported rice per Stock Reports, the Statement of Unloading Receipts (SUR) of Stocks from NFA Cebu PO showed a variance of 65 bags weighing 81,605.68 gross kgs.

30.7 There was no adjustment/reconciliation made on the discrepancies. The number of bags per BL includes port sweepings at source of 81 bags, while the SUR also includes 146 bags of vessel sweepings at disport, thus the overage of 65 bags.

30.8 Moreover, examination of the books of accounts of NFA Leyte PO revealed an overstatement in recording the stock transfers from Cebu for the year in the amount of P70.737 million, representing errors in the cost adjustment of the stocks received and also due to the absence of advice on STC, resulting in overstatement of the Merchandise Inventory and Due to Operating Units - Cebu accounts by the same amount.

30.9 We reiterated our prior year's audit recommendations that NFA Leyte PO Management:

a. Strictly implement the governing SOP on the monitoring and supervision of stocks unloading and deliveries and require the Dispersal Committee to submit Dispersal Report with the recommendation on the improvement and/or institution of additional control measures in order to avoid the recurrence of weight variances in the transfer/dispersal of stocks pursuant to Item 4 of SOP Amendment/Addendum No. GM-DL03.A and Item 6 of NFA SOP No. GM-DL03.C; and

b. Require the Provincial Accountant to record the dispersal losses of P1.853 million and prepare adjusting entries to correct the overstatement of P70.737 million in the Merchandise Inventory and Due to Operating Units accounts.

30.10 NFA Leyte PO Management explained that the Dispersal Committee is always convened in all dispersal operations. All unloading activities are witnessed by at least three members of the Dispersal Committee in compliance with the SOPs. The declared weights from Cebu per BL were based on NFA truck scale weights, while the weights per stock report and per accounting records were based on the weight during actual weighing using private truck scale and witnessed by the accounting representative.

30.11 Management further informed that the Accounting Section does not record dispersal losses as the stocks received from the issuing provinces are recorded on its actual weight during unloading and being adjusted upon issuance of STC from the

issuing province. Nevertheless, the recommendation on the recording of dispersal losses is well taken.

30.12 As to the overstatement of the Merchandise Inventory account and Due to Operating Units - Cebu account, Management justified that said deficiency was due to the late submission of the STC from the issuing province. Thus, the account was recorded based on the unit cost available per moving average.

30.13 During the exit conference, it was explained that stocks are loaded directly from foreign vessels and the stock variance could be attributed to the weighing scale used during unloading of stocks from the vessel to the port and to the warehouse. NFA Leyte PO uses truck scale of private entity which is not calibrated by NFA. There is a need for NFA to have its own truck scale in order to ascertain the weights of stocks during loading and unloading operation.

Registration and Licensing

One of the Major Final Outputs (MFO) of the Agency is the regulation and development of rice and corn industry. It involves monitoring and enforcement of rules and regulations governing grains businesses, licensing and registration of all the rice and corn industry for the purpose of acquiring industry information and ensuring rational distribution of grains business for optimum utility and profitability.

The NFA is accrediting rice retailers in the distribution of rice to intended consumers to attain mandated function of stabilizing rice supply. Accrediting rice retailers requires rigid accreditation processes which include, among others, the payment of license/registration fees. After passing the required processes and paying the required registration and permit fee, the accredited rice retailers can avail rice allocation.

For 2014, the NFA registered/licensed 76,604 applicants in different lines of activity with a total collection of P153.735 million. Review of the registration and licensing activities and transactions of the Agency disclosed the following:

31. A number of grains business entities were registered and/or issued licenses despite deficiencies in documentary requirements, contrary to existing NFA rules and regulations indicating doubtful legitimacy of the business entities, preventing the creation of a complete and reliable database of client accounts and the assessment of corresponding registration/license fees is not facilitated. Moreover, retailers were accredited without the two-year requirement as grains business entity, while the applications of some outlets were approved even without the appropriate signature.

31.1 Section 5, Regulation IV of the Revised Rules and Regulations of the NFA on Grains Business dated November 23, 2006 requires the submission of certain documents by new and old applicants, such as sole proprietorship, partnership, corporation, and people's organization, e.g., association or cooperative for license and/or registration. This regulation also enumerates the additional requirements for other line of business activities, including warehousing and transportation.

31.2 In line with this regulation, NFA SOP No. BR-RL06, entitled SOP on Registration and Licensing of Grains Business, was issued on June 5, 1995 to effectively regulate, supervise and monitor the grains industry through efficient and systematic licensing/registration of grains businessmen; and monitor and report grains business activities and licensing/registration accomplishments. This SOP covers the processing, evaluation, approval/disapproval of Applications for License and/or Registration; issuance of License and/or Registration Certificates/Stickers to Grains Businessmen; and reporting and monitoring system. Item 6 of the implementing guidelines of the SOP provides that no application for license and/or registration shall be accepted unless all documentary requirements are complete.

31.3 However, grains businesses registration and renewals were still approved even though they were deficient in the submission of the documentary requirements, some even did not submit any documents at all, or the application forms contained incomplete information. The observations are summarized in Table 46.

Table 46 - Documentary Deficiencies of Applicants

PO/Office	Observations
Region I - Baguio PO	108 out of 590 samples or 18.31 per cent of grains business entities which were issued licenses/ registration certificates from January to September 2014 did not submit documents such as Income Tax Return (ITR), Financial Statements (FS), Secretary's Certificate or Board Resolution, Pictures, Articles of Incorporation and By-Laws, Certificate of Cooperation/Incorporation from Cooperative Development Authority (CDA)/Securities and Exchange Commission (SEC), Proof of ownership or Contract of Lease. The application forms were also not properly accomplished.
Region I - Abra PO	One new application and 39 renewal applications were accepted even if these were not supported with complete documentary requirements.
Region I - Ilocos Norte PO	50 samples for renewal applicants and all 25 samples for new applicants were accepted and approved even if these were not supported with complete documentary requirements. 41 out of 50 or 82 per cent sample renewal applicants and five out of 25 or 20 per cent sample new applicants were issued licenses/registration certificates without submitting any documents.
Region I - Ilocos Sur PO	Five applications for NFA license/registration and 44 applications for renewal of license/registration were accepted even if these were not supported with complete documentary requirements.
Region IX - Zamboanga and Dipolog POs	All of the 1,132 registration and license applications were approved despite the non-submission and/or incomplete submission of the documentary requirements. The forms were not completely accomplished; A single licensee signed in behalf of a total of 80 new and existing registrant/ licensee applications without authorization. Individual folder for each applicant with the control number arranged in ascending order was not maintained.
Region XI - Davao City PO	1,116 applications for licensing and registration were approved sans submission of complete documentary requirements.
Region XI - Davao del Sur PO	294 applicants were approved sans submission of complete documentary requirements/only accomplished application forms were submitted. Registrations were granted for facilities, machineries, other equipment and transportation equipment without presentation and submission of proof of ownership or proof of possession by the grains businessmen and other pertinent requirements prescribed under existing rules and regulations.

PO/Office	Observations
NCR- NDO	85 out of 707 samples or 12 per cent of grains businessmen who registered from January to May 2014 were issued license to operate/registration certificate despite deficient documents.
NCR-CDO	42 out of 1,421 samples or 3 per cent of grains businessmen who registered from September to December 2014 were registered/issued license despite deficiencies in documentary requirements.
NCR-SDO	12 out of 1,060 samples or 1.10 per cent grains business entities that applied/renewed their registration/license were found to be deficient of required documents for their applications.
NCR-Cavite PO	26 out of 679 samples or 3.83 per cent grains business entities were issued license/registration certificates despite deficient in documentary requirements.
NCR - Batanes PU	31 out of 199 samples or 15.58 per cent grains business entities that were issued licenses/registration certificates were deficient in documentary requirements. The handwriting on the information written in the ITRs appeared to be accomplished by only one person.

31.4 In Region X - Misamis Occidental PO, the required documents to correctly assess the license fee such as ITR and FS were not submitted by the registrant. The guaranty bond and fire insurance were also not required from the warehousing/milling/drying operators.

31.5 Region XI - Davao del Sur PO personnel informed that the practice of not requiring complete documentation has actually been tolerated. An applicant for renewal of license and registration only presents the previous year's application form which shall be the basis for assessment of fees.

31.6 Region XI - Davao City PO Management averred that due to the limited number of manpower, site and equipment, inspection and monitoring were difficult to achieve on a consistent basis. The personnel in charge for inspection and monitoring are also the same personnel from the Operations Section who handle receipt, evaluation of documents, assessment, processing and releasing of licenses and registration at the Branch. The observation was already noted in prior years' audit.

31.7 In Davao Oriental (Banaybanay Area), Davao del Norte (Tagum Area) and in Compostela Valley (Nabunturan and Mawab Area) POs, review of the Registered and Licensed Grains Businessmen's Data File disclosed the same deficiencies such as the non-submission of the required documents, such as ITR, FS of the preceding year and other documents and Application Forms were not properly filled-out. The Provincial Industry Services Officer (PISO) of Davao Oriental PO justified that there was no proper turnover of functions and duties from the previous Registration and Licensing Officer when she assumed office. She added that even up to now, she has not undergone any training/seminar on the existing relevant NFA SOPs for Grains Business. She just accepted and processed the Applications based on the previous documents on file.

31.8 Davao del Norte PO Management commented that in prior years and in actual practice, there had been 'leniency' on the documentary requirements for registration and licensing of Grains Businessmen, not only in the PO, but in other offices in the country as well, since strictly imposing it may discourage grains businessmen to register with NFA, thereby adversely affecting the campaign of the Agency's grains regulatory functions. If

such happens, the possibility of not hitting the targeted number of grains licenses and registrations set annually is very likely.

31.9 In Region X - Misamis Occidental PO, 15 out of 66 retailers or 22.73 per cent, though lacking the required two-year requirement and strong justification for such exemption, were still accredited. There were instances that Retailers' Passbooks as well as stocks were issued prior to the inspection of outlets. Likewise, 19 of 27 outlets or 70.37 per cent were approved notwithstanding the absence of the signatures of Officer-in-Charge (OIC) and/or Accreditation Committee, contrary to the Modified NFA Rice Distribution Policies dated July 17, 2014.

31.10 Per inquiry with the Region X - RO Management, the two-year requirement was instituted in order to establish the faithful adherence of the licensee with NFA rules and regulations. The signatures of the committee members are manifestation that they have fulfilled their duties in the accreditation process. Consequently, the approval of the Provincial Manager or OIC is a declaration that the applicant has passed all the accreditation requirements and has now been vested the privilege to operate an NFA outlet.

31.11 In view of the foregoing observations, it can be deduced that NFA Management has been lenient in the application of its own rules and regulations in the implementation of one of its frontline services, which is licensing and registration. The tolerance in not requiring the submission of complete documentary requirements, as a prerequisite for the approval of application for licensing and registration, effectively prevented the creation of a complete and reliable database of client accounts. Moreover, it exposes the Authority to risk of allowing unqualified person or entity to engage in grains business and without sufficient capacity, which will ultimately impact on its function to improve the grains industry and promote harmonious and productive relationship among rice industry stakeholders to achieve sectoral efficiency, discipline and growth, and the stakeholders could not be properly compensated in times of disasters.

31.12 Further, the absence of a complete and reliable database due to lack of/incomplete documentary requirements, did not guarantee that correct assessments were made, hence, optimization of income from the licensing and registration activities may not have been achieved.

31.13 **We recommended that Management:**

a. Require all concerned that all the documentary requirements and accreditation process as stipulated in the Rules and Regulations on Grains Businessmen of the NFA and in the SOP be strictly complied with before the approval of licenses and registration and the issuance of passbook;

b. Ensure that the guidelines, rules and regulations and SOP are disseminated and understood by all process owners down the organization; and

c. Establish, set-up and maintain a database of clientele accounts, guided by the prescribed processes in the abovementioned NFA rules and regulations.

31.14 Management gave the following comments:

- a. Region I - Baguio PO - The Registration and Licensing Section will do their best effort in supervising and monitoring the licensing of the grains businessmen, while in Abra PO, the Provincial Manager gave instructions to observe and follow strictly NFA policies.
- b. Ilocos Norte and Ilocos Sur POs - Management explained that the Registration and Licensing personnel had required the needed documents from applicants. However, most of them are still awaiting the issuance of such documents from other government agencies/LGUs; others forget to bring the documents in spite of constant reminder to submit the same. To encourage the applicants to register and renew their licenses and for the Branch to collect more as it has a target to attain, concerned NFA personnel just accept the payments of the applicants with the assurance that they would come back and submit the lacking documents. During the exit conference, Management assured to implement the recommendation.
- c. Zamboanga City PO - Management agreed and committed to implement changes in 2015 and ensure to instruct the Licensing Officers to carefully check the completeness of data/information and all the necessary documents. Likewise, it assured to maintain a folder for each registrant/licensee with documents systematically filed to be readily available anytime.
- d. In Region X - Misamis Occidental PO - Management has started implementing the provisions of the Rules and Regulations on Grains Business. The Licensing Section has already made its initial step by sending grains businessmen the list of necessary documents as required for their license renewal. Those who were accommodated were conditioned to comply with the submission of the required documents within 15 days.

On the issuance of passbook and stocks prior to inspection of outlets, this was done due to the multiple roles of the employee in charge which included, among others, monitoring, enforcing and inspecting. The main reason was to expedite accreditation so that the consuming public can avail of the affordable NFA rice sold at NFA outlets as soon as possible. Nevertheless, deficiencies will be acted upon and the proper procedures will be implemented.

- e. Davao del Sur PO - Management acknowledged the deficiencies in the implementation of rules and regulations, hence, re-inspection and monitoring of all accredited grains businessmen is now being conducted to ensure compliance with all requirements. In addition, it already sent a letter to the LGU in Davao del Sur for a list of registered grains businessmen and post-harvest facilities operators, as guide in setting NFA target licenses, and to the NFA RO in General Santos City requesting for the downloading of registration and licensing database for the setting up of clientele accounts
- f. Davao City PO - Management recognized the findings, and as a metropolis, is expected a higher number of registrants and licensees. To meet the target, it employs a strategy without necessarily turning-off probable licensees and

registrants. At present, it is requiring registrants and licensees the needed documents as stipulated in the Rules and Regulations on Grains Business.

g. Davao Oriental and Compostela Valley POs - Management committed to enforce the Agency's compliance on the policies and guidelines in the processing of application, registration and renewal of Grains Businessmen's license.

h. NCR-NDO - Management committed to take immediate action and started coordinating with the concerned licensees to immediately submit the required documents. Most licensees/registrants, particularly those with low capitalization, failed to submit the ITR for the preceding year due to difficulty in meeting the Bureau of Internal Revenue (BIR) requirements such as, Department of Trade and Industry (DTI) permit, mayor's permit, etc, which are even more costly than the NFA license. On the submission of FS, some could hardly comply because it entails additional expense to hire the services of a Certified Public Accountant.

i. NCR-CDO - The submission of ITR and FS is a perennial problem of the whole Agency. The BIR was invited last January 2015 to conduct an information campaign and dialogue with grains businessmen to tackle the issue on ITRs as grains business requirement. Registration of the grains business was being required and the mandatory filing of ITR was stressed. This is also in preparation for ISO certification. As a result, many of the retailers complied with the requirement. For those with deficient documentary requirements, they were required to comply within a certain period. As of November 2014, 190 violators were penalized and CDO had collected a total of P219,000 for fines and penalty.

j. NCR-Batanes PU - Management agreed to comply with the recommendations.

k. NCR-Cavite PO - Actions were undertaken to require the grains businessmen to submit the registration/license documents. It will continue to follow up the submission of lacking documents of licensees and monitor compliance with NFA rules and regulations in various business areas.

31.15 As audit rejoinder, the lacking documents required are annual FS and ITR of the preceding year and not the current year; therefore, it is expected that said documents are readily available upon renewal. Surcharges/penalties are additional income of the Agency, thus, the approval of renewal of applicants' licenses deprived the Agency of additional income.

32. The inability to exercise the mandated regulatory and monitoring functions paved the way for grains businessmen to continue to operate and/or received rice allocations without securing or timely renewing their licenses and/or registration from NFA, in violation of PD No. 4, as amended by PD Nos. 699 and 1485, to the detriment of the Agency in terms of uncollected license/registration fees.

32.1 PD No. 4, as amended by PD Nos. 699 and 1485, provides that all persons, natural or juridical, who are engaged or intending to engage in rice and/or corn industry shall apply for a grains business license and/or grains business registration with the Authority.

32.2 The Provincial Enforcement and Investigation Office is responsible, among others, for the supervision of enforcement of the NFA laws and regulations, policies and procedures related to the food industry.

32.3 In NCR - NDO, result of ocular inspection conducted by the audit team on November 4, 5, 24 and 25, 2014 of 133 rice stores/outlets located in Caloocan, Malabon, Navotas and Valenzuela, which were randomly selected from the Master List and List of Non-Renewal plus rice retailers provided by market administrators and barangay personnel, revealed that 29 rice retailers or 21.80 per cent, more or less one-fourth of the 133 samples, did not have NFA license/registration. Inquiry disclosed that these rice retailers were not aware that they are required to secure NFA license and some consider the license fee as double payment since they are already paying for local business permit.

32.4 Moreover, 194 grains businessmen did not renew their license/registration as per List of Non-Renewal, of which 12 retailers reasoned out that they are no longer selling rice; and they have no time to renew their license as they are busy tending their stores. However, we noted during the inspection that two retailers who responded that they are no longer into grains business were still selling rice although the rice display at the time of inspection was not in the normal commercial quantity. Also, we found that the given business address of one grains businessman who did not renew his license was a vacant lot where a commercial building is currently under construction.

32.5 Section 22 of the implementing guidelines of NFA SOP No. BR-RL06 provides that failure to file the application for renewal on the schedule dates shall subject the licensee/registrant to corresponding penalty or surcharges. Verification of collections and official receipts (ORs) for the year showed that penalties for late renewal were imposed by Management in accordance with the Renewal Schedule and Surcharges as provided by the Licensing and Registration Section. Total collections for surcharges during the year amounted to P418,393.

32.6 In NCR-CDO, surprise visits/inspections were conducted to 35 grains business entities in November and December 2014, to observe business situation/activities of some retailers and their compliance with existing rules and regulations. Results disclosed some deficiencies that should have been reported had there been close monitoring of registration and licensing activities. Among the deficiencies was a grain business operated without the NFA license/registration. One retailer was not given yet her license plate in four months after she started selling NFA rice.

32.7 In NCR-Cavite PO, the Monthly Accomplishment Reports provided data on the results of monitoring activities undertaken in each month. Based on the reports from January to October 2014, there were no violations, apprehensions and enforcements reported in Bulihan Public Market-New; Old Bulihan Public Market; GMA Central Market (Magra Commercial Center); Sta. Lucia Flea Market, Dasmariñas; Silang Public Market and SM Hypermart, Barangay Burol I, Dasmariñas.

32.8 However, inspection conducted by the Audit Team of selected 72 grains business entities from the above-cited locations on November 6 and 7, 2014 disclosed that 10 business entities operate without license/registration, five operate with expired license/registration (three of which did not renew since 2012), and 13 did not display

their licenses in their business areas. These deficiencies should have been reported had there been close monitoring of registration and licensing activities.

32.9 In NCR-EDO, review of list of accredited rice retailers as of September 12, 2014 disclosed that out of 273 accredited rice retailers, two retailers who paid the required license and registration fee covering the year 2013 were able to avail 8,438 bags of rice during the year without paying license/registration fee for the year 2014.

32.10 In Davao City PO, review of the database requested from the City Government of Davao disclosed that there were at least 1,780 grains businesses that renewed their licenses in 2014. However, 1,653 of them have gaps and differences when compared with the Master List for the years 2013 to 2014. Only 487 or 29.46 per cent were in the Master List and found to have applied for or renewed their license for 2014, while the remaining 1,166 grains businesses were not even found in the list for 2013. Additionally, differences in the declared capitalization were noted between the database from City Government of Davao and NFA.

32.11 Thus, Davao City PO had missed the opportunity to earn additional income from its licensing operations at an estimated amount of P1.647 million or 67.89 per cent of the total income from Registration and Licensing for 2014 amounting to P2.426 million.

32.12 In General Santos and South Cotabato POs, for the year 2014, there were business permits issued to grains entrepreneurs by the LGUs within the jurisdiction, but whose names and profile have not been in the official list/record of NFA registered/licensed grains businessmen. In these POs, 174 and 126 grains businessmen, respectively, were issued permits by the concerned LGUs but have not secured the license or registration with the NFA PO concerned.

32.13 Conservative estimates in the computation of licensing and application fees based on the declared capitalization per information furnished by the said LGUs disclosed unaccounted potential revenues for General Santos PO of P233,750 and South Cotabato PO of P193,135.

32.14 Furthermore, review of the Master List of Licensed/Registered Grains Businessmen for 2014 and List of Non-Renewal for the month ended December 2014 of NCR-NDO disclosed a high incidence of late renewal, as out of the 933 establishments, only 600 or 64.31 per cent had renewed their license/registration within the prescribed schedule, while 333 or 35.69 per cent, roughly more than one-third of the sample population, did not renew on time.

32.15 The incidence of late and non-renewal of NFA license/registration, the failure by grains businessmen to secure the mandatory NFA license/registration, and the inadequate inspection of grains businesses which resulted in gross violation of registration/license requirement, non-payment of license/registration fees due the NFA coffers, and non-display of NFA license could be attributed to Management's inability to fully exercise its regulatory and monitoring functions.

32.16 We recommended that Management fully undertake its regulatory and monitoring functions by requiring all concerned personnel to:

- a. Monitor regularly the renewal of license/registration of grains businessmen and encouraging them to renew their NFA license/registration and preferably within the prescribed schedule;**
- b. Conduct information dissemination on the rules and regulations of NFA on the licensing and registration of grains businessmen;**
- c. Undertake systematic and periodic review to monitor clientele who continue its operations without renewal of license. The report shall serve as the basis for site inspection and monitoring, which should be done on a consistent basis. No retailer should be allowed to withdraw their allocation unless the necessary license/registration fee has been paid;**
- d. Conduct immediate investigation of the identified market stalls and the rest of the Cavite area not included in the regular monitoring by the Provincial Enforcement and Investigation Officer;**
- e. Impose the payment of license/registration fees, including appropriate surcharges and fines from the business owners with expired license/registration and those who failed to display their NFA licenses; and**
- f. Pursue a more aggressive and strategic monitoring on compliance with NFA license/registration of grains businesses, to include, among others, the quarterly visit and revisit of the rice businesses, and tie up with LGUs and agencies like the Department of Trade and Industry (DTI) or Securities and Exchange Commission (SEC) and market administrators.**

32.17 We further recommended that Management hold those officials liable for the unpaid license/permit fee of the accredited rice retailer(s) who availed rice allocation without paying the required license/registration fee.

32.18 Management gave the following comments:

- a. NCR-NDO - It committed to intensify its monitoring activities, even constrained with limited manpower and logistics resources. It will continue to conduct information dissemination through seminars and keep coordinating with LGU for the licensing and registration with NFA of grains businessmen under its jurisdiction. As of April 2015, out of the 194 non-renewals, 91 or 46.91 percent had renewed their license.**
- b. NCR-EDO - It imposed the penalties to the retailer upon renewal of license as grain retailer, while the accreditation of the other retailer was cancelled for failure to pay the required license permit fee.**
- c. NCR-CDO - As of January 2014, it ran out of metal plates. As a consequence, it issued Certificate of License/Registration in lieu of metal plates per NCR-RO-RLO-2014-H-105 dated August 14, 2014.**

d. Cavite PO - The identified grains businesses were visited by its personnel. To date, some have complied with the requirements, while some were issued summons for violation on non-display of NFA license or no NFA license.

e. General Santos PO - Some of the grains businessmen listed in the List of Grains Retailers/Wholesalers Not Licensed with PO have actually been licensed. Others opted to include rice retailing as part of their business activity as declared/reflected in their LGU permits, but are not into the actual rice retailing business. However, majority of them failed to renew their licenses for reasons, such as, insufficient capital to continue the business, shifted to other type of business, physical incapability to run the business and others. Letters of notice are sent to grains businessmen thru mails informing them to renew their licenses.

Mobile licensing is undertaken every July to November of every year to ensure that businessmen who failed to renew on the scheduled month per municipality/city will have their businesses licensed and corresponding surcharges on late renewals are collected. Still, they assured that efforts will be undertaken to ensure compliance with the audit recommendations.

f. South Cotabato PO - It required the Enforcement and Investigation Section to vigorously conduct mobile licensing and follow-up the grains businessman. Accordingly, office order will be issued to establish and effectively direct the personnel who will compose the mobile licensing team. For the year 2015, a letter will be sent to all LGUs requesting a list of grains businessmen issued with Business/Mayor's permits and appealing that NFA License will be required as one of the requirements in applying for a new or renewal of business permits.

33. The 2,038 license/registration metal plates sold to grain businessmen by NFA Quezon, Laguna and Infanta POs in Region IV amounting to P407,400 for the years 2007, and 2011 to 2014 were not delivered as at year-end, contrary to the provisions of NFA SOP No. BR-RL06; hence, the purpose of using them as one of the means to effectively monitor grains industry and strengthen enforcement activities of the NFA was not attained.

33.1 To strengthen the advocacies on regulatory programs, reinforce enforcement activities and save on cost of supplies and materials and other overhead costs, the NFA under its revised rules and regulations on grains business introduced the issuance of one-time license/registration metal plate at a cost of P200.00 which shall be borne by the licensee/registrant in lieu of the license/registration Certificate.

33.2 The license/registration metal plate shall replace the usual License/Registration Certificate effective 2007 and shall be issued upon approval of the application by the Provincial Manager (for the Administrator). It shall indicate the license number and year issued; shall be issued only once unless lost or destroyed, upon payment of P200.00; fabrication/printing is centralized; should be displayed conspicuously in applicant's store/establishment; shall be issued per grains business location/address; validity shall cover the years applied for license; and yearly renewal sticker shall be stuck on the plate.

33.3 In addition, the NFA opted to use metal plate as it is sturdy and not easily duplicated; issued only once, hence less costly; issuance is time-saving; easier to display and more conspicuous to customers and NFA Enforcers/Investigators; and it is the present trend in license issuance and more appreciated by stakeholders. The metal plates shall be provided by NFA-HO thru the Industry Services Department (ISD).

33.4 Collections for metal plates were made continuously from 2007 to 2014, but deliveries/issuances thereof were made only in 2008 and 2012 in Quezon PO. In Laguna PO, 292 or 41.7 per cent of paid metal plates in 2007 remained undelivered and no delivery/issuance was made during the last four years, while in Infanta PO, deliveries/issuances thereof were made only in 2009, 2010 and partially in 2011.

33.5 According to the Provincial Industry Services Officer (PISO), reports on the inventory of metal plates and undelivered metal plates including requirement for the succeeding years were submitted annually since 2011 to the RO and to HO. Also, it informed the RO that unclaimed metal plates were re-issued to satisfy the insistent demand of new and renewing applicants.

33.6 In June 2013, a report on the receipts and issuances of metal plates was also submitted by Quezon PO in response to the instruction of the ISD, NFA-HO in preparation for the study to decentralize the fabrication of said items.

33.7 In spite of these efforts, paid metal plates for years 2007, and 2011 to 2014 for approved licenses/registrations totalling 2,038 remained undelivered as of December 31, 2014.

33.8 Considering that the License/Registration metal plate is significant in identifying the NFA authorized grains businessmen, its delivery beyond the year applied for renders it useless. Similarly, the renewal sticker is impractical without the metal plate where it would be stuck on. In addition, while the NFA can do away with it, as it appears to give no importance to its prompt delivery, its cost was an additional burden to grains businessmen.

33.9 Finally, the purpose for which the metal plate was prescribed, particularly it being displayed in business establishments to be more conspicuous to customers and as one of the means for NFA Enforcers/Investigators to effectively regulate, supervise, monitor, and report grains business activities, was not fully attained.

33.10 We recommended that Management cause the immediate delivery of the 2,038 paid metal plates to POs for prompt issuance to grains businessmen to facilitate NFA's enforcement activities.

33.11 We also recommended that the Provincial Managers and PISOs ensure that metal plates are available before collection of payment is made.

33.12 Management gave the following comments:

- a. NFA Quezon Provincial Manager commented that based on the wire message from the ISD-HO, 38,000 metal plates which were supposed to be delivered in February 2015 were returned to the supplier due to non-compliance

with technical specifications. It was assured, however, that the metal plates will be issued once delivered by the HO.

b. In Laguna PO, the PISO informed that several queries, radio messages and personal follow-ups made to the NFA-HO were all in vain, and the latter cannot give a definite date when to deliver the metal plates. Also, on March 2, 2015, it received a radio message from the Director of the ISD, informing them that metal plates received on November 27, 2014 and December 8, 2014 which were supposed to be delivered in February 2015 were rejected due to non-conformance with the technical specifications, while for stickers, there is an ongoing request for price quotation from the National Printing Office (NPO). A follow-up wire message dated May 28, 2014 on the status of the request was also sent.

c. In Infanta PO, the PISO explained that they had prepared a letter request addressed to the ISD-HO thru RO IV for the immediate delivery of the 176 paid metal plates.

Procurement of Palay

The NFA is mandated to ensure national food security and stabilize the supply and price of rice and corn, primarily through buffer stocking. One of the functions of the Agency under the marketing operations is the paddy procurement. It is 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. This program is also aimed to provide market for farmers' product with fair return on investment in production costs.

From the 2014 report of the Grains Marketing and Operations Department (GMOD), NFA procured a total of 26,779 MT of palay or 535,582 bags at 50 kilograms (kgs) per bag. Table 47 presents the comparative accomplishment on palay procurement for 2014 and 2013 which shows that palay procurement had considerably decreased from 54.84 per cent in 2013 to 6.28 per cent in 2014.

Table 47 - 2014 and 2013 Accomplishment on Palay Procurement

Year	Procurement (In 50 kgs/ bag)		Percentage of Actual vs. Target
	Target	Actual	
2014	8,532,700	535,582	6.28
2013	13,223,145	7,251,867	54.84
Increase/(Decrease)	(4,690,445)	(6,716,285)	(48.56)

34. The accomplishments on palay procurement in NFA Negros Occidental, Masbate and Cavite POs for 2014 were significantly low at zero to 41.1 per cent, attributed to high ex-farm price above the NFA procurement price of P17.00 per kg exclusive of incentive fees. Thus, NFA's function of providing market to farmers' produce with fair return on their investment in production costs was not attained in those regions.

34.1 Comparison of the target and actual procurement of palay in Negros Occidental, Masbate and Cavite POs disclosed that their accomplishments ranged from zero to 41.09 per cent as presented in Table 48.

Table 48 - 2014 Accomplishment on Palay Procurement of Negros Occidental, Masbate and Cavite POs

NFA PO	Procurement (In 50 kg./ bag)		Percentage of Accomplishment
	Target	Actual	
Negros Occidental	15,300	47	0.31
Masbate	30,900	12,698	41.09
Cavite	3,000	0	0.00

34.2 The Direct Procurement from Farmers Program provides market support to farmers where the farmers could sell their palay at prevailing support price with incentives on drying and delivery fees. NFA procures palay from farmers and farmers' organizations (FOs) at government support price of P17.00 per kg plus P0.20 per kg for delivery, additional P0.20 per kg for drying incentive and P0.30 per kg as Cooperative Development Incentive Fund (CDIF) to accredited FOs.

34.3 Perusal of the Negros Occidental PO's Annual Report and Accomplishment revealed that it had procured only 47 bags or 0.31 per cent out of its target of 15,300 bags. The palay was procured from only one individual farmer. Table 49 shows the comparative accomplishment on palay procurement for the years 2014 and 2013.

Table 49 - Negros Occidental PO 2014 and 2013 Accomplishment on Palay Procurement

Year	Procurement (In 50 kg. /bag)		Percentage of Actual vs. Target	Palay Production (In 50 kg. /bag)	Absorption Rate (%)	Percentage of Target vs. Production
	Target	Actual				
2014	15,300	47	0.31	9,575,640	0.00	0.16
2013	67,000	11,553	17.24	9,559,380	0.12	0.70
Increase/(Decrease)	(51,700)	(11,506)	(16.89)	16,260	(0.12)	(0.54)
Percentage	(77.16)	(99.59)	(98.2)	0.17	(100.00)	(77.1)

34.4 As shown in Table 49, the target of 15,300 bags against the palay production of 9,575,640 bags of palay in 2014 was only 0.16 per cent, indicating that the Negros Occidental PO had set an extremely low share from the produce of the farmers. Moreover, the absorption rate or the rate of actual procurement *vis-a-vis* the palay production which was zero per cent demonstrates that with the available produce of the farmers in the Province of Negros Occidental, the PO was able to procure only 47 bags from a single farmer.

34.5 Had Negros Occidental PO achieved its targeted volume of procurement, it would not only add to the buffer stock for food security requirement of the government, but would also encourage 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.

34.6 The very low accomplishment was attributed to high ex-farm price in 2014. As illustrated in Table 50, the NFA buying price for palay of P17.00 per kg. plus additional incentives is way below the lowest ex-farm price in Cavite PO of P18.51 per kg.; thus, farmers were discouraged to sell their palay to NFA.

Table 50 - Ex-farm Price versus NFA Buying Price

NFA PO	Ex-farm Price per kg	NFA Buying Price per kg
Negros Occidental	P20.48 to P24.28	P17.00 plus P0.70 additional incentives
Cavite	P18.51 to P24.00	

34.7 The Negros Occidental PO 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.

34.8 Moreover, the geographic and market condition of the Cavite Province significantly contributed to the low fund utilization rate of palay procurement that affected the effective achievement of the objectives of the program. The rate of utilization of palay procurement fund is low, ranging from 34.59 to 69.42 per cent with an average of 55.30 per cent for the 6-year period, from inception of the program in 2008. The remaining balance of unutilized funds was remitted back to the NFA-HO in May 2014.

34.9 **We recommended that Management:**

- a. **Require the Negros Occidental PO to assess the low NFA buying price in order to determine the appropriate increase and additional incentives that can compete with local traders;**
- b. **Require the Masbate PO to plan marketing targets more realistically to achieve accurate result specifically on palay procurement; and**
- c. **Give direction to the Cavite PO to conduct an assessment of the market and environmental resources of the province in the context of palay production and standard NFA procurement price as basis for setting realistic procurement target for the succeeding years.**

34.10 Cavite PO Management agreed to consider the recommendation during planning conference in succeeding years. Cavite Province is partly rice producing area. The 3,000 bags target was set in consideration of normal situation wherein the prevailing ex-farm palay prices are lower than the NFA buying/support price during palay harvest season. However, due to calamities and uncontrollable outside factors affecting palay production, prices offered by rice traders are higher than the NFA support price and therefore, the farmers are expected to sell their produce to traders than NFA.

34.11 Negros Occidental PO Management explained that the buying price and additional incentives approved by the NFA Council is purposely provided as a government support price for farmers to derive a reasonable return on their investment and not intended to compete with local traders and grains businessmen.

34.12 Likewise, NFA's mandate to help farmers was attained in spite of its low buying price with the ex-farm commercial price because the local farmers have benefitted from the high buying price of traders. Whenever NFA increase its support price, the private sector would also increase theirs. If ever NFA competes with the private sector which is not its mandate, consumers would be greatly affected, since if the price of palay increases, definitely there is also a corresponding increase in the price of rice.

34.13 As audit rejoinder, although it is not the mandate of NFA to compete with the private sector, however, one of its functions under the marketing strategies is the paddy procurement, which is one of the strategies of the Agency in maintaining the required levels of stocks and assuring an adequate and continuous supply of rice. Thus, **we further recommend that NFA-HO re-assess the low buying price in order to determine the appropriate increase and additional incentives to level up and or compete with local traders in order to attain its objective of providing market for farmers' produce with fair return on investment in production cost so as to encourage farmers to sell their produce to NFA.**

35. The Sultan Kudarat PO could have saved on milling cost totaling P302,732 had the 8,100 bags of palay at NFA-Lebak warehouse been milled earlier when the stocks were still nine to 10 months in storage, utilizing the Payment-in-Kind (PIK) scheme in awarding the contract.

35.1 Palay stocks at NFA-Lebak warehouse had been subjected to test milling after storage period of not less than 18 months which might have caused the non-attainment of the 65 per cent Gross Milling Recovery. As a result, another test milling was conducted which resulted in the incurrence of additional milling costs for the Sultan Kudarat PO.

35.2 Interview with concerned employees revealed that in the late 2013, when the stocks were still 10 months in storage, a successful test milling activities for regular milled rice was conducted, wherein the PIK scheme was utilized in awarding the milling contracts. Under this scheme, no equivalent expense is recorded for the by-products accruing to the Miller contractor which serves as payment for the milling contract in addition to the milling recoveries in excess of the 65 per cent milling recovery for regular milled rice in consonance with NFA SOP No. FS-FA01.B.

35.3 However, the test milling for the remaining stocks was conducted in June to August 2014 when the stocks were already 18 months old and it turned out to be a failure. The three private rice mills (Lesoa MPC, Golden Rice Inc. and NSDP) that participated in the test milling activities were not able to produce the required 65 per cent milling recovery after having made all the adjustments to their respective machines. As a result, another test milling for the remaining stocks in the same pile was conducted three months thereafter. It was participated by the same three private rice mills. Each rice mill received 2,700 bags of palay stocks for three trials or a total of 8,100 bags for the entire activity in which the Sultan Kudarat PO incurred P263,296 as net test milling fee excluding test milling recovery loss of P39,436, the amount which the PO lost due to non-attainment of the 65 per cent milling recovery.

35.4 AO-2013-L-048 dated December 3, 2013 issued by the NFA Administrator provides in part the following:

The Secretary of Agriculture noted that we still have a huge inventory of palay, therefore instruction is to mill all palay for the 1st quarter requirements. The RDs should take note of the 9-6-3 policy where palay should not be stored more than 9 months, rice should not be stored more than 6 months and brown rice and corn should not be stored more than 3 months.

MR shall be 65% for regular milled rice and 63% for well milled rice. Any deviation thereof shall be approved in Central Office both in private and NFA Mills.

35.5 Had the Sultan Kudarat PO properly monitored the palay stocks and complied with the 9-6-3 policy as prescribed under AO-2013-L-048, the 65 per cent milling recovery for regular milled rice could have been attained and the conduct of another test milling could have been avoided.

35.6 We recommended that Management require the concerned NFA officials to: (i) refrain from storing palay stocks for a long period of time before these will be subjected to milling, in order to achieve the required 65 per cent milling recoveries for regular milled rice and 63 per cent for well milled rice; (ii) strictly comply with 9-6-3 policy; and (iii) ensure proper storage keeping and monitoring of palay stocks pending actual milling.

Warehousing

36. Some warehousing policies and procedures were not strictly observed at NFA warehouses which might result in environmental and health hazards and losses due to grain damage/deterioration and theft/pilferage of stocks. Moreover, in NCR-CDO, the lease of part of Minprocor warehouse to a cooperative located adjacent to where the NFA stocks are stored with only a wire screen with canvass as divider, and without a contract executed on the lease, have exposed the stocks to possible risk of loss due to theft or pilferage.

36.1 NFA SOP No. GM-WH07 dated January 10, 1995 prescribes the warehousing policies and procedures, among which pertain to storage structure and specifications and warehouse maintenance, as follows:

- a. Custody of Warehouse
 - All laborers working and assigned in the warehouses shall be required to wear identification cards.
- b. Piling System
 - The Senior Grains Operations Officer - Warehouse Supervisor (Sr. GOO-WS) shall decide on the height of piles in terms of bags of 50 kilograms net weight capacity or the corresponding standard weight for imported cereals. Basis shall be the warehouse ceiling height and capacity. The following are sample standards which may be adopted:

- For 50-kilogram net weight capacity - 20 bags per height pile
 - A one-meter space shall be provided between piles, between piles and walls, between piles and posts to facilitate cleaning and application of pest control measures.
- c. Storage Structure and Specifications - Conventional Warehouse
- The structure must be well ventilated under normal condition. It should be provided with air vents or windows so that there is a continuous flow of air inside the warehouse.
 - Vents shall be provided near the floor level, at the top of the walls near the grit line and at the top of the roof and the ridge. When the openings are properly proportioned, the air inside the warehouse will come from the lower vents to the roof vents.
 - The flooring of the warehouse should be adequately strong. It should be free from cracks where moisture from the ground may affect the stored grains. Moisture sealing compound or asphalt should be provided to fill the floor cracks against moisture.
 - The warehouse structure should as much as possible be kept insect, rodent and bird proof.
 - To make the structure rodent and bird proof, a ¼ inch opening mesh wire shall be provided on all openings or vents and in space between the roof and the vents. If possible, the doors must be provided with screen doors aside from the regular warehouse door. This is to provide some security when warehousing activities are at its minimum.
- d. Good Warehousekeeping - Warehouse Hygiene and Sanitation
- Prior to storage, the inside and immediate surroundings of the warehouse shall first be cleaned thoroughly, free from the unnecessary materials like pieces of lumber, old machines and parts. This removes hiding and breeding places of rats, insects and pests.
 - A weekly cleaning of the top and sides of piles should be done to remove dust and webs and to eliminate the possible breeding places of rats.
- After cleaning the sides and top of the pile, the pile must be covered with mended unserviceable empty sacks (MTS) on top and at least half of the sides to protect the pile from direct attack of birds and insects.
- Unused pallets should be removed from the warehouse and kept in a separate storehouse together with other unused items.
- e. Warehouse Safety
- Necessary fire extinguishers must be furnished and all necessary steps for fire prevention taken.
- f. Stock Locator system
- An updated bin card shall be attached to every pile.
 - As stock locator card with the location code, which also serves as a bin card and stock card, shall be attached to the pile to show where every stock is stored.

36.2 Ocular inspection of some NFA warehouses revealed that the above provisions and requirements were not strictly observed by some POs, as presented in Table 51.

Table 51 - Results of Ocular Inspection of Some Warehouses

NFA ROs/POs/ District Offices	Deficiencies
NCR - CDO	<ul style="list-style-type: none"> • Personnel/laborers working at the warehouses were not strictly required to wear identification cards. As such, unauthorized persons could come in and out of the warehouses which might cause stock pilferages. • Pile levels of stocks in some warehouses were 32 to 35 layers which almost reached the roof, thus exposing the stocks to heat coming from the roof. • Vents near the floor levels were not provided to allow the continuous flow of air inside the warehouses. • The openings in the warehouses were not properly proportioned which did not allow the warm/hot air from the lower parts of the warehouses to move and be released upwards. Such condition might cause humidity that would damage the stocks. • There were cracks on the floors of some warehouses which might cause moisture to come from the ground and affect or damage the stored grains. • Doors and vents were unscreened, thus, birds and rodents entered freely in the warehouses. This caused the accumulation of warehouse sweepings and damage of stocks through the dirt and wastes of birds and rodents.
NCR - Batanes PU	<ul style="list-style-type: none"> • There were visible holes and damage in the warehouse entrance canopy which protected the wooden entrance gate of the warehouse and stocks in/out movement from rainfall. One of the canopy columns made of galvanized iron pipe was half worn out and may pose danger as it may collapse due to strong winds during inclement weather. • Hand rails of stairs that serve as passage way and connected the office to the warehouse are damaged and pose as threat to the safety of warehouse personnel. • No heat insulation foam was installed at the warehouse roofing to minimize the absorption of heat inside the warehouse that may affect the quality of rice during summer time. • There were several visible cracks on one column of the warehouse. Management informed that only the wall was detached and it was still structurally sound. • No plastic screen doors were installed in the entrance to provide additional protection to pests and rodents and to avoid further damage or corrosion to the stocks. According to Management, it already requested from NFA - NCR for the installation of screen. • There were no bin cards attached to the piles.
RO XV - Surigao del Sur PO	<ul style="list-style-type: none"> • There were leaking roofs, and stocks were allowed to be contaminated with floor dust, dead and live pests, sack threads, birds' feathers and droppings which resulted in the damage of 859 kgs or 22 bags of rice. • Walls of storeroom of GID-Duplex Warehouse were made out of woods with gaps in between causing rainwater to enter the room during heavy rains, contributing to the fast deterioration of empty sacks that are fully occupying the storeroom.
RO XV - Agusan del Sur PO	<ul style="list-style-type: none"> • Piling of stocks was not systematically arranged, thus the pile collapsed in a dispersal operation as the laborers just pulled out any sides of the piled stocks. This caused additional expenses for handling services.
RO VIII - Leyte POs	<ul style="list-style-type: none"> • In the 5 warehouses, personnel and laborers were not strictly required to wear identification cards. • Back of the warehouse is not properly secured and the fences in front and at the sides as well as the steel gate were not high enough such that people can easily enter the compound by jumping over the fence. <p>Tacloban City Warehouses:</p> <ul style="list-style-type: none"> • Pile levels of stocks in the warehouses were 35 to 39 layers which almost reached the roof exposing the stocks to heat coming from the roof. • Defective and damaged front steel door and louvers as well as the center gutter inside the warehouse.

NFA ROs/POs/ District Offices	Deficiencies
	<ul style="list-style-type: none"> • There is no ventilator installed. • No secondary screen door, keeping birds, insects and rodents freely entering inside the premises/ Stock spillages scattered on the floor area of the warehouse. • The back of the warehouse is not properly and securely fenced with high concrete fence that would serve as fire wall. • Some piles are not covered with unserviceable MTS on top or at least half of the sides to protect the stocks from direct attack of birds and insects. • Pallets are likewise not covered with jute sheets or unserviceable empty sacks. <p>Biliran Warehouse:</p> <ul style="list-style-type: none"> • The height of stock piles exceeded the standard 20 bags per pile height for 50 kgs. • Stocks and pallets were not covered with jute sacks or unserviceable empty sacks to prevent spillages of grains accumulating underneath. • Warehouse is likewise used as storeroom for documents, thereby inducing rodents and other insects/pests to breed.
RO VIII - Southern Leyte PO	<ul style="list-style-type: none"> • Main entrance of the warehouse was not provided with secondary screen door. • There is a wide opening above the canal alongside the warehouse such that rats and birds could easily go inside the warehouse. • Entrance door and second door leading to where the rice stocks are piled are not closed even when there is no warehousing operation. • Height of stock piles exceeded the standard 20 bags per pile height for 50 kgs. • Stocks and pallets were not covered with jute sacks or unserviceable empty sacks to prevent spillages of grains accumulating underneath.
RO VIII - Northern Samar PO	<ul style="list-style-type: none"> • Warehouses are not provided with secondary screen door, inducing birds, insects and rodents freely enter inside the premises. • Some piles are not covered with unserviceable MTS on top or at least half of the sides to protect the stocks from direct attack of birds and insects. • Pallets are not covered with jute sheets or unserviceable empty sacks to prevent any spillage of grains accumulating beneath. • Warehouse is not secured with high concrete perimeter fence and a portion of the warehouse is used as the residence of the Warehouse Supervisor.
RO VIII - Western Samar PO	<ul style="list-style-type: none"> • Warehouses were poorly maintained as holes in the roofing were very visible and there were birds on the trusses which entered the premises through the air vents.
RO IX – Zamboanga City	<ul style="list-style-type: none"> • Pile levels of stocks in Warehouse A, B, C, D and GID were 35 to 39 layers which almost reached the roof. • No updated stock/bin cards were attached per pile in some warehouses to show the variety, quantity, condition, age, moisture content and pertinent quality assurance activities performed on the stockpile. • Roof leaks in Warehouse D and cracks or destroyed flooring in GID warehouse were not repaired. • Spillages were not immediately collected, sacked and cleaned from vacant pallets in GID Warehouse. • Palay spillages in GID warehouse due to damaged or gnawed containers caused by birds attack were left unattended and containers not mended at the time of inspection. • The expiration date of fire extinguishers refilled on September 4, 2010 was not indicated, and the units were placed in a location that could not easily be accessed in case of fire incident. • The required use of dust mask by all personnel exposed to warehouse operations including Job Orders was not strictly imposed.

NFA ROs/POs/ District Offices	Deficiencies
RO III - Zambales PO	<ul style="list-style-type: none"> • Some screen windows were partially damaged, while others were totally damaged. • One of the two doors was permanently closed and there was no screen door. • The roofing was not properly and adequately secured to the roof frames. Gutters were partially damaged and have many leaks/holes, which are hazardous to the stocks comes the rainy season. • The trusses of canopy are about to fall. • The warehouse is not conducive place for storing stocks due to its present condition. • The rented Maroske Warehouse has limited windows, lacks screen door and the structure was designed for palay milling purposes only. • Bin cards are not updated and not attached to the piles, specifically in Maroske Warehouse, while the bin cards tagged to the piles in GID Iba were full of dust which makes the balances unreadable.
RO III - Bataan PO	<ul style="list-style-type: none"> • At GID 1 & 2 Warehouses, there were cracks and holes on the floor, which may affect the quality of grains being stored due to moisture coming from the grounds. • Rented Global 1, 2 & 3 warehouses are poorly ventilated and lack screen door.
RO I - La Union PO	<ul style="list-style-type: none"> • Stock book/s and bin cards were not updated and not attached to the piles. • There were cracks on the floors which might cause moisture to come from the ground and affect or damage the stored grains.
RO IV - Palawan PO	<ul style="list-style-type: none"> • Pile levels reached the roof and the one-meter space was not provided; Rice stored was in excess of the capacity of the warehouse. • Bin cards were not updated and not attached to the piles. • No heat insulators to mitigate unfavorable effect of rising temperature. • There is no separate storage/building for brand new and second hand sacks as well as used/broken and unused pallets for all three warehouses. Some were stored inside the warehouse. • Office of the warehouse personnel is located inside the warehouse which also can be source of contaminants to stored rice stocks upon entry of customers or other individual during stock withdrawal or other warehousing activity. • Unused and unclean machineries were found with a lot of dust at the warehouse which might be the hiding and breeding place of pests.
RO IV - Mamburao PO	<ul style="list-style-type: none"> • Roof of warehouse is poorly maintained and stocks inside the warehouse are covered only by rubberized canvass which may not be sufficient to shield all the stock piles of inventories of grain in case of heavy rains.
RO II - Isabela PO	<ul style="list-style-type: none"> • The galvanized sidings had numerous holes that allowed entries of insects, birds and even rodents, and could no longer protect the warehouse because of its deteriorating appearance. • Several warehouses had leaks on the roofs; hence, very big burlaps were spread to protect the sacks of grains/palay piled in the warehouse. • Most louvers including those secondary doors were not screened and/or had destroyed screen. • Most warehouses had cracked floorings or the outer phases of the cemented flooring were removed. • Outside the warehouse showed some fixed glass windows broken, several ceilings were left hanging, gutters were hanging and disaligned, downspouts were disaligned. • Door barrels were disaligned and all doors remained unlocked.

36.3 In Agusan del Sur PO, due to the failure of the Warehouse Supervisor to closely monitor the quality/condition of stocks, as of December 31, 2014, RD1 local rice of 14,820 bags or 741,000 nkg were already discolored, a sign of deterioration which needs immediate attention to avoid further loss or wastage, contrary to NFA SOP No. GM-WH07.

36.4 Apparently, there was laxity in enforcing compliance with the SOP provisions by concerned warehouse personnel. Non-adherence to warehousing procedures could result in environmental and health hazards and losses due to grain damage/deterioration and theft/pilferage of stocks. Moreover, the low stocks level could not be readily determined at any given time if the required updating of stock/bin cards is not complied with.

36.5 Moreover, part of the NCR-CDO's Minprocor warehouse is being leased by a cooperative at monthly rental fee of P14,226 since 2005 without a contract of lease. It was observed that only a wire screen with canvass separated the area of the cooperative from where the NFA stocks are stored. The top of the wire screen (with canvass) divider is open. Such conditions expose the stocks to possible risk of loss due to theft or pilferage. The annual income of P170,712 derived from the lease cannot compensate for the loss of stocks which might occur.

36.6 **We recommended that Management require all personnel concerned to:**

- a. **Address the deficiencies noted on warehouse custody, piling system, storage structure and specifications, good warehousekeeping, warehouse safety and maintenance of warehouse records; and henceforth, strictly comply with the provisions of NFA SOP No. GM-WH07;**
- b. **Direct the Warehouse Supervisor to faithfully perform his mandated duties and responsibilities so that government properties are safeguarded against loss or wastage; (Surigao del Sur)**
- c. **Transfer the fire extinguishers to a location that could be easily accessed in case of fire incident and inquire from the supplier of the fire extinguishers the expiry dates of the contents; otherwise, request for refilling or replacement of the contents; (Zamboanga PO)**
- d. **Require the Warehouse Supervisor to update the bin cards and attach them to the piles to ensure efficient and effective way of determining the balances of the stocks on hand; (Zambales PO, La Union PO, Batanes PU)**
- e. **Exert best effort to expedite the realization of construction of NFA Warehouse in the Municipality of Coron and while awaiting the construction of the said warehouse, institute measures to prevent congestion of stored rice stocks to prevent possible damage or losses; (Palawan PO)**
- f. **Adopt sales strategies to fast track the disposal of the deteriorating stocks to avoid loss or wastage; and (Agusan del Sur PO)**
- g. **Cancel the lease of the cooperative of the space at Minprocor warehouse to provide more storage space for NFA stocks, instead of leasing another warehouse, to prevent possible loss of stocks and avoid the consequence of leasing property without a covering contract. (NCR-CDO)**

36.7 Management provided the following comments/explanations:

a. NCR-Batanes PU - The Office has limited budget allotment. It has included the dilapidated canopy and secondary screen door in the 2014 Repairs and Maintenance (RMT) projects and due for implementation, but the funds is still to be remitted by the NFA-HO. The heat insulation foam will be included in future RMT proposal. The immediate remedy on the hand rail will be imposed while the cracked portion of the wall was patched with cement.

b. Surigao del Sur PO - The NFA GID Mangagoy Warehouse is now undergoing re-roofing. For the Cantilan Warehouse, considering the location, it could hardly control the rodents due to its location which is in the middle of the rice field.

c. Palawan PO - It is already in the process of preparing documents to support the 3,000 square meters lot being donated by the Local Government Unit of Coron as site of the proposed 30,000 capacity NFA warehouse, and has requested assistance from the Regional Office (RO) for the proposed warehouse.

On the issue that the stored rice exceeded the warehouse capacity - The market situation in the Municipality of Coron had been vulnerable since typhoon Yolanda brought damage to the place. The food security level must be warranted to allay fears of consuming public. This necessitated the periodic stock transfer which must comply with the Restrictions of RA No. 9184. Barging of stocks will be too costly if barges with lesser capacity will be used; thus, 25,000 to 30,000 bags capacity barges plying the route of Batangas to Coron were often nominated during bidding.

The declared effective capacity of Pascual Warehouse is 15,000 bags considering the space to be provided for pest control application. However, if the space will be maximized, the warehouse can accommodate up to 25,000 bags including the canopy which can be used for outside piling. The stocks piled outside most often last for only a week or two. The turnover of stocks in Coron is quite fast compared to that in the mainland. One factor is the very limited palay production of the Island that NFA's intervention is really needed.

On the absence of updated bin cards - This has been discussed and explicitly explained to all Warehouse Supervisors and a memorandum has been circulated for strict compliance.

On heat insulators - These were not considered during the construction of the warehouses, but will be considered in future construction and re-roofing of NFA warehouses. The Warehouse Supervisors are instructed to open doors as frequently as possible for the proper aeration of stocks.

d. Mamburao PO - It had already requested funds for the repair of the roof of the GID Warehouse Mamburao.

e. Leyte PO - It had already coordinated with the representative of the Handling/Hauling Service Contractor regarding the wearing of identification cards of their laborers.

On the stockpiling at Hong leased Warehouse and GID Port Area Warehouse - Due to lack of warehouse space after the occurrence of super typhoon Yolanda and the total wreckage of GID Main Warehouse and Duplex Warehouse in Alang-Alang, Leyte, the heights of the piles were increased/maximized in order to accommodate incoming rice shipments.

As to the absence of secondary screen door at Hong Warehouse - It is only a leased warehouse. However, it committed to negotiate with the lessor on the provision of the secondary screen door. The PO had no more sakolinas and unserviceable MTS to be used in covering the pallets and train stocks and sakolina requirements will be included in next years' procurement.

The remedial repair at GID Port Area Warehouse was undertaken in 2014 including the provision of rotating ventilators. However, the 10 rotating ventilators were damaged and blown away by strong winds brought by typhoon Ruby. The damages including the repair of the defective front steel door are already due for correction and rehabilitation.

With regard to the heightening of the perimeter fence at Port Warehouse - Several requests were already made to the RO, but same was not included in the Regional Bids and Awards Committee's priority projects for 2015. NFA Leyte PO had committed to comply with the requirements under the governing SOP and will address the deficiencies noted.

f. Biliran PO - The grains scattered was due to the movement of withdrawals issued to the retailers. After each transaction, these were immediately gathered. The cause of too much spillage was due to torn portion of the most number of bags due to hooks used by the source region during their loading operations to the vessel.

Due to the volume of stocks coming from other regions, the piling is maximized to as much as 30 to 33 layers pile in order to accommodate stocks with same variety. Request for rehabilitation of canopy lightings around the warehouse was made and the same was included in the 2014 Project Procurement Management Plan (PPMP) and requirements for the implementation of the project proposal was already submitted.

g. Southern Leyte PO - The wearing of identification cards by the laborers at the warehouses was implemented sometime in the 1980s. But since there are only about 4 to 10 laborers who regularly handle rice distribution, their faces are already familiar not only with the Warehouse Supervisor but also with the NFA employees.

The canals alongside the warehouse were not provided with covers as they are only used as drainage canal and not as sewerage system where waste water/matter and other refuse were drained out. There is no waste material that rats can devour.

h. Western Samar PO - The NFA RO Engineer had already prepared the cost estimates for the reroofing of the Catbalogan GID Warehouse and the necessary documents had been submitted by the PO to the RO last March 2015.

i. Zamboanga PO - The standard piling is always observed when there is enough area or warehouse capacity for storage; however, in times of big volume of stocks due to scheduled inflow of imported rice, height of piles is increased to more than 25 layers to accommodate the incoming stocks instead of leasing private warehouses which will be costly on the part of the PO. The system of piling is temporary since stocks are transferred to other provinces in the region thru dispersal operations.

37. In NFA-Cavite PO, fillers of 2,562 bags of rice remained unaccounted as at year-end and the reporting of “two moves” in the Warehouse Stock Issues (WSIs) of 702,897 bags issued instead of “one move,” resulted in handling cost of P5.131 million instead of P2.566 million for only “one move” contrary to existing NFA SOPs. These affected the reliability of stock reports and the balance of stocks as at a given period, and when undetected and unresolved, encourage fraudulent acts by personnel at the warehouses.

Unaccounted filler transactions

37.1 In 2014, the NFA-Cavite PO warehouses had total goods available for sale of 978,177 bags of rice based on Warehouse Stock Receipts (WSRs) and issuances of 723,863 bags per WSIs, leaving a balance of 254,314 bags at year-end. The total issuances included sales of 702,633 bags and NFA employees’ rice allowance of 264 bags. These stocks were presumed to have been weighed at the warehouses’ platform scale as pertinent WSIs were all stamped with “two moves,” i.e., from pile to platform scale, to delivery truck of the buyer. Table 52 shows the rice issued in bags and average nkg based on WSIs and stock reports.

Table 52 – 2014 Rice Issuances Showing Average Net Weight in Kilograms

Transactions	WH Code	WSI No.	Bags	Net Kgs	Ave. Nkg/Bag
Sale on 9/12/2014	1350	2648151	216	10,820.00	50.0926
Sale on 12/19/2014	1304	2948956	323	16,156.00	50.0186
Sub-Total			539	26,976.00	
All other Sales	1304/1350	Various	702,094	35,104,700.00	50.0000
Total			702,633	35,131,676.00	

37.2 Verification disclosed that the average nkg per bag based on WSIs differed with the actual average nkg based on WSRs by 0.1822 nkg per bag or a total of 128,116.06 nkg for the issuances of 702,897 bags, equivalent to approximately 2,572 bags (excluding spillages and moisture losses) which should have been reported as fillers, as shown in Table 53 (next page).

37.3 It was noted, however, the copies of WSIs and Authorities to Issue (AIs) revealed that only a total of 816-bag filler transactions were reported by the three NFA-Cavite PO warehouses during the year.

**Table 53 - NFA Cavite PO & JY & Sons Warehouses-
Difference between 50-kg and Ave. Nkg**

Particulars	All Cavite PO Warehouses			JY & Sons 3 Warehouse		
	Bags	Ave. Nkg	Nkg	Bags	Ave. Nkg	Nkg
Total Sales based on WSIs	702,897	50.0000	35,144,876	519,779	50.0000	25,988,970
Total Sales Based on Ave. Net Kgs (per WSRs)	702,897	49.8178	35,016,760	519,779	49.8087	25,889,493
Difference in Ave. and Net Kgs		0.1822	128,116		0.1913	99,477
Equivalent in Ave. Nkg per bag (128,116 nkgs/ 49.8178 nkgs & 99,477 nkgs/ 49.8178 nkgs)			2,572			1,997
Equivalent No. of bags in 50-kg/bag			2,562			1,990

37.4 In JY & Sons 3 Warehouse alone, the WSI transactions likewise showed difference of 0.1913 nkg per bag, or a total of 99,477 nkgs, equivalent to 1,997 bags that should have been documented and reported as fillers. Furthermore, analysis disclosed unrealistic reported ending inventory balance of local rice at 1,060 bags with average nkgs of 229.02 and Vietnam Rice of 273 bags with average nkgs of negative 112.00, with only 568 bags filler transactions reported by the Warehouse Supervisor. The lease with JY & Sons 3 Warehouse was terminated at the end of 2014.

37.5 The requests by the concerned warehouse for preparation of AI to document the emptied sacks, and the Statement of Filler Stocks Issued by the concerned Warehouse Supervisors and duly approved by the Provincial Manager revealed that only the total volume of filler stocks was specified. It did not present a list of WSIs with corresponding volume of stocks in nkgs of the filler transactions. Apparently, the 816 bags filler transactions from Cavite PO warehouses did not comply with the NFA guidelines that the original WSI for sales activity includes only the quantity in kilograms and the bag portion indicates the word, "filler," instead, the WSIs for Sales activity indicated that all bags weighed at 50 nkgs each. Likewise, the NFA SOP requiring the preparation of WSI for filler transaction at the end of every month was not complied with. As such, there was no audit trail to trace the WSI-Fillers to the WSI-Sales original activity, casting doubt on the accuracy and completeness of the reported transactions.

37.6 Also, there were noted delays in reporting filler transactions ranging from one to 11 months. At the General Trias warehouse, there were 34 bags of filler stock transactions on local rice in November 2013, but was recorded only in November 2014 or delayed by 11 months based on AIs issued in December 2013.

Indication of padded handling costs

37.7 Verification of stock issuances for the months of April to June 2014 disclosed that all WSIs indicated handling at "two moves." However, reporting a 50-nkg per bag in the WSIs could not justify the handling cost of "two moves" equivalent to P5.131 million for 702,897 bags at P3.65 per move, per bag. The handling of "two moves" may have been padded as weighing at the platform scale may have been waived by the accredited retailers. The padded additional "one move" was equivalent to handling cost of P2.566 million (702,897 x P3.65). Payments made as of December 2014 covered only handling costs as of October 2014.

37.8 The NFA policies, procedures, documentation and reporting system of warehouse operations, specifically, NFA SOP Nos. GM-WH07 dated January 10, 1995 and GM-WH11 dated February 15, 2001, emphasized the weighing of stocks, both on

receipts and issuances. Also, AO-2K3-05-008 on "Weighing of Stocks and Payment of Handling Claims" issued on May 13, 2003 provides that:

II. IMPLEMENTING GUIDELINES

X X X.

I. WEIGHING OF STOCKS

One hundred percent (100%) weighing of stocks may not be undertaken for the following transactions:

- A. *ISSUANCE OF RICE ALLOWANCE OF NFA PERSONNEL*
- B. *ISSUANCE OF RICE ALLOWANCE OF SOLDIERS UNDER EO 88*
- C. *ISSUANCE OF STOCKS TO RETAILERS, WHOLESALERS AND INSTITUTIONS*

1. Weighing or non-weighing of stocks shall be mutually agreed upon by the WS II and the receiving party (buyer or his/her representative). Either may insist to weigh all the stocks prior to issuance.

2. The WSI issued to a buyer or his/her representative who agreed not to have the stocks weighed shall be stamped with "1 move" while the WSI issued to a buyer whose stocks were weighed shall be stamped with "2 moves" on all copies of the document.

3. WSIs stamped with "1 move" shall still bear the name and signature of the person who checked the stocks on the Checked/Weighed by portion of the document. He/she shall however cross out "weighed" since no weighing was undertaken.

4. The Warehouse Supervisor's signature on the Certified Correct portion of the WSI shall mean that he/she certifies to the correctness of all entries in the WSI, including weighing or non-weighing of the stocks issued, and consequently to the number of moves indicated therein. (Underscoring supplied)

37.9 The unaccounted filler transactions and perpetration of padding handling cost manifested breakdowns of significant controls in warehouse operations which resulted in erroneous stock reports and inaccurate balance of the stocks in any given month. These encourage fraudulent acts by warehouse personnel if undetected and unresolved.

37.10 We recommended that Management require the Cavite PO to strengthen monitoring controls on warehouse operations, and undertake the following:

- a. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse at the end of the year;**

- b. Investigate the accuracy of reported 816 bags filler transactions and recommend for appropriate sanction on erring Warehouse Supervisors, as warranted;**
- c. Evaluate existing control activities in warehouse operations, including documentation and reporting, and institute additional controls, if necessary;**
- d. Strengthen monitoring of warehouse operations, such as installation of closed-circuit televisions (CCTVs); and**
- e. Initiate investigation to determine the personnel responsible for possible fraudulent activities so that appropriate measures can be implemented and those found guilty shall be dealt with accordingly.**

37.11 Cavite PO Management commented that fillers issued to its clients with unserved kgs were all indicated in the WSI Sales original activity. It admitted the failure of the Warehouse Supervisors to prepare the Report for Fillers and its documentation on time. The computed average weight for JY & Sons 3 Warehouse of 49.8087 per bag does not denote that all bags received weighed the same. Weight per bag may differ as rice is weighed in ten bags per weighing and therefore, those weighing the standard weight of 50 kgs need not be issued fillers. The difference of 99,477 nkg particularly from JY & Sons 3 Warehouse could be accounted for as:

- a. Issuances of fillers from various WSIs with total of 568 bags;
- b. Emptied sacks of local and Vietnam rice with total of 1,060 and 273 bags, respectively, were issued fillers and re-sacking of busted bags, however not documented;
- c. Losses due to shrinkage as effects of fumigants applied every quarter for pest control; and
- d. Losses due to birds and rodents.

37.12 In addition, it could not be assumed that weighing at the platform scale of all the rice issuances were not undertaken since the WSIs indicated 100 per cent weighing and even reflected issuances of fillers. Cavite PO Management has always emphasized to all Warehouse Supervisors through memorandums and during meetings to strictly adhere to NFA's rules, regulations and procedures on warehousing operations, such as proper documentation, reporting system, timely submission of reports and good warehousing keeping.

37.13 As audit rejoinder, the Audit Team's verification and analysis were based on warehouse reports and 100 per cent data on WSRs and WSIs, computed based on average weight for the year. We disagree with the above comments on the difference of 99,477 nkg in JY & Sons 3 Warehouse, as this could increase if Management take into account the losses due from shrinkages and other mentioned causes.

37.14 The computed average weight of 49.8078 nkg per bag should not be construed that the bags were of the same weight; this is an analysis on a macro level which was compared with the issuances at 50 kgs per bag. With the total filler transactions of only 816 bags for all of Cavite PO warehouses, approximately 2,562 bags remained unaccounted as at year-end.

37.15 The observation on the perpetration of padding handling cost is a red flag for non-conduct of 100 per cent weighing of issuance of stocks; as such, in the absence of other verifiable documents such as WSIs for filler transactions, the situation need regular and immediate verification of warehouse data, reports and documents. It has been noted in our interview with some accredited retailers that they opted to forego the required 100 per cent weighing per their request; however, there was warehouse document on file which indicated handling with only “one move.”

37.16 We further recommend that Management encourage the accredited retailers to have all their rice stocks purchases be weighed 100 per cent at the warehouses; otherwise, written waiver from the concerned accredited retailer(s) be required to document such non-compliance with the required NFA guidelines.

38. The inventory of 122,109 pieces of second hand and unserviceable empty sacks (MTS) in GID Alegria, Cantilan and Duplex Warehouses of NFA Agusan del Sur and Surigao del Sur POs were not properly managed, as these are exposed to various elements resulting in further deterioration or insect infestation to rice, thus affecting the quality and appraisal value of the MTS and rice stocks in the warehouse.

38.1 NFA SOP No. GM-WH07D.2 provides, among others, that MTS should be stored in a separate storehouse if not required immediate use, and unserviceable MTS be disposed immediately to avoid further deterioration as well as to generate benefits to the Agency to attain higher appraisal value.

38.2 On the other hand, NFA SOP No. GM-DS01.C requires that a periodic reclassification of MTS shall be done to coincide with the semi-annual inventory count of stocks and MTS during the months of March and September each year.

38.3 Meanwhile, Section 79, PD No. 1445 expressly states that *“When government property has become unserviceable for any cause, or is no longer needed, it shall upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and, if found to be valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction x x x.”*

38.4 Ocular inspection/physical inventory of MTS in the warehouses of NFA Agusan del Sur and Surigao del Sur POs revealed that there were 122,109 pieces of second hand and unserviceable MTS, as presented in Table 54.

Table 54 - Second Hand and Unserviceable MTS

Warehouse	Quantity (Pcs.)	Remarks
GID Alegria, Agusan del Sur	95,890	Second hand and unserviceable
GID Cantilan, Surigao del Sur	419	Unserviceable
GID Duplex Tandag, Surigao del Sur	25,800	No classification
Total	122,109	

38.5 In GID Alegria Warehouse, there was no separate bodega for the second hand and the unserviceable MTS. These were just placed near the rice stocks pile. In effect, insect infestation occurred on the stock piles which caused fast stock deterioration and loss on the part of the government.

38.6 In GID-Cantilan Warehouse, there were 419 pieces of unserviceable MTS which were kept in an open shed outside the warehouse. The said inventories were exposed to various elements such as dirt, bird feathers as well as chicken dung that lead to their fast deterioration. Management needs to follow proper disposal procedures expressly stated in Section 79 of PD 1445.

38.7 On the other hand, in GID Duplex Tandag Warehouse, 25,840 MTS comprising of 38 pieces PPMG50 and 25,802 pieces PPRE50 were not classified as to serviceable or unserviceable for two (2) years. The Audit Team experienced difficulties in the inventory since the store room was fully occupied with MTS which were tied with twine in bundles from the milling. Another store room was open and it was observed that the walls were made of woods with gaps in between, thus, water may enter the room during heavy rains contributing to MTS fast deterioration. Interview with the Warehouse Supervisor revealed that these second hand MTS which were originally used in the procurement of palay in 2009 to 2013 were from milling in 2013. The reclassification of MTS was conducted last 2011. Had Management observed proper procedures on the disposal, additional revenue could had been generated in 2014 from proceeds of sale.

38.8 We recommended that Management require the Warehouse Supervisor of Agusan del Sur and Surigao del Sur POs to:

- a. Strictly adhere to the provisions of NFA SOP No. GM-WH07D.2 on the proper handling of MTS and Section 79 of PD No. 1445 in order to effectively and efficiently utilize government resources; and**
- b. Conduct periodic reclassification of MTS; place MTS which are still serviceable in a separate storeroom; and dispose immediately those unserviceable MTS to avoid further deterioration (Surigao del Sur PO).**

38.9 Management of Surigao del Sur PO provided the following comments:

- a. For the 419 pieces of MTS, it was advised by the RO to transfer the unserviceable empty sacks to NFA-Agusan del Sur in order to create one large quantity to attract prospective buyers.
- b. As to the 25,800 pieces of MTS, it has already instructed the Warehouse Supervisor on the reclassification of MTS and this was also documented through Sack Issuance Authority (SAI) No. 011 dated February 12, 2015. The

reclassification of second hand MTS was already done and 5,500 pieces MTS PPMG50 were classified as serviceable and 20,350 pieces PPMG50 as unserviceable. Inventory and Inspection Report were already made by the Warehouse Supervisor.

39. Advance technology like closed-circuit televisions (CCTVs) and structures such as watch towers, bridges and safety nets/screens were not installed to monitor the warehousing activities and protect the stocks from birds, insects and rodents.

39.1 As mentioned in NFA SOP No. GM-WH07 dated January 10, 1995 on warehousing, the proper management of stocks in the national economy rests on the handling and preservation of quantity and the quality of grains stored in the NFA warehouses under the direct responsibility of the Sr. Grains Operations Officers-Warehouse Supervisors (Sr. GOOs-WSs).

39.2 Likewise, Section J (Inventory Maintenance and Accountability) of the abovementioned SOP states that:

X x x. Goods received by a warehouse must be in storage in the warehouse unless disposed of by authorized and acceptable means. Inventories do not just vanish without a valid explanation. Reasons may be undesirable such as theft, fire and shrinkage through chemical processes. A certain amount of loss through undesirable reasons may be considered justifiable in some cases but this does not give an excuse for the Sr. GOOs-WS responsibility for the losses on the affected inventories.

39.3 In keeping with NFA's functions of preserving quantity and quality of grains in warehouses and avoiding loss of stocks through undesirable reasons, advance technology such as CCTVs and other structures, i.e., watch towers, bridges and safety nets/screens become useful tools in preventing theft and pilferage and damage of stocks caused by birds, insects and rodents. However, the CCTVs and structures were not installed to monitor warehousing activities/protect stocks inside the warehouses.

39.4 The causes and/or reasons for the incurrence of stock shortages by WSs and Sr. GOOs could not be accurately determined, not even documentary evidence such as Stock Inventory Reports could sufficiently prove the cause(s) of the stock shortages. The recording of the activities in the warehouses through the use of CCTVs would help in the identification or detection of any undesirable actions of inside and outside forces with ill motives.

39.5 A case in point is the disclosure of 4,751 kgs or 95 bags of warehouse and under pallet sweepings as of December 31, 2014 in the Provincial Quality Assessment Report of the Acting Provincial Quality Assurance Officer of NFA Leyte PO (PSQAO). This deficiency however was not reported in the Weekly Stock Reports for December 1-31, 2014. Had appropriate structures been installed in the warehouse, the cause(s) of the loss and sweepings would have been identified and correspondingly corrected.

39.6 In NCR-CDO, a total of 3,838 bags of sweepings and partially or totally-damaged stocks in some warehouses as at year end were noted. The presence of birds, insects and rodents inside the warehouses because of unscreened doors and vents mainly caused the incurrence of sweepings and partially or totally-damaged stocks.

39.7 We recommended that Management consider the installation of CCTVs and necessary structures at NFA warehouses, and in the case of leased warehouses, the inclusion in the terms and conditions of the lease contracts as to the provision of the same equipment and structures.

39.8 Management's comments/explanations are as follows:

a. NCR-CDO - The utilization of CCTVs for GID warehouses will be recommended to higher management. This would be included in its request for Capital Outlay for the coming year. In the case of leased warehouses, the terms and conditions of the lease contracts would be included in the Terms of Reference (TOR) and contracts should be amended by the Department of Legal Affairs to include provision for CCTV in the warehouse.

b. Leyte, Southern Leyte and Western Samar POs -

The provisions for the CCTV in all NFA warehouses have been suggested for incorporation and as a requirement in the bidding for Security Services, but it did not materialize. However, the same will be included in the Project Procurement Management Plan/Annual Procurement Plan (PPMP/APP) for year 2016.

NFA Leyte PO likewise informed that the pallet sweepings of 4,751 kgs or 95 bags reported in the Provincial Quality Assessment Report of the Acting PSQAO were stocks submitted for laboratory analysis and only upon receipt of the laboratory result shall the request for reclassification be jointly signed by the WS and the PSQAO, and only upon approval of the reclassification that the sweepings will be reported in the Weekly Stock Report of the WS. The stocks were reclassified only on January 14, 2015. Nevertheless, Management stated that the recommendations are well taken and it will take measures to address the deficiencies noted.

39.9 As audit rejoinder to the comments of NFA Leyte PO Management, the huge quantity of unreported under pallet sweepings is unusual; hence, the same cannot be considered as stocks for laboratory analysis. Only samples of stocks are taken for laboratory analysis. The sweepings are warehouse sweepings or spillages which are to be immediately collected, sacked and piled separately or cleaned and added to busted bags. As provided in the SOP for Warehousing, only stocks found to be damaged shall be reclassified due to the change in its stock condition.

40. In Palawan PO, the storage fee amounting to P0.872 million due from the Provincial Government of Palawan for stocks already withdrawn, remained uncollected as of December 31, 2014, depriving the PO of the amount which could have been used for its daily operation.

40.1 Item II.G.6 of NFA SOP No. GM-DN09.A dated November 20, 2006, entitled Amendment to SOP on Rice and Corn Grits Distribution and Retailing Policies and Procedures, provides, among others, that the *“Buyer shall be required to withdraw all their stock purchase within a specified number of days after issuance of Authority to Issue (AI). Initial withdrawal shall be made immediately on the following working day reckoned from the date of AI. Buyers who fail to withdraw the stocks within the specific period for reasons not attributable to NFA shall be charged a storage fee of P0.50/bag/day corresponding to the number of days their stocks are stored at NFA warehouse after the lapse of the specific withdrawal period. The Warehouse Supervisor shall monitor the dates of withdrawal thru the Warehouse Stock Issue (WSI) and shall withhold issuances pending the payment of storage fees.”*

40.2 Of the 9,215 total bags purchased in the name of different private entities coursed thru the Provincial Government of Palawan (PGP) in December 2013 intended for the victims of super typhoon “Yolanda,” 7,211 bags of Regular Milled Local Rice (RD1 LR) variety in the amount of P9.735 million were not immediately withdrawn, thus incurring storage fee of P0.50/bag/day in the total amount of P0.872 million. Rice was allowed to be continually withdrawn in spite of non-payment of the storage fee. The withdrawal lasted until December 2014 for total bags of 6,826.

40.3 According to Management, the RD1 LR variety allocation for PGP was replaced with VCCW IR variety in order to avoid deterioration of the latter variety in view of prolonged storage. Management officially informed the PGP about the replacement in rice variety, wherein the latter confirmed the said notification. It admitted to have failed to fully enforce the abovementioned SOP for possible adverse consequences, and instead intensified their collection effort on the uncollected storage fees through the sending of letters to the PGP.

40.4 **We recommended that Management require the Palawan PO to:**

- a. **Exert effort to collect the storage fee due from PGP amounting to P0.872 million. Henceforth, adhere with Item II.G.6 of NFA SOP No. GM-DN09.A regarding the imposition of storage fee; and**
- b. **Instruct the Ws to monitor the WSIs and withhold issuances of rice pending payment of storage fees.**

40.5 Management commented that collection effort was undertaken. The PGP has requested for the waiver or condonement of storage fees, citing the purchase was made not for business but for relief operations. This was endorsed to the Regional Director for evaluation and consideration and will inform COA of whatever the Regional and HO’s feedback on the matter.

40.6 As audit rejoinder, collection of storage fees for unwithdrawn stocks will encourage the buyers to immediately withdraw the stocks to save on warehousing cost, and that rice stocks as aid to calamity stricken communities are delivered within reasonable time. **We further recommend that Management include as one of the provisions in the MOA the collection of storage fees upon failure of the buyer to withdraw the stocks within the specified time; and to revisit SOP on the withdrawal of rice stocks, particularly on the storage fees for long unwithdrawn stocks intended for calamity victims.**

Rental of NFA-Head Office (HO) Space

41. For the past 36 years or from 1979 to 2014, a total of P801.095 million had been spent for the lease of buildings for the NFA-HO due to lack of continued effort to implement the proposed construction of the building. This amount could have been utilized to construct NFA's own building and the use of its own lot could have been maximized.

41.1 At present, the NFA is renting office spaces in the buildings owned by the Sugar Regulatory Administration (SRA). For the past 36 years, it has been renting office spaces for its HO. Based on the data gathered, it had incurred rental expenses in the total amount of P801.095 million from 1979 to 2014, as presented in Table 55.

Table 55 - NFA HO Rental Cost from 1979 to 2014

Year	Location	Monthly Rate	Total Rental Cost
1979-2005	Matimyas Bldg.	P 453,476 - P 3,748,305	P 572,025,687
2006	Matimyas Bldg. and SRA Main and Medical Bldgs.	53,698 - 3,319,767	31,984,287
2007- 2014	SRA Main and Medical Bldgs.	53,698 - 1,502,345	197,085,486
			P 801,095,460

41.2 It is noteworthy to mention that the NFA had already initiated the construction of its HO building based on Memorandum IDM'12 FSC-AFSD-06-069 dated June 18, 2012 of the then General Services Department (GSD) Manager to the Executive Committee (EXCOM) informing the latest report of the Ad Hoc Committee on the proposed construction of the HO Building at Visayas Avenue compound. The Memorandum likewise mentioned that the proposed project had been conceptualized as early as in 1997.

41.3 However, there is lack of continued effort to have the proposed project to materialize considering the lapse of time since 1997. To date, there had been no action undertaken by the NFA Management on the report submitted by the Ad-Hoc Committee. The aggregate amount paid for the rental expenses could have been utilized to construct its own building on a property owned in Visayas Avenue, Quezon City.

41.4 We recommended that Management continue the initial effort undertaken for the construction of the proposed NFA-HO building in order to maximize the utilization of its own property and prevent the incurrence of rental expenses. Evaluate the report of the Ad Hoc Committee to determine the necessary steps to be taken for the eventual implementation of the project taking into consideration, among others, the NFA-HO's present manpower and organizational set up.

41.5 Management informed that the Ad Hoc Committee has submitted its final report to the Administrator and EXCOM members for the proposed construction of NFA-HO building at NFA Compound, Visayas Avenue, Diliman, Quezon City, in the amount of P476 million. The said project was already approved in principle and the required budget is to be included in the 2016 Corporate Operating Budget (COB) of NFA. It will be presented to the NFA Council after some adjustments of space estimates and utilization.

COMPLIANCE WITH TAX LAWS

42. Management properly withheld the required Percentage/Final, Expanded Value-Added Tax and taxes on compensation income from the purchase of goods and services and salaries of officials and employees and remitted promptly and intact to the Bureau of Internal Revenue (BIR) in 2014 thus, helping the government to collect funds needed for its operations. Total taxes withheld amounting to P454.391 million were remitted within the period prescribed by the BIR regulations.

COMPLIANCE WITH RA 8291 ON PROPER DEDUCTION AND REMITTANCE OF GSIS PREMIUMS

43. For 2014, the NFA complied with the requirements on the deduction of the Government Service Insurance System (GSIS) premiums from the salaries of its officials and employees and the remittance of the same to the GSIS. The balance of P4.641 million of Due to GSIS account as of December 31, 2014 represents unremitted premiums deducted from the December 2014 salaries of NFA officials and employees. The said amount was remitted in January 2015.

GENDER AND DEVELOPMENT (GAD)

44. The allocation for GAD programs/activities of P6.308 million for CY 2014 constitutes only 0.06 per cent of the NFA's total budget, instead of the required minimum of five per cent, or deficient by P527.248 million, contrary to the pertinent provisions of the Fiscal Year (FY) 2014 GAA and DBM/NEDA/PCW Joint Circular No. 2012-01. Moreover, programs/activities in the 2014 GAD budget were not fully implemented; thus, there is no assurance that gender issues during the year were fully addressed, while intended beneficiaries were deprived of the expected benefits.

44.1 Section 33 of the General Provisions of GAA for FY 2014 provides, among others, that all agencies of the government shall formulate a GAD Plan designed to address gender issues within their concerned sectors or mandate. The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five per cent of their budget.

44.2 Likewise, the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM) Joint Circular No. 2012-01 prescribes the guidelines for the preparation of Annual GAD Plans and Budgets and Accomplishment Reports to implement the Magna Carta for Women. Among the guidelines are the following:

- a. GAD planning and budgeting shall be conducted annually as part of all programming and budgeting exercises of agencies. The programs, activities and projects (PAPs) in the GAD Plan and Budget (GPB) shall be included in the agency budget proposal and they shall be reflected in the Annual Work and Financial Plan (WFP) of concerned offices or units within the agency or department. (Item 3.2)

b. The GAD Budget, which is the cost of implementing the GAD plan, shall form part of, and is not in addition to the agencies' approved budget. (Item 3.3)

c. At least five percent of the total agency budget appropriations authorized under the annual General Appropriations Act (GAA) shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO) and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations. (Item 6.1)

44.3 Under Part V of COA Circular No. 2014-001 dated March 18, 2014, it provides that the Audited Agency shall submit a copy of the Annual GPB to the COA Audit Team assigned to the agency within five (5) working days from the receipt of the approved plan from the PCW, or their mother or central offices, as the case may be. Likewise, a copy of the corresponding Accomplishment Report shall be furnished the said Audit Team within five (5) working days from the end of January of the succeeding year.

44.4 The NFA's approved COB for CY 2014 amounted to P10.671 billion. However, while the Agency was able to prepare a GPB for the entire NFA for the year, the said budget was not included in its COB for the same year.

44.5 Moreover, the allocation for GAD of P6.308 million based on the GPB constituted only 0.06 per cent of the total COB instead of the required minimum allocation of P533.556 million or five per cent of the total COB, or deficient by P527.248 million or 4.94 per cent of the total COB.

44.6 Review of the NFA's GAD Accomplishment Report for 2014, which was submitted only on March 9, 2015, revealed that NFA was not able to fully implement the GAD programs/activities included in its 2014 GPB. Likewise, said report did not include actual utilization of funds. However, examination of disbursements during the year revealed that only a minimal amount of P65,205 was charged to GAD which indicated the partial/non-implementation of GAD programs/activities.

44.7 It was gathered also that five NFA ROs/POs reported that they prepared and submitted a GPB for 2014 for their respective offices to the NFA-HO, but there was no feedback on the approval and implementation. This would likewise manifest the partial/non-implementation of the NFA's GPB.

44.8 As minimal allocation was provided to GAD and with low utilization, the Agency was not assured that gender issues during the year were fully addressed, while intended GAD beneficiaries were deprived of the opportunity to avail of the expected benefits.

44.9 **We recommended that Management:**

a. Allocate funds of at least five per cent of the annual COB for GAD programs/activities, pursuant to PCW-NEDA-DBM Joint Circular 2012-01;

b. Ensure the full implementation of programs/activities included in the GPB for the year;

c. Submit GAD Accomplishment Report within the period prescribed in COA Circular No. 2014-001; and

d. Closely coordinate with NFA Field Offices (FOs) on the implementation of GAD programs/activities to ensure full implementation of the GPB.

44.10 Management provided the following comments:

a. On the NFA's inability to implement GAD programs/activities for 2014 - This was attributable to change of Administrators (NFA had four administrators during the year) and the Chair of the GAD Focal Point also changed hands due to retirement. However, it assured that it will endeavour to ensure implementation of NFA's GAD programs/activities for 2015.

b. On the submission of GPB and Accomplishment Reports in compliance with Part V of COA Circular No. 2014-001 - It has provided the auditing unit with NFA's GAD Plans and Budget as submitted to the PCW last May 7, 2015.

c. On the inclusion of the GPB in the COB - It apologized for the oversight and assured that this will be rectified in the preparation of NFA's COBs in the succeeding years.

d. On the deficiency of 4.94 per cent or P527.248 million of the GAD allocation - The NFA's Maintenance and Other Operating Expenses (MOOE) includes expenses that are rice-operations related involving huge amounts of expenses such as trucking, handling, which should not be included in the definition of MOOE as basis of the percentage. The five per cent of MOOE budget applies to line agencies, State Universities and Colleges and local government units which MOOE are the usual or traditional operating expenses, and that this issue has been a subject of clarificatory discussions with DBM.

e. On the expenditure of only P65,205 against the allocation of P6.308 million - It assured the implementation of GAD programs/activities in the succeeding years.

f. On the submission of some FOs of their respective GPBs for 2014 but got no feedback on the approval and implementation - The sources of the requests were properly informed that approval and endorsement by PCW of the 2014 GPB was done by the end of 2012 yet and have advised them to prepare their GPBs in consonance with the PCW calendar, preparation of which is two years before budget year.

g. On the issue that the Agency was not assured that gender issues were fully addressed during the year due to minimal allocation provided to GAD with low utilization - The NFA will be conducting briefings on the preparation of GPB to address gender issues for the benefit of NFA employees and its stakeholders, and assured that they will implement GAD programs/activities in the succeeding years.

UNSETTLED NOTICES OF SUSPENSIONS, DISALLOWANCES AND CHARGES

45. As of December 31, 2014, the NFA had total consolidated unsettled Notices of Suspension (NSs) of P2.846 million, Notices of Disallowance (NDs) of P148.178 million and Notices of Charge (NCs) of P1.744 million. The breakdown by office/region is shown in Table 56.

Table 56 - NS, NDs and NCs by Office/Region as of December 31, 2014

Office/Region	NS	ND	NC
HO	P -	P 14,065,447	P -
Region I	52,500	4,830,000	-
Region II	-	6,367,225	-
Region III	-	9,395,153	1,742,647
Region IV-A	-	14,825,000	-
Region IV-B	-	14,986,241	-
Region V	-	7,852,631	-
Region VI	-	14,708,390	-
Region VII	-	3,730,000	-
Region VIII	-	11,455,248	-
Region IX	2,752,242	9,859,639	1,260
Region X	-	6,838,831	-
Region XI	-	5,240,000	-
Region XII	-	3,900,000	-
NCR	-	12,135,000	-
CARAGA	41,365	7,989,283	-
ARMM	-	-	-
Total	P 2,846,107	P 148,178,088	P 1,743,907

45.1 The total unsettled suspensions of P2.846 million represent unsubmitted documentary requirements for the disbursements of CY 2013 Cultural and Athletic Allowances, Provident Fund, Collective Negotiation Agreement Incentives (CNAI), Payroll fund, Rapid Seed Supply Financing Program (RaSSFIP) and travelling expenses.

45.2 The bulk of the unsettled disallowances represent the payment of the Food and Grocery Incentives (FGI) to the employees of the NFA for 2008 - 2012. NDs in the amount of P40.816 million or 27.55 per cent are with appeals and decisions rendered by the COA Cluster and Regional Directors. Petitions for review and motions for reconsideration were filed by the petitioners, while NDs in the amount of P8.165 million or 5.51 per cent are with/for issuance of Notices of Finality of Decision (NFDs).

45.3 NDs in the total amount of P91.133 million or 61.50 per cent are with appeals filed before the COA Cluster/Regional Directors, while P8.064 million or 5.44 per cent were not appealed.

45.4 The unsettled audit charge of P1.743 million issued to Bulacan PO represents unremitted collections on registration and license fees of the former Registration and Licensing Officer. This case was already filed by the PO at the Bulacan Trial Court.

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS'
AUDIT RECOMMENDATIONS**

Of the 139 audit recommendations embodied in prior years' Annual Audit Reports (AARs), 33 were fully implemented, 91 were partially implemented and 15 were not implemented. Details are as follows:

Observations and Recommendations	Actions Taken/Comments
<u>2013 AAR</u>	
<p>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.</p> <p>We reiterated our recommendations in previous audit that Management:</p> <p>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);</p> <p>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</p>	<p>Related discussion in Part II, Observation No. 3 of this report.</p> <p>Partially implemented.</p> <p>Management sent demand letters to concerned agencies, filed Petition for Money Claim for the payment of rice deliveries against the Department of Education, retrieved records and prepared reclassifying entries.</p> <p>Task Force on Oplan Collection of Receivables was created and chaired by the Assistant Administrator for Marketing Operations per Special Order No. AO-2K15-1-002 dated January 8, 2015.</p> <p>Partially implemented.</p> <p>Reconciliation, retrieval and verification of supporting documents are on-going.</p>

Observations and Recommendations	Actions Taken/Comments
<p>c. Continue to vigorously pursue efforts to collect the receivables not only from the NGAs but from the LGUs and other institutions as well.</p>	<p>Partially implemented.</p> <p>With regard to receivables from defaulting millers, Management is gathering all documents necessary in requesting for write off of the accounts.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 7 of this report.</p>
<p>We reiterated our recommendations in previous year that Management:</p>	
<p>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 Regional Tolerable Allowance Committee (RTAC) for TOLA computation;</p>	<p>Partially implemented.</p> <p>Management reiterated compliance to General Memorandum Order No. AO-2K10-01-002 dated January 14, 2010 on Policy on Unliquidated Stock - Grains and empty sacks (MTS) Accountabilities of NFA accountable Officers Without Source Documents and Shortages set-up in the books and with SOP No. GM-WH13.</p>
<p>b. Require the RTAC to speed up the TOLA computation to establish the final shortages of the Stock Accountable Officers/Warehouse Supervisors (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;</p>	<p>Partially implemented.</p> <p>Management to monitor accomplishments of ROs against pending stock examinations for TOLA computation in the RTAC.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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;</p>	<p>Partially implemented.</p> <p>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.</p>
<p>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</p>	<p>Not implemented.</p>
<p>e. Enforce the sanctions provided in the Special Provisions of NFA SOP No. GM-WH13 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 NFA SOPs on the stock examination and TOLA computation.</p>	<p>Partially implemented.</p> <p>In Catanduanes PO, accountabilities without examination of P0.620 million were reduced to P0.270 million.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 6 of this report.</p>
<p>In view of the recurring shortages and the significant amount that remained unsettled, we emphasize 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.</p>	<p>Not implemented.</p> <p>There were no actions taken on the recommendation.</p>

Observations and Recommendations	Actions Taken/Comments
<p>We also reiterated our prior year's audit recommendations that Management:</p>	
<p>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;</p>	<p>Partially implemented.</p> <p>Large amount in the year-end balance of NFA RO I represents final shortages incurred by SAOs already separated from government service and shortages incurred by SAOs with administrative and criminal cases filed. Nonetheless, Management stressed that it would exert all means to collect from accountable officers.</p>
<p>b. Relieve the SAOs from their posts while stock examination is on-going, as internal control measure; and</p>	<p>Not implemented.</p> <p>In Region XII, fielded stock accountable officers continue to act the same while under stock examination.</p>
<p>c. Strictly enforce the sanctions provided in the Special Provisions of NFA 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>In 2013, a Technical Working Group (TWG) was created 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's accountable officers. The guidelines were approved last November 11, 2013. 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 their retirement benefits.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 5 of this report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>We recommended that Management:</p>	
<p>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</p>	<p>Partially implemented.</p> <p>ASD is coordinating with ISD and GMOD for documents to support the claims and possible collection of the long outstanding receivables, including 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.</p>
<p>b. Coordinate with the authorized officials of the concerned agencies for reconciliation of records and to facilitate collection of the receivables.</p>	<p>Partially implemented.</p> <p>Meetings were arranged with QGFB and MIAA which confirmed NFA's accounts receivable to discuss immediate settlement of accounts.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No.13 of this report.</p>
<p>On the accounts that have remained dormant for more than five years now, we reiterated the following recommendations that Management:</p>	
<p>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;</p>	<p>Not implemented.</p> <p>The retrieval of documents is still on-going.</p>
<p>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);</p>	<p>Partially implemented.</p> <p>Verification and reconciliation on-going.</p>

Observations and Recommendations	Actions Taken/Comments
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;	Partially implemented. Management coordinated with source agencies. Verification and reconciliation are on-going.
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;	Partially implemented. Verification and reconciliation are on-going.
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	Fully implemented. Separate subsidiary ledgers were created for each project; opened a separate trust account with LBP where funds for special projects awaiting reconciliation are deposited.
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.	Fully implemented. The provisions of COA Circular No. 94-013 are being strictly observed in the implementation of on-going projects.
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	

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	Partially implemented.
<p>We 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.</p>	<p>Two properties have been properly documented, namely: Bantay, Ilocos Sur with Original Certificate of Title (OCT) already and Loakan, Baguio City secured with Presidential Proclamation No. 919 dated November 24, 2014.</p>
<p>We also recommended that Management 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.</p>	<p>Partially implemented.</p> <p>Conducted item per item matching of PPE per ASD and GSD records to identify variances; reconciliation is on-going.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 15 of this report.</p>
<p>We recommended that Management:</p>	
<p>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;</p>	<p>Not implemented.</p> <p>Management will conduct audit of the Lingap Para sa Mahihirap Fund which shall include the reconciliation and liquidation of the project components of the fund.</p>

Observations and Recommendations	Actions Taken/Comments
<p>b. 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</p>	<p>Partially implemented.</p> <p>Reports were already submitted by ASD to COA but the account is still not reconciled with the records being maintained by the CDF Secretariat and with the bank records.</p>
<p>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.</p>	<p>Partially implemented.</p> <p>Confirmation letter was sent in June 2014, but no reply was received yet.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 9 of this report.</p>
<p>We, therefore, recommended that Management;</p>	
<p>a. In NFA-HO, require the ASD to adjust the Other Deferred Credits account and the income from grants and donation for the total amounts of accumulated depreciation for the assets received by NFA-FDC from NMIS;</p>	<p>Fully implemented.</p> <p>Adjusted per Journal Entry Voucher (JEV) No. 2014-06-009398 in the amount of P7.494 million.</p>
<p>b. Submit documents to support the donations from UNU-KIRIN and R. Dino General Services-R06AQE;</p>	<p>Fully implemented.</p> <p>Documents submitted on July 1, 2014.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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 Deferred Credits account;</p>	<p>Partially implemented.</p> <p>Albay PO has not fully adjusted the deferred credits to income account because of purchases made by DSWD/BJMP.</p>
<p>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;</p>	<p>Partially implemented.</p> <p>Storage fee is based on the prevailing SOP.</p>
<p>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;</p>	<p>Partially implemented.</p> <p>No storage fee is charged/collected from DSWD.</p>
<p>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</p>	<p>Partially implemented.</p> <p>Coordination/reconciliation with NDO and SDO is on-going.</p>
<p>g. Expedite the examination of stocks and computation of TOLA to establish the accountabilities of warehouse accountable officers with overages, and provide timeliness in the conduct of stocks examination and TOLA computation.</p>	<p>Partially implemented.</p> <p>Accountabilities with lacking/missing documents remained unliquidated.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 16 of this report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>We, therefore, reiterated our recommendations in 2012 audit that Management:</p>	
<p>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;</p>	<p>Partially implemented. Reconciliation on-going.</p>
<p>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</p>	<p>Partially implemented. Monthly Reconciliation Statements were prepared and taken up in the books of accounts.</p>
<p>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.</p>	<p>Not implemented.</p>
<p>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.</p>	
<p>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</p>	<p>Partially implemented. In the 800,000 MT rice importation, allowances for spillages and shortlanded deliveries were still included in the reference price. However, in the subsequent rice importation of 500,000 MT,</p>

Observations and Recommendations	Actions Taken/Comments
computation of the estimated reference price.	allowances for spillages and shortlanded deliveries were no longer included in the reference price.
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.	Related discussion in Part II, Observation No. 22 of this report.
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	Partially implemented. While Management contended that 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, discrepancy still exists between the computation of NFA and the audited amount.
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.	Partially implemented. Series of meetings were held between the BOC Deputy Commissioner Tan and NFA officials 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. It was agreed that BOC will declare over collection of Tax Expenditures Subsidy, while NFA will declare overpayment of Tax Expenditures Subsidy. Henceforth all BOC tariff assessments will be based on CIF.

Observations and Recommendations	Actions Taken/Comments
<p>12. 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.</p>	<p>Related discussion in Part II, Observation No. 34 of this report.</p>
<p>We recommended that Management:</p>	
<p>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;</p>	<p>Partially implemented. Accomplishment on palay procurement in 2014 was still low at 6.3 per cent of targets.</p>
<p>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;</p>	<p>Partially implemented. Representations were made by concerned NFA-ROs to NFA-HO for the review of the buying price of palay in order to determine the appropriate increase and additional incentives that can level up with local traders so as to increase procurement of palay from farmers.</p> <p>Furthermore, reports are regularly submitted to RO and HO regarding buying price of private traders as inputs in case discussion on the increase of NFA buying price will be taken up.</p>
<p>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;</p>	<p>Partially implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>d. Formulate strategies to increase the procurement of palay and encourage participation from farmers, among others:</p> <p>d.1 Intensify information dissemination on palay procurement before the start of main crop season to encourage farmers to sell their produce to NFA;</p> <p>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;</p> <p>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</p> <p>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.</p>	<p>Partially implemented.</p> <p>In NFA Sorsogon PO, advocacy on palay procurement became a regular activity of the province. This was conducted before the start of the procurement season through "Ugnayan" with farmers and farmers' organizations, through media, other government agencies and LGUs. Procurement logistics such as personnel, trucks, warehouse, platform scales, and empty sacks were prepared as early as June 2013.</p> <p>In NFA-Misamis Oriental PO, Procurement Team is conducting mobile procurement in far flung areas where ex-farm price is depressed to support small farmers who cannot bring their palay to private or NFA buying stations.</p>
<p>13. Cash ranging from P100,000 to P1.500 million per day were carried by Special Disbursing Officers (SDOs) of NFA Camarines Sur and 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.</p>	<p>Partially implemented.</p> <p>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.</p>
<p>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</p>	

Observations and Recommendations**Actions Taken/Comments**

in all NFA POs.

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.

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

Fully implemented.

In the province of Sorsogon, palay procurement for 2013 decreased as compared to 2012 due to competitive buying price offered by local palay traders as well as traders from other provinces like Albay, Camarines Sur, and Northern Samar particularly in the second semester of 2013 where buying price reached as high as P19.00/kg for fresh or newly harvest resulting also to the decrease in the availment of IPP. LGUs in coordination with the NFA and different FOs/Farmers' cooperatives are still evaluating the PALLGU and FOBB.

- 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.

Fully implemented.

Also in Sorsogon, the CDIF, FAIR, FOBB, PALLGU and other programs such as Grains Exchange Program for Farmers Organization and Retailers Association (GEPFORA) and Electronic Trading for Corn (EETS_Corn) were also discussed during the meetings.

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

Fully implemented.

NFA Misamis Oriental coordinates with farmers and LGU technicians regarding the continuous conduct of

Observations and Recommendations	Actions Taken/Comments
<p>determine the appropriate measures to be implemented so that the intent of the program would be fully achieved.</p>	<p>UGNAYANS with farmers informing them that NFA is always ready to buy palay from individuals or groups of farmers.</p>
<p>15. The Cooperative Development Incentive Fund (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.</p>	
<p>We recommended that Management:</p>	
<p>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</p>	<p>Fully implemented.</p> <p>Field and on-site verification and evaluation of operational status were regularly complied with.</p> <p>In Region VI, for validation purposes, and as supporting documents to effect forfeiture and adjustments/reversal of Trust Liability-CDIF Account, it is waiting for the reply of CDA and SEC on a letter-request for confirmation on the status of respective Farmer's Cooperatives, Organizations/Associations while providing the Region with a list of Farmer's Organizations duly registered with these offices.</p>
<p>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.</p>	<p>Fully implemented.</p> <p>Aging of CDIF is regularly prepared and Notices for Inactive CDIF were sent prior to forfeiture.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	
<p>We recommended that the POs concerned:</p>	
<p>a. Explain the reasons for the non-compliance with the documentary requirements of the FCs/FOs that were granted CDIF; and</p>	<p>Fully implemented. The required documents were already submitted.</p>
<p>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.</p>	<p>Partially Implemented. In Abra, Ilocos Norte and La Union POs, these recommendations were fully implemented, while in Ilocos Sur PO, these were only partially implemented.</p>
	<p>In Abra PO, Management has already informed the concerned FCs/FOs for the immediate submission of the lacking requirements in compliance with SOP No. TS-ES24. Furthermore, after implementing initial actions on the provision on lacking documents, Management filed the documents in support of the granting of CDIF to the concerned FCs/FOs.</p> <p>For CY 2014, Management has started to strictly enforce the policies enumerated in SOP No. TS-ES24 particularly on the granting and withdrawal of CDF.</p>
<p>We further recommended 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.</p>	<p>Partially implemented</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>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</p>	<p>Fully implemented. Recommendation well taken by Management.</p>
<p>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.</p>	<p>Fully implemented. Management had instructed all ROs/POs to comply with all the documentary requirements.</p>
<p>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.</p>	
<p>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.</p>	<p>Partially implemented. The Provincial Manager concerned explained that the variance of 3,807 bags included the losses from the in-warehouse transactions such as re-bagging and the variance incurred in the transfer of stocks, which had a maximum TOLA of 0.28 per cent per SOP, and that losses beyond the TOLA are 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</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>discrepancy, provide reasons for its occurrence and to inform the former of the action taken by the latter.</p>
<p>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.</p>	<p>Fully implemented. Dispersal Committee was created/ convened by the Management and at least three (3) of the members are now present for every dispersal activity conducted.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 28 of this report.</p>
<p>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.</p>	<p>Partially implemented. 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.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Partially implemented.</p> <p>For North Western Cagayan - Apayao PO, only acknowledgement receipt for the 20,000 bags of rice was presented by Management to the Audit Team.</p>
<p>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.</p>	
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>a. Require the Senior Grains Operations Officers (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;</p>	<p>Partially implemented.</p> <p>In NFA Northern Leyte, total dispersal losses was reduced to 67,066.29 nkgs or P1.524 million as a result of validation and review of stock reports and supporting documents. However, this amount has not been recorded in the books as of December 31, 2014.</p>
<p>b. Require the Stock Examination Committee of the Provincial Office to immediately conduct the examination on the concerned SGOOs/WSs to establish accountability for the variances;</p>	<p>Partially implemented.</p> <p>Stock examination of the current accountable officer with complete documents is on-going in NFA</p>

Observations and Recommendations	Actions Taken/Comments
<p>c. Require all the Dispersal Committees to conduct monitoring of dispersal activities to ensure that similar weaknesses are acted upon; and</p>	<p>Southern Leyte PO.</p> <p>Partially implemented.</p> <p>Four Provincial Offices namely: Eastern and Northern Samar, Southern Leyte and Biliran issued Memorandum Order to their Dispersal Committee calling their attention to the audit observation and for strict adherence to the provision of the governing SOP.</p>
<p>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.</p>	<p>Partially implemented.</p>
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>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</p>	<p>Not implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Partially implemented.</p> <p>At CDO, the 2013 Special Powers of Attorney can no longer be found; however, Management is exerting effort to find the files in their warehouse.</p>
<p>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.</p>	
<p>We recommended that the NCR-NDO and NCR-Cavite PO Management:</p>	
<p>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</p>	<p>Partially implemented.</p>
<p>b. Closely monitor the distribution activities to accredited retailers, and establish effective controls, such as:</p>	<p>Partially implemented.</p>
<p>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</p>	
<p>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.</p>	

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Related discussion in Part II, Observation No. 25 of this report.</p>
<p>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.</p>	<p>Not implemented. The practice was not discontinued in 2014.</p>
<p>We further recommended 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.</p>	<p>Not implemented. In Part II of this report, it was reported that in Region IX, as of September 30, 2014, 11 per cent of the accredited retailers were able to purchase rice more than their allowed allocation.</p>
<p>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'</p>	<p>While Management's policy in the distribution operations is based on the declared capitalization by the accredited retailers, in some instances, when there is a need to increase NFA's market participation, it allows retailers to withdraw their allocation more than once in a week especially when they need to dispose their old stocks and during lean months when commercial rice prices in the market tends to go high.</p>

Observations and Recommendations	Actions Taken/Comments
<p>organizations/cooperatives the opportunity to participate in rice distribution.</p>	
<p>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.</p>	<p>Partially implemented.</p> <p>Based on Agency Action Plan and Status of Implementation (AAPSI), an investigation would not be deemed necessary in the practice of assigning one individual to withdraw in behalf of numerous farmers' cooperatives. In so far as the District is concerned, all representatives assigned by its FOs/cooperatives were duly authorized.</p>
<p>We further recommended 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 benefits eventually trickle down to the farmers in terms of additional income.</p>	<p>Not implemented.</p> <p>NCR-CDO will make representation with the HO with regard to the evaluation of the program.</p>
<p>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.</p>	<p>Related discussion in Part II, Observation No. 24 of this report.</p>
<p>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.</p>	<p>Not implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	
<p>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:</p>	
<p>a. Prepare the contracts on credit sales for DSWD's conforme on the actual issuances based on WSI and DRs; and, thereafter, immediately bill and/or promptly reconcile with their records, as appropriate, to enable immediate collection;</p>	<p>Partially implemented.</p> <p>Based on AAPSI, all billing statements related to Typhoon Yolanda relief operations were already submitted to DSWD/DND. Three out of the five billings were already settled.</p>
<p>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;</p>	<p>Not implemented.</p>
<p>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;</p>	<p>Partially implemented.</p> <p>Based on AAPSI, NFA strictly follows the procedures on cash sales that official receipts be issued/presented first before issuance of rice stocks.</p>
<p>d. Coordinate beforehand with DSWD and the other agencies/ institutions to provide NFA with their lists of authorized representatives to receive the stocks;</p>	<p>Not implemented.</p>
<p>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</p>	<p>Partially implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Partially implemented.</p> <p>Based on AAPSI, NFA already submitted the required documents pertaining to stocks issuances for Typhoon Yolanda relief operations including the Terminal Report.</p>
<p>We further recommended 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.</p>	<p>Partially implemented.</p>
<p>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.</p>	<p>Partially implemented.</p>
<p>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.</p>	<p>Partially Implemented</p>
<p>We further recommended that Management verify the difference noted in audit and report thereon be submitted to the team for validation.</p>	<p>In NCR-CDO, out of the total 63,600 bags authorized to be delivered a total of 51,930 bags were delivered to DSWD in CY 2013, while the remaining balance of 11,670 bags were delivered from April 8 to</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>November 25, 2014 under NCR-OCM-2K14-D-46 dated April 7, 2014.</p> <p>In SDO, the total rice issued to DSWD for the Typhoon Yolanda relief operations were documented and paid.</p>
<p>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.</p>	<p>Fully implemented.</p> <p>Management submitted the Statement of Reconciliation of Rice Issuances for Relief Assistance to Typhoon Yolanda Victims from November 7, 2012 to January 21, 2014.</p>
<p>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.</p>	

Observations and Recommendations	Actions Taken/Comments
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	Partially implemented. 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.
b. Strictly observe that NFA enters into MOA with government agencies before the release of stocks to protect its interest.	Partially implemented.
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.	
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.	Partially implemented. The GMOD had immediately referred the matter to the concerned POs of Regions V and VIII.
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.	
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.	Fully implemented. Based on AAPSI, repairs and maintenance which included the damaged warehouses are being fast-tracked.
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	Related discussion in Part II, Observation No. 37 of this report.

Observations and Recommendations	Actions Taken/Comments
<p>of the government. In Region XII, weaknesses in internal controls resulted in Grains Inventory Losses totaling P23.445 million in 2012 and P15.416 million in 2013.</p>	
<p>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 condition, duly safeguarded and protected, by implementing the following, among others:</p>	
<p>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, thereof.</p>	<p>Partially implemented.</p> <p>Based on AAPSI, reorientation of Warehousemen/Quality Assurance Officers of their duties was conducted in 2014 to ensure that management responsibility regarding safeguarding of asset is exercised at all times.</p>
<p>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;</p>	<p>Partially implemented.</p> <p>NCR-NDO's repeated requests from the Technical Resource and Services Department (TRSD) for the approval of the repairs and maintenance of their warehouses have yet to be acted upon.</p>
<p>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;</p>	<p>Fully implemented.</p> <p>Deployment/ assignment of personnel to maintain warehouse sanitation has been implemented since May 2014.</p>
<p>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;</p>	<p>Partially implemented.</p> <p>Reminded/ issued instructions to Warehousemen/ Warehouse Assistants on proper recording of warehouse transactions and complied with the placement of bin cards.</p>
	<p>In Region VII, bin cards were updated effective April 1, 2014 and</p>

Observations and Recommendations	Actions Taken/Comments
<p>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;</p>	<p>the signage bearing the warehouse name, code, location and capacity was already in place.</p> <p>Partially implemented.</p> <p>Inspections of fire extinguishers installed on warehouses to ensure safety of stock in case of fire incident were conducted in May 2014.</p>
<p>f. Conduct investigation to determine the persons accountable/ responsible for the losses incurred in 2012 and 2013, and to file appropriate charges, if warranted;</p>	<p>Not implemented.</p>
<p>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;</p>	<p>Partially implemented.</p> <p>NFA Region XII consolidated all memoranda pertaining to security matters, situations and preventive measures and furnished the same to the POs for their guidance.</p> <p>Periodic review was further conducted on the implementation of the Security Management Plan (SMP) which is an integral part of the Contract for Security Services.</p>
<p>h. Put in place risk assessment procedures and formal security review to identify potential security threats and strengthen physical controls over the warehouses;</p>	<p>Partially implemented.</p> <p>In Region VII, detailed security guards were instructed to include GID warehouse in the logbook and maintain record on the said warehouse.</p> <p>Personnel from the Security Services and Investigation Department (SSID) conducted inspection of NFA facilities and evaluated the security plan and CCTV requirement of Region XII.</p>
<p>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</p>	<p>Partially implemented.</p> <p>Management identified the areas where to put signage(s) and where</p>

Observations and Recommendations	Actions Taken/Comments
<p>under SOP No. GM-WH07, and impose sanctions to Provincial Managers and warehouse employees for frequent violations without justifiable reasons;</p>	<p>the service vehicles of employees and visitors of Region XII would be parked, and instructed SGOOs never to park the service vehicles inside the warehouse whether with or without existing palay or rice stocks.</p>
	<p>Also, Management issued instructions to RSQAO/ ROO/ Accountable Officers on the identified six warehousing deficiencies including the updating of Bin Cards and to properly address the same.</p>
	<p>In Cavite PO, Memo '14 CPO-201-04-56 dated April 21, 2014 was issued by the Provincial Manager to the warehouse supervisors, to reiterate the strict compliance with existing SOPs and their amendments.</p>
	<p>There was no report on the evaluation of warehousing activities based on the above-mentioned memorandum. In 2014 audit of warehouse operations, the SOPs on filler transactions were not complied with by the Warehouse Supervisors.</p>
<p>j. Ensure that warehouse documents such as AI, WSI, WSR and other warehouse documents should contain proof (signatures, initials, date, explanation of analysis, etc.) that the controls were performed and implement proper segregation of duties in the inventory control;</p>	<p>Partially implemented.</p> <p>In Region XII, warehouse documents already contained proofs that the required controls were performed by the concerned accountable officers.</p>
<p>k. Clearly define through written instructions the roles and responsibilities of each member of the inventory committee; and</p>	<p>Partially implemented.</p> <p>Region XII Management is now issuing Office Order for every physical inventory taking and the members of the inventory committee already briefed of their respective functions and responsibilities.</p>

Observations and Recommendations	Actions Taken/Comments
<p>I. 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.”</p>	<p>Partially implemented.</p> <p>In Region VII, the First-in-First-out (FIFO) method on the issuance of stocks is now being used, tie up distribution scheme was requested and approved by the Regional Office to avoid further deterioration of old stocks.</p> <p>Some of the bin cards maintained at Region XII by the stock accountable officers was not updated. During the last physical inventory conducted by the Agency, “blind count” was not yet undertaken.</p>
<p>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.</p>	<p>Partially implemented.</p> <p>NCR Management conducted evaluation of warehouse. It recommended the purchase of land and construction of new warehouses for the storage of 200,000 bags for 15-day food security stocks to minimize rental expense.</p>
<p>We recommended that Management conduct cost-benefit analysis on the viability of constructing NFA-NCR warehouses <i>vis-a-vis</i> cost of leasing warehouses.</p>	
<p>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.</p>	

Observations and Recommendations	Actions Taken/Comments
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;	Fully implemented. Based on the AAPSI, preparation of the monthly warehouse utilization report as basis to evaluate the efficiency in the utilization of all warehouses that are NFA-owned or leased is being done.
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	Fully implemented.
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.	Fully implemented. The SGOO or the Regional Manager conducted inspection prior to occupying warehouses to be leased or for every extension of leases.
We also recommended that Management revisit the evaluation process performed in determining the need to lease private warehouses considering the 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.	Partially implemented. Although the Cebu PO reported that its warehouses were fully maximized, no other reports were received from other POs.
We further recommended that the observations in warehousing operations be also looked into in other regional and provincial offices for NFA-wide implementation of the measures for improvement.	Partially implemented. The policies and procedures on warehousing were fully implemented in NFA Cebu, Bohol and Negros Oriental POs, while these were partially implemented in Siquijor PO.

Observations and Recommendations	Actions Taken/Comments
<p>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 2013.</p>	<p>Partially implemented.</p> <p>CDF Committee exercises some amount of flexibility and consideration based on the prevailing circumstance of cooperatives/beneficiaries, in case of delayed payments for loan amortization dues in the administration of the CDF.</p>
<p>We recommended that Management:</p>	<p>Partially implemented.</p> <p>The Technical Working Group (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. The CDF Committee will enhance measures/ systems to immediately respond to occurring issues/ concerns of beneficiaries especially in the settlement of their obligations.</p>
<p>38. The provision of the Loan Agreement executed by the North Cotabato Free Farmers Cooperative, Inc. (NCFFCI) 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 SOP No. TS-ES22.19.1, which should reckon from the date of initial release of the loan proceeds, to the disadvantage of</p>	

Observations and Recommendations	Actions Taken/Comments
<p>NFA.</p> <p>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.</p>	<p>Partially implemented.</p> <p>The CDF Committee has stretched certain timeliness/ gave conditional allowance in the settlement of their amortization for humanitarian reasons in recognition of the need to help the cooperative.</p>
<p>We further recommended 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.</p>	<p>Not implemented.</p> <p>No guidelines or criteria were submitted as basis for assessing whether the circumstances prevailing during the implementation of projects merit the granting of “conditional allowance.”</p>
<p>39. Construction by BibaDiwa 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.</p>	<p>Fully implemented.</p> <p>A separate CDF Committee approval was obtained and supported by the project proposal of the cooperative which was evaluated following the usual project evaluation process.</p>
<p>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.</p>	
<p>40. Grants of CDF amounting to P813,905 for various programs implemented by NFA remained unliquidated as of year-end.</p>	<p>Fully implemented.</p> <p>Remaining balances were already returned and liquidated.</p>
<p>We recommended that Management cause the immediate refund/liquidation of the remaining balance of the grants considering that these were released since 2009.</p>	

Observations and Recommendations	Actions Taken/Comments
<p>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 totaling P250,000 submitted by the other six Provinces were only photocopies of the original documents.</p> <p>We recommended that Reports of Liquidation be submitted together with the original supporting documents within the prescribed period. Certified photo-copies 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.</p>	<p>Partially implemented.</p> <p>Not all regions which received monitoring fund submitted their liquidation report according to COA Regional Offices. Other regions submitted photocopies only of their liquidation reports.</p>
<p>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-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.</p> <p>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.</p>	<p>Partially implemented.</p> <p>In Region V, DAP funds amounting to P185,000 intended for the supply, delivery and installation of dust and smoke collection system and paddy cleaner to driers were only obligated in February 2015.</p> <p>In Part II of this report, under Observation No. 19, the amount was included as among the DAP funds obligated after July 1, 2015 and recommended for remittance to the Bureau of the Treasury.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p> <p>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.</p>	<p>Partially implemented.</p> <p>Documents submitted were still incomplete, rendering the evaluation of the regularity of the utilization of DAP funds not possible.</p>
<p>44. 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.</p> <p>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 Bids and Awards Committee (BAC) enough time to prepare the necessary bidding documents and to start the procurement process at the earliest possible time.</p>	<p>Partially implemented.</p> <p>The Regional Director humbly admitted 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 are circumstances beyond their control and other concerns that affected their compliance.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Partially implemented.</p>
<p>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.</p>	
<p>We recommended that Management:</p>	
<p>a. Facilitate the disposition of old and damaged grains stocks; and, henceforth, strictly follow the guidelines set under NFA SOP No. GM-DS03; and</p>	<p>Partially implemented.</p> <p>Management continuously reminds concerned accountable officer, bidding committee and all concerned offices to immediately facilitate the disposition of damaged grains stocks to prevent further deterioration and losses; conducts an independent inspection from time to time of all warehouses to check the existence of the damaged stocks; and designs a tracking sheet for purposes of monitoring the processing time and pinpointing responsibility in case of delay in the disposition process.</p>
<p>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.</p>	<p>Partially implemented.</p> <p>Surigao del Norte already disposed damaged stocks by dumping 486.08 nkgs which was taken up in the books under JEV No. 2014-01-013 and selling 5,993.19 nkgs which was also booked up under JEV No. 2014-02-060.</p>

Observations and Recommendations**Actions Taken/Comments**

2012 AAR

46. 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.

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

Partially implemented.

Verification is on-going. The variance is attributable to the shifting from manual preparation of financial reports to mechanization in the early part of 1980s.

We further recommended that Management:

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

Partially implemented.

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.

Partially implemented.

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

We recommended that Management:

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

Partially implemented.

The Iloilo and Negros Occidental POs reported that monthly

Observations and Recommendations	Actions Taken/Comments
<p>where appropriate; and</p>	<p>reconciliation between stock reports and accounting records is on-going.</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>Four of the six POs of Region VIII fully implemented the audit recommendation while in the two remaining POs, reconciliation is still on-going.</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>48. Various payable accounts in the books of NFA-NCR aggregating P50.232 million comprised long outstanding balances with inadequate documentation, rendering uncertainty on the existence of obligations of NFA and the accuracy and completeness of the reported year-end balances of affected accounts.</p>	<p>The Iloilo PO already made adjustments on the result of the reconciliation conducted.</p>
<p>We recommended that the NFA-NCR Management:</p>	<p>Partially implemented.</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>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>

Observations and Recommendations	Actions Taken/Comments
<p>49. 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>Partially implemented.</p> <p>Management had conducted an in-depth investigation into the excess shipments of some importers that were granted subsidy and have instituted improvements into the procedures in private sector importation.</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 granted tax subsidy.</p>	
<p>50. 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>Fully implemented.</p> <p>Management looked into the legality and propriety of imposing the appropriate disciplinary action, including forfeiture of performance bond and blacklisting. In future PSF programs, sanctions or penalties shall be considered as part of the guidelines.</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>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>Fully implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>51. 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>Fully implemented.</p> <p>Management stated that the total tax subsidy granted to private importers served as an economic incentive to allow the private sector to import rice at a competitive price for the benefit of the Filipino consumers. On the other hand, the amount paid by the winning bidders serves as “service fee” to NFA for being privileged to use the NFA’s Tax Expenditure Subsidy (TES) instead of paying the full 40 per cent duty on their rice imports. It was not meant to offset the total tax expenditure.</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>52. 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>Partially implemented.</p> <p>Management has pending petition before the COA praying that the Notices of Disallowance on the Grant of FGI to NFA officers and employees be reversed and set aside.</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>53. Inadequate monitoring and controls weaken the registration and licensing function of NFA, viz.:</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</p>	

Observations and Recommendations	Actions Taken/Comments
<p>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; and</p> <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. 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>Some applications were accepted and approved without satisfying first all the necessary documents.</p>
<p>b. Improve and strengthen the monitoring 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; and</p>	<p>Partially implemented.</p> <p>Still in process of accounting all the recorded licensees and registrants. Collection of underpayments by the registrants still on-going.</p>
<p>c. 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>Fully implemented.</p> <p>Various practical strategies were already taken up during the briefing/orientation on Adjudication Process. Other related Licensing and Investigation Activities were also conducted in April 2014.</p>
<p>54. 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>	

Observations and Recommendations	Actions Taken/Comments
<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 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>Fully implemented.</p> <p>Repairs of dryers and improvement of dryers' shed are completed and dryers are now ready for use.</p>

2011 AAR

55. 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.

Fully implemented.

In 2014, interest expenses and guarantee fee decreased to P5,099.377 million and P1,352.072 million, respectively, as a result of reduced borrowings.

56. Four NFA Regional Offices reported short landings and spillages totaling 550,915.03 net kilograms valued at P12.227 million resulting in bigger cost of inventories.

We reiterated our recommendations that Management:

a. Institute additional control measures to minimize losses due to short landings and spillages;

Fully implemented.

b. Consider amendment of the purchase contract; and

Fully implemented.

c. Continue filing letter of protest to demand settlement of short landed deliveries.

Fully implemented.

Observations and Recommendations	Actions Taken/Comments
<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>	Fully implemented.
<p>57. 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>	Fully implemented.
<p>b. Resack/Rebag the stocks with damaged sacks to avoid spillages.</p>	Fully implemented.
	<p>The variances were already taken up as Allowance for Inventory Variance per JEV No. 6 11-12-0186.</p>