



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

July 24, 2017

**THE NFA COUNCIL**  
National Food Authority  
SRA Building, North Avenue, Quezon City

8:25

MARY ANN S. NILO *gigillo*

**Gentlemen:**

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree (PD) No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our Report on the results of the audit of the accounts and transactions of the **National Food Authority (NFA)**, for the year ended December 31, 2016.

The Report consists of the Independent Auditor's Report, the Audited Financial Statements, the Observations and Recommendations, the Status of Implementation of Prior Years' Audit Recommendations and the Annexes.

We rendered an adverse opinion on the fairness of presentation of the financial statements in view of the following:

1. The balances of the Merchandise Inventory (MI) account as of December 31, 2015 was not restated to recognize the customs duties (CDs) for current year (CY) 2015 and prior years (PYs) of P24.329 billion as required in Philippine Accounting Standards (PAS) 1 and 8; thus, the comparative balances of the account as of December 31, 2015 and 2016 of P13.155 billion and P15.886 billion, respectively, are not correctly presented in the Balance Sheet. In addition, the adjustments to recognize the CDs for prior years and those for CY 2016 amounting to P25.780 billion were effected only in the consolidated financial statements as at year-end, but not in the separate books of the Field Offices (FOs), thus the affected accounts in their individual financial statements as of December 31, 2016 remained unadjusted. These cast doubt on the fair presentation of the MI account in the financial statements.

2. The amount of P540.651 million for the NFA's receivable from the Department of Transportation (DOTr) from the sale of parcel of land was erroneously taken up under the Accounts Receivable (AR)-Trade account instead of Due from National Government Agencies (NGAs), thereby overstating the account by the same amount. In addition, the amount of P198.239 million tax withheld by DOTr was not considered in the recognition of gain on sale of assets, thus, the Gain on Sale of Assets and Tax Expense accounts were understated by the same amount in the NFA-National Capital Region (NCR)-Regional Office (RO) and Head Office (HO) books.

3. The validity and existence of the AR-Trade of P1.393 billion cannot be ascertained due to the existence of dormant accounts of P534.433 million and non-availability of supporting documents; thus, affecting the fair presentation of the account in the financial statements.

4. The reliability of the Other Assets - Stock Shortages account amounting to P2.791 billion is doubtful, majority of which remained outstanding for more than five years and cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of Tolerable Allowance (TOLA).

5. The reliability and validity of the Loans Payable - Domestic and Foreign accounts as of December 31, 2016 amounting to P95.925 billion and P118.656 million, respectively, remained doubtful due to the existence of dormant accounts for more than six years of P600.619 million and absence of necessary supporting documents, while the Trust Liability accounts totaling P268.057 million in the books of HO have remained dormant for the past 10 years, rendering the existence of the obligation of NFA in the total amount of P558.916 million as of December 31, 2016 doubtful.

6. The balance of Deferred Credits account of P598.940 million as at December 31, 2016 is unreliable as this still includes dormant balances of P16.827 million in HO and several FOs with stocks that remained unwithdrawn for five years and more, and overages of P178.328 million of Stock Accountable Officers (SAOs) whose final accountabilities have not been established.

We were unable to obtain sufficient appropriate audit evidence about the balances of the AR-Trade, Other Assets, Loans Payable-Domestic and Foreign, Trust Liability, and Deferred Credits accounts due to inadequacy of documents and records. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

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

1.1 Require the HO-Accounting Services Department (ASD) to:

a. Ensure that the MI account as of December 31, 2016 to be presented in the CY 2017 comparative financial statements be adjusted in the individual books of the FOs to reflect the CDs taken up in the consolidated financial statements as of December 31, 2016; and

b. Henceforth, strictly comply with PAS 1 on the proper presentation of MI account in the financial statements to ensure comparability with the financial statements of previous periods and PAS 8 on correction of material PYs errors.

2.1 Require the South District Office (SDO):

a. To reclassify the account of DOTr from AR-Trade to Due from NGAs to correctly present the balances of the accounts;

- b. Effect the necessary adjustments to correct the amount of recorded gain on sale of assets and tax expenses incurred; and
- c. Coordinate with the NCR RO and the HO on the effect of changes in the Consolidated Statement of Income and Expenses due to the understated gain and tax expenses.

3.1 Require the ASD to fast track the reconciliation of the receivables from NGAs, Government Owned and Controlled Corporations (GOCCs) and Local Government Units (LGUs) with the collections received at the NFA-HO. Accordingly, advise the ROs/(Provincial Offices (POs) on the results thereof for updating the recorded receivables in the respective regional and provincial books of accounts where receivables were recorded.

3.2 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. 2016-005 and NFA Standard Operating Procedure (SOP) No. FS-FA13.

4.1 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.

4.2 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 be minimized/reduced.

4.3 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.

5.1 For Loans Payable-Domestic and Foreign accounts, require the ASD to: (a) exert extra effort to secure the supporting documents to facilitate the review of the long outstanding loans payable and prepare the necessary adjusting entries; (b) reconcile NFA's records with the records of the Credit Commodity Corporation; and (c) obtain copies of documents from the creditor evidencing payments on the loans and the corresponding interests.

5.2 For Trust Liability accounts, require the ASD to:

- a. Conduct thorough verification of the nature or purposes of the projects, with long outstanding balances, and determine the status whether already completed, discontinued or abandoned;
- b. Fast track the 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 concerned agencies; and

d. In coordination with concerned Source Agencies request for COA's authority to write-off dormant accounts in accordance with COA Circular No. 2016-005.

5.3 Require the ASD and Internal Audit Services Department (IASD) to reconcile their records on Lingap Para sa Mahihirap Project Fund, effect the necessary adjustments which are adequately documented in order to reflect the correct balance, and submit fund utilization report indicating the summary of expenses and status of the report of accomplishments certified by the Accountant.

6.1 Prioritize the in-depth analysis to clear the long outstanding balances in the Deferred Credits account and instruct the concerned HO departments/offices and 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 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 of those who retired or were separated from service; and

c. Obtain information and guidance on the following: (i) appropriate disposition of the advance payment made by the legislators since the stocks apparently have already been long withdrawn; (ii) status of accountability of the warehouse accountable officers; and (iii) appropriate disposition of the long outstanding overages of retired/separated SAOs with or without final TOLA computation.

The other significant observations and recommendations that need immediate action are as follows:

7. The five per cent Final Withholding Value-Added Tax (FWVAT) of P90.109 million was withheld by the DOTr from the 70 per cent of purchase price on the sale of NFA's parcel of land contrary to the provisions of the National Internal Revenue Code of 1997, as amended, thereby understating the amount collected from DOTr. In addition, the amount of P540.651 million or 30 per cent of the purchase price plus legal interests remained uncollected by NFA even with the DOTr's delay in the transfer of title to its name, which deprived NFA the use of the same in its operations.

7.1 We recommended that Management require the DOTr to pay NFA the amount of P90.109 million representing five per cent FWVAT deducted from the 70 per cent of purchase price, and P540.651 million for the remaining 30 per cent of purchase price plus legal interest.



8. The Due to the National Treasury account balance amounting to P33.081 billion as of December 31, 2016 is unreliable due to the existence of dormant/long outstanding accounts, abnormal balance, and absence of necessary supporting documents which affected the reliability, validity and accuracy of the Inter-agency payable accounts. Moreover, outstanding guarantee fees of P7.608 billion and interest on advances/net lending amounting to P1.164 billion or 51.28 per cent of the total Interest Payable of P2.270 billion remained unsettled for one to two years and above, thereby depriving the National Government (NG) of the use of the funds to supplement its other priority goals, programs and projects.

8.1 We reiterated our previous year's recommendation that Management require the ASD to prioritize the retrieval of the supporting documents in order to undertake an in-depth analysis, verification and full extent of validation of dormant accounts, including the account with negative balance, so that necessary adjusting entries can be made.

8.2 We further recommended that Management follow-up the status of its request for the possible transfer of NFA's obligation to NG; if not granted, settle outstanding advances, including the interest and guarantee fees; and if unable to settle due to limited funds, request negotiation on possible payment plan with the Corporate Affairs Group-Department of Finance (CAG-DOF).

9. The documents supporting the Statements of Fund Balance/Annual Financial Status Reports for projects implemented by NFA-Food Development Center (FDC) were deficient and incomplete to support the liquidation of P11.213 million for the funds transferred of P14.928 million, contrary to Section 4(6) of PD No. 1445, Section 28 of the Manual on the New Government Accounting System (MNGAS), Volume I and pertinent provisions of the Memorandum of Agreement (MOA)/Institutional Contractual Agreement (ICA) executed by the NFA with the Department of Agriculture-Bureau of Agricultural Research (DA-BAR), the Livestock Development Council (LDC), and the United Nations University (UNU)-Kirin; thus, the reliability of the financial reports and the validity of the projects and expenses incurred could not be fully ascertained.

9.1 We recommended that Management:

a. Require the NFA-FDC to support the Statement of Fund Balance/Annual Financial Reports for projects implemented with the following:

a.1 Detailed Project Proposal, Work Plan Schedule, Budget Summary, Logical Framework, Project Summary and request for extension of the projects duly corrected and signed/approved by the authorized signatories of both parties to prove their validity and conformity with the stipulations provided in the MOA;

a.2 Terminal reports as required in Section 1, Article 3 and Section 4, Article 2 of the MOA, and prescribed in Paragraphs 6.4 and 6.5 of COA Circular No. 94-013;

b. Closely monitor the implementation of the projects to ensure their completion within the required period considering that planning should have been undertaken before the project proposal is submitted for approval by authorized officers, and the

required project liquidation and terminal reports are submitted within the prescribed period; and

c. Exercise due diligence in the preparation and execution of the MOA to ensure that the project proposals, work plan schedules, budget summaries and other attachments to the MOA submitted are duly signed/approved and bear the letterhead of the NFA-FDC which is the requesting and implementing agency of the projects, and that the Document No., Revision No., Revision Date and Effectivity Date indicated in footnotes of the documents should pertain to NFA-FDC and contain information as agreed upon by the contracting parties.

10. The NFA-HO and ROs/POs officials and employees hired before July 1, 1989 were granted Group Hospitalization Insurance Program (GHIP), Group Accident Insurance Program (GAIP) and Executive Health Care Program (EHCP) in the total amount of P10.097 million, without authority from the Department of Budget and Management (DBM), Office of the President (OP) or legislative issuances. Moreover, the GAIP is considered a duplication of the insurance provided by the Government Service Insurance System (GSIS) under life insurance and other insurance coverage of government employees, which is prohibited in Commonwealth Act No. 186, as amended by Republic Act (RA) Nos. 4968 and 8291. Hence, the payments made for these allowances/benefits are considered irregular.

10.1 We recommended that Management:

- a. Support the payments of GHIP, GAIP and ECHP granted to NFA officials and employees with authority from the DBM or OP or by any legislative issuances; otherwise, cause the refund of the amount of premiums paid; and
- b. Henceforth, refrain from granting allowances or benefits without the required authority, appropriate funding and already included in the insurance provided by the GSIS.

11. The completion of the Electronic Integrated Financial and Operations Management Information Systems (e-IFOMIS) Project amounting to P14.448 million contracted by NFA with COMFAC Corporation on April 16, 2009 was considerably delayed by 1,280 days as of December 31, 2016 from the latest time extension up to June 30, 2013, with computed liquidated damages of P1.445 million. Thus, the NFA was deprived of the benefits to be derived therefrom. In addition, the three requests for time extension were granted even if most of the reasons/justifications could not be considered as caused by force majeure or fortuitous event, thereby unnecessarily prolonging the Project implementation period; while contract for time extension after June 30, 2013 could not be provided by NFA despite verbal and written requests which casts doubt on the validity of the continuous implementation thereof.

11.1 We recommended that Management:

- a. Deduct the amount of liquidated damages due from the subsequent payments to be made to COMFAC;
- b. Submit to the Audit Team certified copies of the contract for time extension after June 30, 2013, and the documents supporting/showing the percentage of

Project accomplishment as of June 30, 2013 and the 96.21 per cent accomplishment as of December 31, 2016; and

c. Henceforth, rigorously monitor the implementation of contracts entered into to ensure that contract stipulations are strictly performed/enforced to avoid wastage of public funds.

12. The rice inventory levels in NFA-NCR and other ROs/POs from January to December 2016 were not consistently maintained resulting in way above or below the mandated buffer stock requirements of 15 days in each month and 30 days in June resulting in excess stocks ranging from 421 to 1,513,305 bags that could expose a larger quantity of undistributed stocks stored longer than necessary to risk of deterioration/decline in quality and value. On the other hand, the inventory level below the mandated buffer stock could compromise the NFA's capability to effectively and immediately respond in times of disaster and emergency situations. Moreover, the rice inventory level of NCR which was way above the required level of buffer stocks in almost all months of CY 2016 resulted in loss of P360.368 million due to price reduction in auction.

12.1 We reiterated our previous years' audit recommendations that the Management:

a. Devise a more realistic and relevant plan of rice procurement and allocation by revisiting the allocation of stocks based on classification and determined Daily Consumption Requirements (DCRs) and/or conducting a detailed evaluation and analysis of rice demand and supply at each province, including significant environmental factors as basis for mapping a more realistic volume of rice importation and marketing plan for the NFA POs; and

b. Allocate excess stocks to other Districts/POs with lesser inventories/allocation so that a wider consumer base could be served while further losses due to extended storage could be lessened, if not totally avoided.

12.2 We also recommended to NFA-NCR to: (a) cause the immediate sale or dispersal of the 549,292 bags of rice received in CY 2015 to avoid losses to NFA; (b) expedite the accreditation of more/new retailers pursuant to Fax Message No. AO-2K15-J-006 dated October 13, 2015 of the NFA Administrator to increase the existing number of NFA accredited rice retail outlets to at least 20 per cent; and (c) implement distribution strategies such as sale of rice at adjusted/reduced prices, following the Memoranda on the ages of stocks to be sold at adjusted/reduced prices.

12.3 We further recommended that measures be adopted to address problems causing excessive stocks such as: (a) carry-over stocks from previous year importation, (b) unprogrammed receipt of other provinces/districts' allocations due to problems of warehouse space availability, (c) influx of commercial rice in the market and presence of low price good quality rice resulting in low demand for NFA rice, and (d) those causing stock deficit levels such as low procurement operations, minimal rice receipts from other provinces, non-arrival of complete allocation of imported rice and non-availability of warehouses to be leased, among others.

13. The actual net kilograms (nkgs) of stocks sold with filler transactions and the balances of stocks at any given month cannot be accurately determined due to: a) the emptied bags from issued filler stocks that were not documented by a separate Authority to Issue (AI) and Warehouse Stock Issue (WSI) required in NFA SOP No. GM-DN10.A in North District Office (NDO) and five POs; b) the discrepancy between the total number of bags issued as fillers in the Stock Reports and its total equivalent to nkgs based on the WSIs in NDO, Central District Office (CDO) and four POs; c) the unaccounted receipt of excess kgs from withdrawals of stocks in NDO and Eastern Pangasinan PO; and d) WSIs with erasures/alterations and incomplete information that resulted in erroneous stock reports.

13.1 We reiterated our recommendations in prior year's audit that Management:

- a. Require the strict monitoring and accounting of the filler transactions of warehouses starting from the recording of the fillers in the WSIs up to the recording of the transactions in the Stock Reports and in the accounting records/books;
- b. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse;
- c. Ascertain the accuracy of the reported number of filler bags issued and account for the difference per stock report and its equivalent kgs per issued WSIs; and
- d. Initiate investigation to determine personnel responsible for possible fraudulent activities, particularly in the issuances of fillers, so that appropriate measures and sanctions are enforced on those found guilty of fraudulent acts.

13.2 We also recommended that Management:

- a. Require the WSs to document the emptied containers from filler stocks with a separate AI and WSI as required under NFA SOP No. GM-DN10.A;
- b. Evaluate existing control measures in warehouse operations and institute additional controls, including the review of the documentation of receipts of excess kgs from issuances of stocks weighing more than 50 kgs/bag;
- c. Instruct the WSs to observe proper documentation as prescribed in NFA SOP No. GM-WH11 in accomplishing the WSIs; and
- d. For NDO, direct the WSs to thoroughly review computations indicated in the WSI before signing the "Certified Correct" portion of the WSI and hold liable the WSs for the over issued fillers.

14. The WSI receipts issued by several WSs of Eastern and Western Pangasinan POs were tampered, thus, showing a larger amount of fillers than what was actually issued to customers.

14.1 We recommended that Management:

- a. Restudy the NFA policies on TOLA to discourage the practice of the SAOs of maximizing the benefit thereof as TOLA is not intended for unauthorized transactions;
- b. Direct the Regional Manager of Region I to: (i) conduct investigation on the falsification of WSIs regarding the issuance of stock fillers, and immediately relieve erring personnel while investigation is on-going to avoid influencing the investigating team and manipulation of record; (ii) elevate to NFA higher authorities the evaluation of TOLA granted to SAOs for possible reduction to minimize the opportunity to unauthorized withdrawals of excessive fillers; and (iii) ensure that there is a request for the issuance for filler stocks and that it be properly checked by the Accounting Section prior to approval and issuance of AI for filler stocks; and
- c. Require the Legal Affairs Department (LAD) to file appropriate administrative charges to erring WSs/SAOs and all other personnel involved in the commission of offense, if warranted. The recommendation is without prejudice to the institution of proper complaint in a court having jurisdiction with the offense after a full investigation on the matter.

15. Only the amount of P58.138 million or 52.28 per cent of the P111.205 million funds received under the Yolanda Rehabilitation and Reconstruction Program (YRRP) was obligated as of December 31, 2016; thus, adversely affecting the warehousing activities of the affected POs particularly the condition and quality of the stored stocks due to congestion. In addition, the repair/rehabilitation/reconstruction projects amounting to P34.227 million were obligated after December 31, 2014 which is beyond the effectivity of the Special Allotment Release Order (SARO); thus, the expenses incurred became irregular.

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

- a. Exert utmost effort to obtain/follow-up the authority from proper bodies to utilize the YRRP fund beyond December 31, 2014 in order to regularize the obligation/utilization of funds after CY 2014; and
- b. Henceforth, ensure that funded projects are only implemented within the validity of SAROs.

15.2 We also recommended that upon obtaining proper authority, Management prioritize the implementation of the remaining projects which were not started/completed as at year-end.

16. Some provisions of the NFA's warehousing policies and procedures on warehouse custody, piling system, storage structure and specification, and good warehouse-keeping were not strictly observed at NFA warehouses which could result in environmental and health hazards and losses due to grain damage/deterioration in quality and value as well as theft/pilferage of stocks.

16.1 We recommended that Management:

- a. Address the deficiencies noted on warehouse custody, piling system, storage structure and specifications, and good warehouse-keeping and; henceforth, strictly comply with the provisions of NFA SOP No. GM-WH07;
- b. Ensure that the Agency engineering team be regularly fielded to conduct inspection of all facilities for early detection of defects on their physical conditions so that necessary action can be immediately undertaken;
- c. Facilitate the immediate repair of the warehouse defects to prevent further warehouse deterioration and damage to the stocks, which could result in losses to NFA;
- d. Remove the machineries that are no longer functioning inside the warehouses to provide more spaces for storage stocks;
- e. Ensure that the WS be assigned to one warehouse only to enable him to fully exercise his duties and responsibilities with the diligence of a good father of a family; and
- f. Consider the utilization of advance technologies such as closed-circuit televisions (CCTVs) in all NFA warehouses to monitor activities inside the warehouse and discourage unscrupulous activities.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 27, 2017 are discussed in detail in Part II of the Report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.


In our transmittal letter of even date, we request the Administrator of NFA to implement the recommendations contained in the Report and to inform this Commission of the actions taken thereon within 60 days from receipt of the Report.

We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the Report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**CLEOTILDE M. TUAZON**  
Director IV  
Cluster Director



**Copy furnished:**

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
The UP Law Center  
The National Library



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

July 24, 2017

**LT. COL. JASON LAUREANO Y. AQUINO (Ret.) PA**

Administrator

National Food Authority

SRA Building, North Avenue, Quezon City

JUL 24 2017  
*[Handwritten signature]*

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c. Obtain information and guidance on the following: (i) appropriate disposition of the advance payment made by the legislators since the stocks apparently have already been long withdrawn; (ii) status of accountability of the warehouse accountable officers; and (iii) appropriate disposition of the long outstanding overages of retired/separated SAOs with or without final TOLA computation.

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7. The five per cent Final Withholding Value-Added Tax (FWVAT) of P90.109 million was withheld by the DOTr from the 70 per cent of purchase price on the sale of NFA's parcel of land contrary to the provisions of the National Internal Revenue Code of 1997, as amended, thereby understating the amount collected from DOTr. In addition, the amount of P540.651 million or 30 per cent of the purchase price plus legal interests remained uncollected by NFA even with the DOTr's delay in the transfer of title to its name, which deprived NFA the use of the same in its operations.

7.1 We recommended that Management require the DOTr to pay NFA the amount of P90.109 million representing five per cent FWVAT deducted from the 70 per cent of purchase price, and P540.651 million for the remaining 30 per cent of purchase price plus legal interest.

8. The Due to the National Treasury account balance amounting to P33.081 billion as of December 31, 2016 is unreliable due to the existence of dormant/long outstanding accounts, abnormal balance, and absence of necessary supporting documents which affected the reliability, validity and accuracy of the Inter-agency payable accounts. Moreover, outstanding guarantee fees of P7.608 billion and interest on advances/net lending amounting to P1.164 billion or 51.28 per cent of the total Interest Payable of P2.270 billion remained unsettled for one to two years and above, thereby depriving the National Government (NG) of the use of the funds to supplement its other priority goals, programs and projects.

8.1 We reiterated our previous year's recommendation that Management require the ASD to prioritize the retrieval of the supporting documents in order to undertake an in-depth analysis, verification and full extent of validation of dormant accounts, including the account with negative balance, so that necessary adjusting entries can be made.

8.2 We further recommended that Management follow-up the status of its request for the possible transfer of NFA's obligation to NG; if not granted, settle outstanding advances, including the interest and guarantee fees; and if unable to settle due to limited funds, request negotiation on possible payment plan with the Corporate Affairs Group-Department of Finance (CAG-DOF).

9. The documents supporting the Statements of Fund Balance/Annual Financial Status Reports for projects implemented by NFA-Food Development Center (FDC) were deficient and incomplete to support the liquidation of P11.213 million for the funds transferred of P14.928 million, contrary to Section 4(6) of PD No. 1445, Section 28 of the Manual on the New Government Accounting System (MNGAS), Volume I and pertinent provisions of the Memorandum of Agreement (MOA)/Institutional Contractual Agreement (ICA) executed by the NFA with the Department of Agriculture-Bureau of Agricultural Research (DA-BAR), the Livestock Development Council (LDC), and the United Nations University (UNU)-Kirin; thus, the reliability of the financial reports and the validity of the projects and expenses incurred could not be fully ascertained.

9.1 We recommended that Management:

a. Require the NFA-FDC to support the Statement of Fund Balance/Annual Financial Reports for projects implemented with the following:

a.1 Detailed Project Proposal, Work Plan Schedule, Budget Summary, Logical Framework, Project Summary and request for extension of the projects duly corrected and signed/approved by the authorized signatories of both parties to prove their validity and conformity with the stipulations provided in the MOA;

a.2 Terminal reports as required in Section 1, Article 3 and Section 4, Article 2 of the MOA, and prescribed in Paragraphs 6.4 and 6.5 of COA Circular No. 94-013;

b. Closely monitor the implementation of the projects to ensure their completion within the required period considering that planning should have been undertaken before the project proposal is submitted for approval by authorized officers, and the



required project liquidation and terminal reports are submitted within the prescribed period; and

c. Exercise due diligence in the preparation and execution of the MOA to ensure that the project proposals, work plan schedules, budget summaries and other attachments to the MOA submitted are duly signed/approved and bear the letterhead of the NFA-FDC which is the requesting and implementing agency of the projects, and that the Document No., Revision No., Revision Date and Effectivity Date indicated in footnotes of the documents should pertain to NFA-FDC and contain information as agreed upon by the contracting parties.

10. The NFA-HO and ROs/POs officials and employees hired before July 1, 1989 were granted Group Hospitalization Insurance Program (GHIP), Group Accident Insurance Program (GAIP) and Executive Health Care Program (EHCP) in the total amount of P10.097 million, without authority from the Department of Budget and Management (DBM), Office of the President (OP) or legislative issuances. Moreover, the GAIP is considered a duplication of the insurance provided by the Government Service Insurance System (GSIS) under life insurance and other insurance coverage of government employees, which is prohibited in Commonwealth Act No. 186, as amended by Republic Act (RA) Nos. 4968 and 8291. Hence, the payments made for these allowances/benefits are considered irregular.

10.1 We recommended that Management:

a. Support the payments of GHIP, GAIP and ECHP granted to NFA officials and employees with authority from the DBM or OP or by any legislative issuances; otherwise, cause the refund of the amount of premiums paid; and

b. Henceforth, refrain from granting allowances or benefits without the required authority, appropriate funding and already included in the insurance provided by the GSIS.

11. The completion of the Electronic Integrated Financial and Operations Management Information Systems (e-IFOMIS) Project amounting to P14.448 million contracted by NFA with COMFAC Corporation on April 16, 2009 was considerably delayed by 1,280 days as of December 31, 2016 from the latest time extension up to June 30, 2013, with computed liquidated damages of P1.445 million. Thus, the NFA was deprived of the benefits to be derived therefrom. In addition, the three requests for time extension were granted even if most of the reasons/justifications could not be considered as caused by force majeure or fortuitous event, thereby unnecessarily prolonging the Project implementation period; while contract for time extension after June 30, 2013 could not be provided by NFA despite verbal and written requests which casts doubt on the validity of the continuous implementation thereof.

11.1 We recommended that Management:

a. Deduct the amount of liquidated damages due from the subsequent payments to be made to COMFAC;

b. Submit to the Audit Team certified copies of the contract for time extension after June 30, 2013, and the documents supporting/showing the percentage of

Project accomplishment as of June 30, 2013 and the 96.21 per cent accomplishment as of December 31, 2016; and

c. Henceforth, rigorously monitor the implementation of contracts entered into to ensure that contract stipulations are strictly performed/enforced to avoid wastage of public funds.

12. The rice inventory levels in NFA-NCR and other ROs/POs from January to December 2016 were not consistently maintained resulting in way above or below the mandated buffer stock requirements of 15 days in each month and 30 days in June resulting in excess stocks ranging from 421 to 1,513,305 bags that could expose a larger quantity of undistributed stocks stored longer than necessary to risk of deterioration/decline in quality and value. On the other hand, the inventory level below the mandated buffer stock could compromise the NFA's capability to effectively and immediately respond in times of disaster and emergency situations. Moreover, the rice inventory level of NCR which was way above the required level of buffer stocks in almost all months of CY 2016 resulted in loss of P360.368 million due to price reduction in auction.

12.1 We reiterated our previous years' audit recommendations that the Management:

a. Devise a more realistic and relevant plan of rice procurement and allocation by revisiting the allocation of stocks based on classification and determined Daily Consumption Requirements (DCRs) and/or conducting a detailed evaluation and analysis of rice demand and supply at each province, including significant environmental factors as basis for mapping a more realistic volume of rice importation and marketing plan for the NFA POs; and

b. Allocate excess stocks to other Districts/POs with lesser inventories/allocation so that a wider consumer base could be served while further losses due to extended storage could be lessened, if not totally avoided.

12.2 We also recommended to NFA-NCR to: (a) cause the immediate sale or dispersal of the 549,292 bags of rice received in CY 2015 to avoid losses to NFA; (b) expedite the accreditation of more/new retailers pursuant to Fax Message No. AO-2K15-J-006 dated October 13, 2015 of the NFA Administrator to increase the existing number of NFA accredited rice retail outlets to at least 20 per cent; and (c) implement distribution strategies such as sale of rice at adjusted/reduced prices, following the Memoranda on the ages of stocks to be sold at adjusted/reduced prices.

12.3 We further recommended that measures be adopted to address problems causing excessive stocks such as: (a) carry-over stocks from previous year importation, (b) unprogrammed receipt of other provinces/districts' allocations due to problems of warehouse space availability, (c) influx of commercial rice in the market and presence of low price good quality rice resulting in low demand for NFA rice, and (d) those causing stock deficit levels such as low procurement operations, minimal rice receipts from other provinces, non-arrival of complete allocation of imported rice and non-availability of warehouses to be leased, among others.

13. The actual net kilograms (nkgs) of stocks sold with filler transactions and the balances of stocks at any given month cannot be accurately determined due to: a) the emptied bags from issued filler stocks that were not documented by a separate Authority to Issue (AI) and Warehouse Stock Issue (WSI) required in NFA SOP No. GM-DN10.A in North District Office (NDO) and five POs; b) the discrepancy between the total number of bags issued as fillers in the Stock Reports and its total equivalent to nkgs based on the WSIs in NDO, Central District Office (CDO) and four POs; c) the unaccounted receipt of excess kgs from withdrawals of stocks in NDO and Eastern Pangasinan PO; and d) WSIs with erasures/alterations and incomplete information that resulted in erroneous stock reports.

13.1 We reiterated our recommendations in prior year's audit that Management:

- a. Require the strict monitoring and accounting of the filler transactions of warehouses starting from the recording of the fillers in the WSIs up to the recording of the transactions in the Stock Reports and in the accounting records/books;
- b. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse;
- c. Ascertain the accuracy of the reported number of filler bags issued and account for the difference per stock report and its equivalent kgs per issued WSIs; and
- d. Initiate investigation to determine personnel responsible for possible fraudulent activities, particularly in the issuances of fillers, so that appropriate measures and sanctions are enforced on those found guilty of fraudulent acts.

13.2 We also recommended that Management:

- a. Require the WSs to document the emptied containers from filler stocks with a separate AI and WSI as required under NFA SOP No. GM-DN10.A;
- b. Evaluate existing control measures in warehouse operations and institute additional controls, including the review of the documentation of receipts of excess kgs from issuances of stocks weighing more than 50 kgs/bag;
- c. Instruct the WSs to observe proper documentation as prescribed in NFA SOP No. GM-WH11 in accomplishing the WSIs; and
- d. For NDO, direct the WSs to thoroughly review computations indicated in the WSI before signing the "Certified Correct" portion of the WSI and hold liable the WSs for the over issued fillers.

14. The WSI receipts issued by several WSs of Eastern and Western Pangasinan POs were tampered, thus, showing a larger amount of fillers than what was actually issued to customers.

14.1 We recommended that Management:

- a. Restudy the NFA policies on TOLA to discourage the practice of the SAOs of maximizing the benefit thereof as TOLA is not intended for unauthorized transactions;
- b. Direct the Regional Manager of Region I to: (i) conduct investigation on the falsification of WSIs regarding the issuance of stock fillers, and immediately relieve erring personnel while investigation is on-going to avoid influencing the investigating team and manipulation of record; (ii) elevate to NFA higher authorities the evaluation of TOLA granted to SAOs for possible reduction to minimize the opportunity to unauthorized withdrawals of excessive fillers; and (iii) ensure that there is a request for the issuance for filler stocks and that it be properly checked by the Accounting Section prior to approval and issuance of AI for filler stocks; and
- c. Require the Legal Affairs Department (LAD) to file appropriate administrative charges to erring WSs/SAOs and all other personnel involved in the commission of offense, if warranted. The recommendation is without prejudice to the institution of proper complaint in a court having jurisdiction with the offense after a full investigation on the matter.

15. Only the amount of P58.138 million or 52.28 per cent of the P111.205 million funds received under the Yolanda Rehabilitation and Reconstruction Program (YRRP) was obligated as of December 31, 2016; thus, adversely affecting the warehousing activities of the affected POs particularly the condition and quality of the stored stocks due to congestion. In addition, the repair/rehabilitation/reconstruction projects amounting to P34.227 million were obligated after December 31, 2014 which is beyond the effectivity of the Special Allotment Release Order (SARO); thus, the expenses incurred became irregular.

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

- a. Exert utmost effort to obtain/follow-up the authority from proper bodies to utilize the YRRP fund beyond December 31, 2014 in order to regularize the obligation/utilization of funds after CY 2014; and
- b. Henceforth, ensure that funded projects are only implemented within the validity of SAROs.

15.2 We also recommended that upon obtaining proper authority, Management prioritize the implementation of the remaining projects which were not started/completed as at year-end.

16. Some provisions of the NFA's warehousing policies and procedures on warehouse custody, piling system, storage structure and specification, and good warehouse-keeping were not strictly observed at NFA warehouses which could result in environmental and health hazards and losses due to grain damage/deterioration in quality and value as well as theft/pilferage of stocks.

16.1 We recommended that Management:

- a. Address the deficiencies noted on warehouse custody, piling system, storage structure and specifications, and good warehouse-keeping and; henceforth, strictly comply with the provisions of NFA SOP No. GM-WH07;
- b. Ensure that the Agency engineering team be regularly fielded to conduct inspection of all facilities for early detection of defects on their physical conditions so that necessary action can be immediately undertaken;
- c. Facilitate the immediate repair of the warehouse defects to prevent further warehouse deterioration and damage to the stocks, which could result in losses to NFA;
- d. Remove the machineries that are no longer functioning inside the warehouses to provide more spaces for storage stocks;
- e. Ensure that the WS be assigned to one warehouse only to enable him to fully exercise his duties and responsibilities with the diligence of a good father of a family; and
- f. Consider the utilization of advance technologies such as closed-circuit televisions (CCTVs) in all NFA warehouses to monitor activities inside the warehouse and discourage unscrupulous activities.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on June 27, 2017 are discussed in detail in Part II of the Report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the Report.

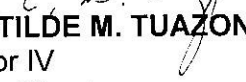
We respectfully request that the recommendations contained in Part II of the Report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

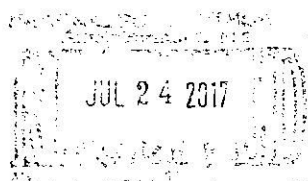
We acknowledge the support and cooperation that Management extended to the Audit Team, thus facilitating the completion of the Report.

Very truly yours,

**COMMISSION ON AUDIT**

By:

  
**CLEOTILDE M. TUAZON**  
Director IV  
Cluster Director



**Copy furnished:**

The President of the Republic of the Philippines  
The Vice President  
The Speaker of the House of Representatives  
The Chairperson – Senate Finance Committee  
The Chairperson – Appropriations Committee  
The Secretary of the Department of Budget and Management  
The Governance Commission for Government-Owned or Controlled Corporations  
The Presidential Management Staff, Office of the President  
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**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, 2016**

## **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 the created Office of Presidential Assistant for Food Security and Agricultural Modernization (OPAFSAM) of the OP.

The NFA was among the 12 agencies formerly from the OPAFSAM that were reassigned to the Office of the Cabinet Secretary of the OP under EO No. 1 dated June 30, 2016 issued by President Rodrigo Roa Duterte. It is governed by a Council which is chaired by the Cabinet Secretary.

The NFA has 15 Regional Offices (ROs) and 86 Provincial Offices (POs). It has authorized plantilla positions of 4,436 with 4,124 filled positions as of December 31, 2016. Only 506 personnel holding permanent plantilla items are assigned at the Head Office (HO) while 3,268 personnel are assigned at the Field Offices (FOs). It also has 350 co-terminus employees; 66 assigned at the HO and 284 assigned at the FOs.

## FINANCIAL HIGHLIGHTS (In Million Pesos)

### I. Comparative Financial Position

	2016	2015	Increase (Decrease)
Assets	30,984.125	32,058.954	(1,074.829)
Liabilities	172,224.709	175,811.808	(3,587.099)
Capital deficiency	(141,240.584)	(143,752.854)	(2,512.270)

### II. Comparative Results of Operation

	2016	2015	Increase (Decrease)
Sales and other income	36,939.148	25,335.607	11,603.541
Cost of sales and expenses	42,231.982	30,457.490	11,774.492
Loss from operations	(5,292.834)	(5,121.883)	(170.951)
Subsidy from national government (NG)	4,250.000	4,250.000	-
<b>Gain/(loss) after subsidy from NG</b>	<b>(1,042.834)</b>	<b>871.883</b>	<b>(170.951)</b>

### III. Budget and Actual Expenditures

	Budget	Utilization	Difference
Personnel services	2,398.316	2,010.961	387.355
Maintenance and other operating expenses	3,769.181	1,957.901	1,811.280
Capital outlays	1,619.028	103.311	1,515.717
Procurement	22,596.265	15,200.520	7,395.745
Payment of obligations	29,728.824	31,072.980	(1,344.156)
Bond sinking fund	1,700.000	1,700.000	-
Customs duties	8,342.005	6,396.652	1,945.353
Interest expense	6,333.247	6,028.739	304.508
	<b>76,486.866</b>	<b>64,471.064</b>	<b>12,015.802</b>

## SCOPE OF AUDIT

Our audit covered, on a test basis, the accounts and operations of NFA for calendar year (CY) 2016. 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 an adverse opinion on the fairness of presentation of the financial statements in view of the following:

1. The balances of the Merchandise Inventory (MI) account as of December 31, 2015 was not restated to recognize the customs duties (CDs) for CY 2015 and prior years (PYs) of P24.329 billion as required in Philippine Accounting Standards (PAS) 1 and 8;

thus, the comparative balances of the account as of December 31, 2015 and 2016 of P13.155 billion and P15.886 billion, respectively, are not correctly presented in the Balance Sheet. In addition, the adjustments to recognize the CDs for prior years and those for CY 2016 amounting to P25.780 billion were effected only in the consolidated financial statements as at year-end, but not in the separate books of the Field Offices (FOs), thus the affected accounts in their individual financial statements as of December 31, 2016 remained unadjusted. These cast doubt on the fair presentation of the MI account in the financial statements.

2. The amount of P540.651 million for the NFA's receivable from the Department of Transportation (DOTr) from the sale of parcel of land was erroneously taken up under the Accounts Receivable (AR)-Trade account instead of Due from National Government Agencies (NGAs), thereby overstating the account by the same amount. In addition, the amount of P198.239 million tax withheld by DOTr was not considered in the recognition of gain on sale of assets, thus, the Gain on Sale of Assets and Tax Expense accounts were understated by the same amount in the NFA-National Capital Region (NCR)-RO and HO books.

3. The validity and existence of the AR-Trade of P1.393 billion cannot be ascertained due to the existence of dormant accounts of P534.433 million and non-availability of supporting documents; thus, affecting the fair presentation of the account in the financial statements.

4. The reliability of the Other Assets - Stock Shortages account amounting to P2.791 billion is doubtful, majority of which remained outstanding for more than five years and cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of Tolerable Allowance (TOLA).

5. The reliability and validity of the Loans Payable - Domestic and Foreign accounts as of December 31, 2016 amounting to P95.925 billion and P118.656 million, respectively, remained doubtful due to the existence of dormant accounts for more than six years of P600.619 million and absence of necessary supporting documents, while the Trust Liability accounts totaling P268.057 million in the books of HO have remained dormant for the past 10 years, rendering the existence of the obligation of NFA in the total amount of P558.916 million as of December 31, 2016 doubtful.

6. The balance of Deferred Credits account of P598.940 million as at December 31, 2016 is unreliable as this still includes dormant balances of P16.827 million in HO and several FOs with stocks that remained unwithdrawn for five years and more, and overages of P178.328 million of Stock Accountable Officers (SAOs) whose final accountabilities have not been established.

We were unable to obtain sufficient appropriate audit evidence about the balances of the AR-Trade, Other Assets, Loans Payable-Domestic and Foreign, Trust Liability, and Deferred Credits accounts due to inadequacy of documents and records. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

## **SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS**

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

1. Require the HO-Accounting Services Department (ASD) to:
  - a. Ensure that the MI account as of December 31, 2016 to be presented in the CY 2017 comparative financial statements be adjusted in the individual books of the FOs to reflect the CDs taken up in the consolidated financial statements as of December 31, 2016; and
  - b. Henceforth, strictly comply with PAS 1 on the proper presentation of MI account in the financial statements to ensure comparability with the financial statements of previous periods and PAS 8 on correction of material PYs errors.
- 2.1 Require the South District Office (SDO):
  - a. To reclassify the account of DOTr from AR-Trade to Due from NGAs to correctly present the balances of the accounts;
  - b. Effect the necessary adjustments to correct the amount of recorded gain on sale of assets and tax expenses incurred; and
  - c. Coordinate with the NCR RO and the HO on the effect of changes in the Consolidated Statement of Income and Expenses due to the understated gain and tax expenses.
- 3.1 Require the ASD to fast track the reconciliation of the receivables from NGAs, Government Owned and Controlled Corporations (GOCCs) and Local Government Units (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.
- 3.2 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. 2016-005 and NFA Standard Operating Procedure (SOP) No. FS-FA13.
- 4.1 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.
- 4.2 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 be minimized/reduced.

4.3 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.

5.1 For Loans Payable-Domestic and Foreign accounts, require the ASD to: (a) exert extra effort to secure the supporting documents to facilitate the review of the long outstanding loans payable and prepare the necessary adjusting entries; (b) reconcile NFA's records with the records of the Credit Commodity Corporation; and (c) obtain copies of documents from the creditor evidencing payments on the loans and the corresponding interests.

5.2 For Trust Liability accounts, require the ASD to:

- a. Conduct thorough verification of the nature or purposes of the projects, with long outstanding balances, and determine the status whether already completed, discontinued or abandoned;
- b. Fast track the 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 concerned agencies; and
- d. In coordination with concerned Source Agencies request for COA's authority to write-off dormant accounts in accordance with COA Circular No. 2016-005.

5.3 Require the ASD and Internal Audit Services Department (IASD) to reconcile their records on Lingap Para sa Mahihirap Project Fund, effect the necessary adjustments which are adequately documented in order to reflect the correct balance, and submit fund utilization report indicating the summary of expenses and status of the report of accomplishments certified by the Accountant.

6.1 Prioritize the in-depth analysis to clear the long outstanding balances in the Deferred Credits account and instruct the concerned HO departments/offices and 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 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 of those who retired or were separated from service; and
- c. Obtain information and guidance on the following: (i) appropriate disposition of the advance payment made by the legislators since the stocks apparently have



already been long withdrawn; (ii) status of accountability of the warehouse accountable officers; and (iii) appropriate disposition of the long outstanding overages of retired/separated SAOs with or without final TOLA computation.

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7. The five per cent Final Withholding Value-Added Tax (FWVAT) of P90.109 million was withheld by the DOTr from the 70 per cent of purchase price on the sale of NFA's parcel of land contrary to the provisions of the National Internal Revenue Code of 1997, as amended, thereby understating the amount collected from DOTr. In addition, the amount of P540.651 million or 30 per cent of the purchase price plus legal interests remained uncollected by NFA even with the DOTr's delay in the transfer of title to its name, which deprived NFA the use of the same in its operations.

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a. Require the NFA-FDC to support the Statement of Fund Balance/Annual Financial Reports for projects implemented with the following:

a.1 Detailed Project Proposal, Work Plan Schedule, Budget Summary, Logical Framework, Project Summary and request for extension of the projects duly corrected and signed/approved by the authorized signatories of both parties to prove their validity and conformity with the stipulations provided in the MOA;

a.2 Terminal reports as required in Section 1, Article 3 and Section 4, Article 2 of the MOA, and prescribed in Paragraphs 6.4 and 6.5 of COA Circular No. 94-013;

b. Closely monitor the implementation of the projects to ensure their completion within the required period considering that planning should have been undertaken before the project proposal is submitted for approval by authorized officers, and the required project liquidation and terminal reports are submitted within the prescribed period; and

c. Exercise due diligence in the preparation and execution of the MOA to ensure that the project proposals, work plan schedules, budget summaries and other attachments to the MOA submitted are duly signed/approved and bear the letterhead of the NFA-FDC which is the requesting and implementing agency of the projects, and that the Document No., Revision No., Revision Date and Effectivity Date indicated in footnotes of the documents should pertain to NFA-FDC and contain information as agreed upon by the contracting parties.

10. The NFA-HO and ROs/POs officials and employees hired before July 1, 1989 were granted Group Hospitalization Insurance Program (GHIP), Group Accident Insurance Program (GAIP) and Executive Health Care Program (EHCP) in the total amount of P10.097 million, without authority from the Department of Budget and Management (DBM), OP or legislative issuances. Moreover, the GAIP is considered a duplication of the insurance provided by the Government Service Insurance System (GSIS) under life insurance and other insurance coverage of government employees, which is prohibited in Commonwealth Act No. 186, as amended by Republic Act (RA) Nos. 4968 and 8291. Hence, the payments made for these allowances/benefits are considered irregular.

10.1 We recommended that Management:

a. Support the payments of GHIP, GAIP and ECHP granted to NFA officials and employees with authority from the DBM or OP or by any legislative issuances; otherwise, cause the refund of the amount of premiums paid; and

b. Henceforth, refrain from granting allowances or benefits without the required authority, appropriate funding and already included in the insurance provided by the GSIS.

11. The completion of the Electronic Integrated Financial and Operations Management Information Systems (e-IFOMIS) Project amounting to P14.448 million contracted by NFA with COMFAC Corporation on April 16, 2009 was considerably delayed by 1,280 days as of December 31, 2016 from the latest time extension up to June 30, 2013, with computed liquidated damages of P1.445 million. Thus, the NFA was deprived of the benefits to be derived therefrom. In addition, the three requests for time extension were granted even if most of the reasons/justifications could not be considered as caused by force majeure or fortuitous event, thereby unnecessarily prolonging the Project implementation period; while contract for time extension after June 30, 2013 could not be provided by NFA despite verbal and written requests which casts doubt on the validity of the continuous implementation thereof.

11.1 We recommended that Management:

- a. Deduct the amount of liquidated damages due from the subsequent payments to be made to COMFAC;
- b. Submit to the Audit Team certified copies of the contract for time extension after June 30, 2013, and the documents supporting/showing the percentage of Project accomplishment as of June 30, 2013 and the 96.21 per cent accomplishment as of December 31, 2016; and
- c. Henceforth, rigorously monitor the implementation of contracts entered into to ensure that contract stipulations are strictly performed/enforced to avoid wastage of public funds.

12. The rice inventory levels in NFA-NCR and other ROs/POs from January to December 2016 were not consistently maintained resulting in way above or below the mandated buffer stock requirements of 15 days in each month and 30 days in June resulting in excess stocks ranging from 421 to 1,513,305 bags that could expose a larger quantity of undistributed stocks stored longer than necessary to risk of deterioration/decline in quality and value. On the other hand, the inventory level below the mandated buffer stock could compromise the NFA's capability to effectively and immediately respond in times of disaster and emergency situations. Moreover, the rice inventory level of NCR which was way above the required level of buffer stocks in almost all months of CY 2016 resulted in loss of P360.368 million due to price reduction in auction.

12.1 We reiterated our previous years' audit recommendations that the Management:

- a. Devise a more realistic and relevant plan of rice procurement and allocation by revisiting the allocation of stocks based on classification and determined Daily Consumption Requirements (DCRs) and/or conducting a detailed evaluation and analysis of rice demand and supply at each province, including significant environmental factors as basis for mapping a more realistic volume of rice importation and marketing plan for the NFA POs; and
- b. Allocate excess stocks to other Districts/POs with lesser inventories/allocation so that a wider consumer base could be served while further losses due to extended storage could be lessened, if not totally avoided.

12.2 We also recommended to NFA-NCR to: (a) cause the immediate sale or dispersal of the 549,292 bags of rice received in CY 2015 to avoid losses to NFA; (b) expedite the accreditation of more/new retailers pursuant to Fax Message No. AO-2K15-J-006 dated October 13, 2015 of the NFA Administrator to increase the existing number of NFA accredited rice retail outlets to at least 20 per cent; and (c) implement distribution strategies such as sale of rice at adjusted/reduced prices, following the Memoranda on the ages of stocks to be sold at adjusted/reduced prices.

12.3 We further recommended that measures be adopted to address problems causing excessive stocks such as: (a) carry-over stocks from previous year importation, (b) unprogrammed receipt of other provinces/districts' allocations due to problems of warehouse space availability, (c) influx of commercial rice in the market and presence of low price good quality rice resulting in low demand for NFA rice, and (d) those causing stock deficit levels such as low procurement operations, minimal rice receipts from other provinces, non-arrival of complete allocation of imported rice and non-availability of warehouses to be leased, among others.

13. The actual net kilograms (nkgs) of stocks sold with filler transactions and the balances of stocks at any given month cannot be accurately determined due to: a) the emptied bags from issued filler stocks that were not documented by a separate Authority to Issue (AI) and Warehouse Stock Issue (WSI) required in NFA SOP No. GM-DN10.A in North District Office (NDO) and five POs; b) the discrepancy between the total number of bags issued as fillers in the Stock Reports and its total equivalent to nkgs based on the WSIs in NDO, Central District Office (CDO) and four POs; c) the unaccounted receipt of excess kgs from withdrawals of stocks in NDO and Eastern Pangasinan PO; and d) WSIs with erasures/alterations and incomplete information that resulted in erroneous stock reports.

13.1 We reiterated our recommendations in prior year's audit that Management:

- a. Require the strict monitoring and accounting of the filler transactions of warehouses starting from the recording of the fillers in the WSIs up to the recording of the transactions in the Stock Reports and in the accounting records/books;
- b. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse;
- c. Ascertain the accuracy of the reported number of filler bags issued and account for the difference per stock report and its equivalent kgs per issued WSIs; and
- d. Initiate investigation to determine personnel responsible for possible fraudulent activities, particularly in the issuances of fillers, so that appropriate measures and sanctions are enforced on those found guilty of fraudulent acts.

13.2 We also recommended that Management:

- a. Require the WSs to document the emptied containers from filler stocks with a separate AI and WSI as required under NFA SOP No. GM-DN10.A;

- b. Evaluate existing control measures in warehouse operations and institute additional controls, including the review of the documentation of receipts of excess kgs from issuances of stocks weighing more than 50 kgs/bag;
- c. Instruct the WSS to observe proper documentation as prescribed in NFA SOP No. GM-WH11 in accomplishing the WSI; and
- d. For NDO, direct the WSS to thoroughly review computations indicated in the WSI before signing the "Certified Correct" portion of the WSI and hold liable the WSS for the over issued fillers.

14. The WSI receipts issued by several WSS of Eastern and Western Pangasinan POs were tampered, thus, showing a larger amount of fillers than what was actually issued to customers.

14.1 We recommended that Management:

- a. Restudy the NFA policies on TOLA to discourage the practice of the SAOs of maximizing the benefit thereof as TOLA is not intended for unauthorized transactions;
- b. Direct the Regional Manager of Region I to: (i) conduct investigation on the falsification of WSIs regarding the issuance of stock fillers, and immediately relieve erring personnel while investigation is on-going to avoid influencing the investigating team and manipulation of record; (ii) elevate to NFA higher authorities the evaluation of TOLA granted to SAOs for possible reduction to minimize the opportunity to unauthorized withdrawals of excessive fillers; and (iii) ensure that there is a request for the issuance for filler stocks and that it be properly checked by the Accounting Section prior to approval and issuance of AI for filler stocks; and
- c. Require the Legal Affairs Department (LAD) to file appropriate administrative charges to erring WSS/SAOs and all other personnel involved in the commission of offense, if warranted. The recommendation is without prejudice to the institution of proper complaint in a court having jurisdiction with the offense after a full investigation on the matter.

15. Only the amount of P58.138 million or 52.28 per cent of the P111.205 million funds received under the Yolanda Rehabilitation and Reconstruction Program (YRRP) was obligated as of December 31, 2016; thus, adversely affecting the warehousing activities of the affected POs particularly the condition and quality of the stored stocks due to congestion. In addition, the repair/rehabilitation/reconstruction projects amounting to P34.227 million were obligated after December 31, 2014 which is beyond the effectivity of the Special Allotment Release Order (SARO); thus, the expenses incurred became irregular.

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

- a. Exert utmost effort to obtain/follow-up the authority from proper bodies to utilize the YRRP fund beyond December 31, 2014 in order to regularize the obligation/utilization of funds after CY 2014; and

- b. Henceforth, ensure that funded projects are only implemented within the validity of SAROs.

15.2 We also recommended that upon obtaining proper authority, Management prioritize the implementation of the remaining projects which were not started/completed as at year-end.

16. Some provisions of the NFA's warehousing policies and procedures on warehouse custody, piling system, storage structure and specification, and good warehouse-keeping were not strictly observed at NFA warehouses which could result in environmental and health hazards and losses due to grain damage/deterioration in quality and value as well as theft/pilferage of stocks.

16.1 We recommended that Management:

- a. Address the deficiencies noted on warehouse custody, piling system, storage structure and specifications, and good warehouse-keeping and; henceforth, strictly comply with the provisions of NFA SOP No. GM-WH07;
- b. Ensure that the Agency engineering team be regularly fielded to conduct inspection of all facilities for early detection of defects on their physical conditions so that necessary action can be immediately undertaken;
- c. Facilitate the immediate repair of the warehouse defects to prevent further warehouse deterioration and damage to the stocks, which could result in losses to NFA;
- d. Remove the machineries that are no longer functioning inside the warehouses to provide more spaces for storage stocks;
- e. Ensure that the WS be assigned to one warehouse only to enable him to fully exercise his duties and responsibilities with the diligence of a good father of a family; and
- f. Consider the utilization of advance technologies such as closed-circuit televisions (CCTVs) in all NFA warehouses to monitor activities inside the warehouse and discourage unscrupulous activities.

## **UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

As of December 31, 2016, NFA had total consolidated unsettled Notices of Suspension of P9.069 million, Notices of Disallowance of P178.750 million, and Notices of Charge of P2.718 million. The details and status are shown in Annex C, Part IV of this Report

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

Of the 198 audit recommendations embodied in prior years' Annual Audit Reports (AARs), 37 were fully implemented, 123 were partially implemented and 38 were not implemented. Details are presented in Part III of this Report.

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

## **INDEPENDENT AUDITOR'S REPORT**

### **THE NFA COUNCIL**

National Food Authority  
Quezon City

We have audited the accompanying financial statements of the **National Food Authority (NFA)**, which comprise the balance sheet as of December 31, 2016, 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 adverse audit opinion.

### ***Basis for Adverse Opinion***

The balances of the Merchandise Inventory (MI) account as of December 31, 2015 was not restated to recognize the customs duties (CDs) for calendar year (CY) 2015 and prior years of P24.329 billion as required in Philippine Accounting Standards (PAS) 1 and 8; thus, the comparative balances of the account as of December 31, 2015 and 2016 of P13.155 billion and P15.886 billion, respectively, are not correctly presented in the Balance Sheet. In addition, the adjustments to recognize the CDs for prior years and those for CY 2016 amounting to P25.780 billion were effected only in the consolidated financial statements as at year-end, but not in the separate books of the Field Offices, thus the affected accounts in their individual financial statements as of December 31, 2016 remained unadjusted. These cast doubt on the fair presentation of the MI account in the financial statements.

Moreover, the amount of P540.651 million for the NFA's receivable from the Department of Transportation (DOTr) from the sale of parcel of land was erroneously taken up under the Accounts Receivable (AR)-Trade account instead of Due from National Government Agencies (NGAs); thereby overstating the account by the same amount. In addition, the amount of P198.239 million tax withheld by DOTr was not considered in the recognition of gain on sale of assets, thus, the Gain on Sale of Assets and Tax Expense accounts were understated by the same amount in the NFA-National Capital Region Regional Office and Head Office (HO) books.

Meanwhile, the validity and existence of the AR-Trade of P1.393 billion cannot be ascertained due to the existence of dormant accounts of P534.433 million and non-availability of supporting documents; thus, affecting the fair presentation of the account in the financial statements.

Likewise, the reliability of the Other Assets - Stock Shortages account amounting to P2.791 billion is doubtful, majority of which remained outstanding for more than five years and cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of Tolerable Allowance.

Also, the reliability and validity of the Loans Payable - Domestic and Foreign accounts as of December 31, 2016 amounting to P95.925 billion and P118.656 million, respectively, remained doubtful due to the existence of dormant accounts for more than six years of P600.619 million and absence of necessary supporting documents, while the Trust Liability accounts totaling P268.057 million in the books of HO have remained dormant for the past 10 years, rendering the existence of the obligation of NFA in the total amount of P558.916 million as of December 31, 2016 doubtful.

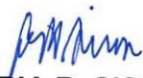
Further, the balance of Deferred Credits account of P598.940 million as at December 31, 2016 is unreliable as this still includes dormant balances of P16.827 million in HO and several Field Offices with stocks that remained unwithdrawn for five years and more, and overages of P178.328 million of Stock Accountable Officers whose final accountabilities have not been established.

We were unable to obtain sufficient appropriate audit evidence about the balances of the AR-Trade, Other Assets, Loans Payable-Domestic and Foreign, Trust Liability, and Deferred Credits accounts due to inadequacy of documents and records. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

***Adverse Opinion***

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion section of our report, the financial statements referred to above do not present fairly the financial position of **NFA** as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with generally accepted State accounting principles.

**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, 2017



## **NATIONAL FOOD AUTHORITY**

Philippine Sugar Center Bldg., North Avenue, Diliman, Quezon City  
Tel. No. (02) 453-3900/981-3800 to 30  
Website: <http://www.nfa.gov.ph>

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### **STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

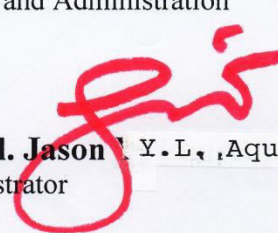
March 27, 2017

We are responsible for all information and representations contained in the Balance Sheet of the National Food Authority as of December 31, 2016 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.

  
**Ruben J. Reside**

Assistant Administrator for  
Finance and Administration

  
**Lt. Col. Jason M. Y.L. Aquino (Ret.)** PA  
Administrator

**NATIONAL FOOD AUTHORITY**  
**B A L A N C E S H E E T**  
**December 31, 2016**  
(In Philippine Peso)

	Note	2016	2015
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	1,956,307,573	1,404,124,479
Trade and other receivables	4	1,393,732,078	1,509,483,386
Inventories - net	5	15,475,851,253	19,636,143,679
Prepayments	6	18,350,540	15,754,139
Other current assets	7	342,330,857	289,235,689
		19,186,572,301	22,854,741,372
<b>Non-current assets</b>			
Investments	8	5,527,667,047	3,123,713,949
Property and equipment - net	9	2,140,282,309	2,469,327,592
Other non-current assets	10	4,129,602,907	3,611,171,538
		11,797,552,263	9,204,213,079
<b>TOTAL ASSETS</b>		<b>30,984,124,564</b>	<b>32,058,954,451</b>
<b>LIABILITIES AND CAPITAL DEFICIENCY</b>			
<b>Current liabilities</b>			
Payable accounts	11	55,085,085,412	41,208,578,496
Inter-agency payables	12	33,808,080,011	31,550,367,765
Other liability accounts	13	518,318,335	501,915,165
		89,411,483,758	73,260,861,426
<b>Non-current liabilities</b>			
Loans payable - domestic	14	82,122,619,395	101,924,119,395
Loans payable - foreign	15	91,665,649	109,980,784
		82,214,285,044	102,034,100,179
Deferred credits	16	598,939,948	516,847,237
		172,224,708,750	175,811,808,842
<b>CAPITAL DEFICIENCY</b>		<b>(141,240,584,186)</b>	<b>(143,752,854,391)</b>
<b>TOTAL LIABILITIES NET CAPITAL DEFICIENCY</b>		<b>30,984,124,564</b>	<b>32,058,954,451</b>

The Notes on pages 9 to 29 form part of these financial statements.

**NATIONAL FOOD AUTHORITY**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the Year Ended December 31, 2016**  
(In Philippine Peso)

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Sales		28,822,738,469	25,024,735,032
Cost of sales		32,107,973,326	19,939,073,655
Gross income from sales		(3,285,234,857)	5,085,661,377
Operating expenses	18	4,095,269,305	3,628,815,189
Financial expenses	19	6,028,739,177	6,889,601,579
		10,124,008,482	10,518,416,768
Loss from operations		(13,409,243,339)	(5,432,755,391)
Other income		8,116,409,213	310,871,775
Net loss before government subsidy		(5,292,834,126)	(5,121,883,616)
Subsidy income from national government	20	4,250,000,000	4,250,000,000
<b>Net loss</b>		<b>(1,042,834,126)</b>	<b>(871,883,616)</b>

The Notes on pages 9 to 29 form part of these financial statements.

**NATIONAL FOOD AUTHORITY**  
**STATEMENT OF CHANGES IN CAPITAL DEFICIENCY**  
**For the Year Ended December 31, 2016**  
(In Philippine Peso)

	<b>Note</b>	<b>2016</b>	<b>2015</b>
Equity contribution from national government	17	5,000,000,329	5,000,000,329
<b>DEFICIT</b>			
Balance at the beginning of the year		(148,752,854,720)	(147,933,649,793)
Correction of prior period errors		3,555,104,331	52,678,689
As restated		(145,197,750,389)	(147,880,971,104)
Net income (loss) for the year		(1,042,834,126)	(871,883,616)
Balance at the end of the year		(146,240,584,515)	(148,752,854,720)
<b>CAPITAL DEFICIENCY</b>		<b>(141,240,584,186)</b>	<b>(143,752,854,391)</b>

The Notes on pages 9 to 29 form part of these financial statements.



**NATIONAL FOOD AUTHORITY**  
**CASH FLOW STATEMENT**  
**For the Year Ended December 31, 2016**  
(In Philippine Peso)

	Note	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collection from customers		28,503,258,937	25,647,719,806
Subsidy received from the national government		4,250,000,000	4,250,000,000
Payment to suppliers and employees		(17,015,763,766)	(3,485,528,874)
Payment to suppliers of imported rice		(4,256,440,985)	(26,425,837,642)
Payment to suppliers of palay		(2,045,501,933)	(3,813,700,895)
		9,435,552,253	(3,827,347,605)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of property		1,067,152,520	1,915,847
Placement of investments		(2,299,993,200)	(783,474,347)
Purchase/construction of property		(103,310,958)	(104,861,573)
		(1,336,151,638)	(886,420,073)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of loans		(1,970,028,716)	9,699,736,363
Payment of financial charges		(5,583,928,053)	(5,683,066,964)
		(7,553,956,769)	4,016,669,399
Net increase (decrease) in cash and cash equivalents		545,443,846	(697,098,279)
Effects of exchange rate changes on cash and cash equivalents		6,739,248	5,747,890
Cash and cash equivalents, beginning of year	3	1,404,124,479	2,095,474,868
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>3</b>	<b>1,956,307,573</b>	<b>1,404,124,479</b>

The Notes on pages 9 to 29 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 (NGA) was created under Presidential Decree (PD) No. 4 dated September 26, 1972. On May 12, 1975, PD No. 699 took effect as an amendment of PD No. 4, wherein the NGA shall perform other functions as may be necessary to carry into effect the provision of the Act, including but not limited to, the development, culture or production of grains, and the establishment, acquisition and/or operations of grains processing, handling, storage and transport facilities. Also, the NGA may own, lease operate or otherwise hold buildings, equipment and such other immovable properties as may be necessary to carry out its functions.

On June 11, 1978, PD No. 1485 was approved to further amend certain provisions of the National Grains Industry Development Act. The law was known as the NGA Act.

On January 14, 1981, the NGA 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.

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 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.

On May 5, 2014, the NFA was transferred from the DA to the Office of the Presidential Assistant for Food Security and Agricultural Modernization (OPAFSAM) of the OP. On July 4, 2016, NFA was among the 12 agencies formerly from the OP that was reassigned to the Office of the Cabinet Secretary, based on EO No. 1, dated June 30, 2016 issued by President Rodrigo Roa Duterte. The NFA is governed by a Council, which is chaired by the Cabinet Secretary.

It has 15 regional and 86 provincial offices. It has plantilla positions of 4,436 with 3,774 filled positions as of December 31, 2016. Only 506 personnel holding permanent plantilla items are assigned at the NFA Head Office (HO), while 3,268 personnel are assigned at the Field Offices (FOs). It also has 350 co-terminous employees; 66 assigned at the HO and 284 assigned at the FOs.

## **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. Also, the customs duties on imported rice/corn which are fully funded by the National Government are now included in the cost of inventories. 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 (PE) 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.

The PE was adjusted in conformity with Government Accounting Manual (GAM) guidelines. PE items costing below P15,000 were reclassified to semi-expendable accounts. The five per cent residual value of PE was implemented in December 2016 except for Central Office (CO) which uses the e-NGAS installed by COA with 10 per cent residual value. About 80 per cent of the Philippine Public Sector Accounting Standards (PPSAS) 17 on Property, Plant and Equipment is already implemented nationwide per COA Circular No. 2015-010 dated December 1, 2015. The adoption of the Revised Chart of Accounts (RCA) for Government Corporations (GCs) is effective starting January 1, 2017.

### **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 restated using the Bangko Sentral ng Pilipinas (BSP) closing rate at the last banking day of the year and any gain/loss is recorded accordingly.

### 3. CASH AND CASH EQUIVALENTS

This account includes cash deposits in bank of P1.938 billion, out of which P690.279 million are held in trust by NFA, and cash with accountable officers amounting to P18.042 million.

### 4. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2016	2015
Accounts receivable	1,392,647,512	893,515,456
Less: Allowance for doubtful accounts	720,682,681	645,446,644
Accounts receivable – net	671,964,831	248,068,812
Due from officers and employees	259,048,259	834,750,531
Due from government-owned and controlled corporations (GOCCs)	158,817,378	165,211,075
Loans receivables	39,057,430	40,165,545
Due from national government agencies (NGAs)	67,687,180	68,870,718
Due from local government units (LGUs)	14,763,693	14,764,003
Receivables – disallowances/charges	22,345,012	24,497,734
Other receivables	160,048,295	113,154,968
	<b>1,393,732,078</b>	<b>1,509,483,386</b>

The accounts receivable is aged as follows:

	Amount	Percentage
Less than one year	616,727,650	44.29
One year but less than two years	18,306,028	1.31
Two years but less than three years	26,115,085	1.88
Three years but less than four years	113,800,470	8.17
Four years and above	617,698,279	44.35
	<b>1,392,647,512</b>	<b>100.00</b>

Due from officers and employees includes shortages of Stock Accountable Officers (SAOs) for stocks and empty sacks amounting to P214.559 million and P12.650 million, respectively.

Loans receivables include receivables from farmer miller-beneficiaries under the then Agro-processing and Marketing Project Office (APMPO) Private Sector Modernization Scheme (PSMS) Program, the Japan International Cooperation Agency (JICA), Post-Harvest Facilities (PHF) and Farm Level Grain Centers (FLGC).

Due from NGAs includes receivables from the Bureau of Customs (BOC), Department of Education (DepEd), Department of Social Welfare and Development (DSWD), Department of the Interior and Local Government (DILG), Department of Agriculture

(DA), National Disaster Coordinating Council (NDCC), Department of Budget and Management (DBM), Bureau of Internal Revenue (BIR), Office of the Civil Defense (OCD), and others.

Due from GOCCs includes receivable from the Government Service Insurance System (GSIS), Grains Insurance Corporation (GrainsCor), Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) and Philippine International Trading Corporation (PITC).

Other receivables are advances to officers and employees, and receivables from Corn Marketing Assistance Program (CMAP), millers, other agencies, offices, organizations, private institutions and corporations, and various individuals.

## 5. INVENTORIES

This account consists of the following:

	<b>2016</b>	<b>2015</b>
Merchandise inventory	13,154,854,350	15,886,102,704
Raw materials inventory	1,952,247,376	3,340,753,038
Work-in-process inventory	64,401,858	45,973,582
	15,171,503,584	19,272,829,324
Less: Allowance for inventory variance	114,902,968	69,459,659
	15,056,600,616	19,203,369,665
Others	419,250,637	432,774,014
	<b>15,475,851,253</b>	<b>19,636,143,679</b>

Merchandise Inventory consists of local and imported rice inventory while Raw Materials consist primarily of palay and corngrain. Work-in-process consists of palay issued for milling and rice for reconditioning.

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

## 6. PREPAYMENTS

	<b>2016</b>	<b>2015</b>
Advances to contractors	12,991,510	8,134,038
Prepaid rent	3,793,146	3,764,458
Prepaid insurance	1,490,678	3,740,648
Other prepaid expenses	75,206	114,995
	<b>18,350,540</b>	<b>15,754,139</b>

Advances to Contractors include amounts advanced to contractors for the construction/repair of NFA offices and warehouses.

Prepaid rent includes one month advance rental with Amberland Corporation and Solid Triangle Sales Corporation amounting to P2.026 million and P1.712 million, respectively.

Prepaid Insurance represents insurance of stocks in the course of transfer from one FO warehouse to another.

## 7. OTHER CURRENT ASSETS

This account consists of the following:

	2016	2015
Guaranty deposits	56,991,639	56,271,087
Other current assets	285,339,218	232,964,602
	<b>342,330,857</b>	<b>289,235,689</b>

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 P5.743 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 (MTS), commodity held-in-trust, miscellaneous inventory (CMAP, cereal sweepings, damaged grains, damaged non-grains, fertilizers and rice donation-Japan).

## 8. INVESTMENTS

	2016	2015
Sinking fund	4,407,889,011	2,607,530,668
Investment in stocks	500,755,187	500,755,187
Other investments	619,022,849	15,428,094
	<b>5,527,667,047</b>	<b>3,123,713,949</b>

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 the Human Settlements Development Corporation (HSDC) in the Food Terminal, Inc. (FTI) shall be transferred to the NFA and P4.408 billion provision of Sinking Fund for the long term bonds.

Other investments consist primarily of Trust Fund of P603.594 million for the construction of NFA CO Building at Visayas Avenue and investment to Center for International Trade Expositions and Missions (CITEM) amounting to P14.746 million and with the NFA-Employees' Association (EA), Development Bank of the Philippines (DBP) and Quezon City Sports Club.

## 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, 12/31/15	808,008,576	2,405,522,846	2,183,099,009	74,888,629	5,471,519,060
Additions	36,152,197	147,774,251	241,157,425	260,977,459	686,061,332
Deductions	(279,886,303)	(68,662,626)	(286,242,665)	(263,863,349)	(898,654,943)
Cost, 12/31/16	564,274,470	2,484,634,471	2,138,013,769	72,002,739	5,258,925,449
Acc. depr., 12/31/15	149,419,091	1,342,051,967	1,510,720,410	-	3,002,191,468
Depr. and depletion-2016	7,130,073	64,065,994	96,076,049	-	167,272,116
Adjustment – transfer	3,766,086	893,791	(55,480,321)	-	(50,820,444)
Acc. depr., 12/31/16	160,315,250	1,407,011,752	1,551,316,138	-	3,118,643,140
<b>Net book value, 12/31/16</b>	<b>403,959,220</b>	<b>1,077,622,719</b>	<b>586,697,631</b>	<b>72,002,739</b>	<b>2,140,282,309</b>
<b>Net book value, 12/31/15</b>	<b>658,589,485</b>	<b>1,063,470,879</b>	<b>672,378,599</b>	<b>74,888,629</b>	<b>2,469,327,592</b>

\* Includes leasehold improvements on land amounting to P23.972 million.

\*\* Includes leasehold improvements on buildings amounting to P14.375 million.

Various land acquired through purchase/unconditional donation located in the different district/provincial/regional 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.

Major decrease in the net book value of Land was due to the sale of South District Office (SDO) parcel of land containing an area of 21,202 sqm with Transfer Certificate of Title (TCT) No. 164-2012002199 located at FTI Compound, Barangay Bicutan, Taguig City, Metro Manila to then Department of Transportation and Communications (DOTC), now Department of Transportation (DOTr), with a book value of P266.085 million. The sale was for a total selling price of P1.802 billion, inclusive of all taxes. To date only 70 per cent was collected by NFA while the 30 per cent will be made available after the title is transferred to DOTr.

## 10. OTHER NON-CURRENT ASSETS

	2016	2015
Restricted funds	54,802,783	54,802,783
Other assets	4,074,800,124	3,556,368,755
	<b>4,129,602,907</b>	<b>3,611,171,538</b>

Other assets account is composed of the following:

	2016	2015
Stocks shortages – without examination	1,182,667,291	1,386,764,407
Stocks shortages – with examination without tolerable allowance (TOLA)	476,782,900	287,034,765
Stocks shortages – with examination for TOLA	411,095,510	438,123,208
	2,070,545,701	2,111,922,380
Non-performing assets	52,032,990	52,787,742
Junked assets	15,892,799	19,730,886
Equipment and implements – Agro-processing and Marketing Project Office (APMPO)	5,852,973	5,852,972
Other receivables - government agencies - claims on unrelieved losses on contingent assets (CULCA)	22,540,628	23,499,614
Other receivables – GOCCs -CULCA	1,267	1,267
Other receivables – contingent assets	1,907,933,766	1,342,573,894
	<b>4,074,800,124</b>	<b>3,556,368,755</b>



Stock shortages – without examination are stock accountabilities of NFA stock accountable officers (SAOs) which are categorized as follows:

- a. Past accountabilities include cases/accountabilities with proper cut-off but not yet 100 per cent examined (liquidated) and/or pending for examination; and
- b. On-going/current accountabilities include cases/accountabilities with no cut-off of accountability yet and the warehouse/s is/are still operational as of reporting date (with or without shortages set-up in the books/Trial Balance).

Stock shortages – with examination without TOLA includes the following:

- a. Cases/accountabilities already encoded in the New Computerized Stock Examination & TOLA Computation System which are 100 per cent completed, the required certifications are already submitted, the inventory of accountable forms are properly accounted for, and the computer generated examination reports and schedules are already final, verified by the Provincial Accountant and noted by the Provincial Manager, and forwarded or about to be forwarded to the concerned SAO for review and confirmation as of report date; and
- b. Cases/accountabilities with final examination (100 per cent completed) and the results are either shortage but considered auto-offset, or overage (therefore, no TOLA is computed).

Stock shortages – with examination for TOLA include cases/accountabilities wherein TOLA computation is conducted either in the Regional Office (RO) or in the Internal Audit Department (IAD), Central Office (CO) and with no appeal/s filed.

Non-performing assets include obsolete assets no longer in use and assets for divestments.

Junked assets are unserviceable properties and equipment reclassified from Property and Equipment account, waiting for disposal.

Equipment and Implements - APMPO represents the inventory of equipment to be utilized solely for the improvement/modernization and installation of farmers' equipment such as rubber rolls, mechanical dryers and rice mill components.

Other receivables – contingent assets are receivables for shortages with TOLA of separated/deceased employees. The significant increase in the account was due to reclassification of receivables from Due to Officers and Employees account.

## **11. PAYABLE ACCOUNTS**

This account consists of payables to farmers and private contractors including suppliers of imported rice, notes payable, and interest payable on notes payable from various banks and current portion of loans payable – domestic and foreign.

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.

Detailed breakdown of the payable accounts is as follows:

	2016	2015
<b>Accounts Payable</b>		
Private institution/contractors	2,279,542,572	4,459,261,729
PLDT, Smart, Piltel, Globe	90,804,243	74,400,172
Grains direct procurement	402,364	4,167,384
Private agencies/institutions	-	5,567,937
	2,370,749,179	4,543,397,222
<b>Notes Payable</b>		
DBP	21,334,663,252	19,102,218,530
Land Bank of the Philippines (LBP)	15,072,235,481	13,756,301,452
	36,406,898,733	32,858,519,982
<b>Due to Officers and Employees</b>		
Personal services	178,418,395	50,749,230
40 per cent Cost of Living Allowances (COLA) differential	16,820,449	16,847,189
Calamity loan assistance program	7,486,715	6,533,817
Payment of shortage under protest	2,485,080	1,169,911
Provident fund	1,852,950	1,010,292
Hospitalization assistance program	1,261,877	1,249,922
Remuneration	188,276	1,137,090
Bereavement assistance program	34,908	3,164
Executive health program	(20,276)	(20,276)
	208,528,374	78,680,339
<b>Interest Payable</b>		
BTr net lending	1,612,275,038	1,163,819,979
Various banks	490,574,750	536,751,292
LBP	99,064,481	113,205,713
DBP	66,099,369	54,176,787
1996 United States Public Law (USPL) 480	1,905,054	1,538,876
1995 Japanese Rice Loan	-	1,787,961
	2,269,918,692	1,871,280,608
<b>Loans Payable (current portion)</b>		
Domestic	13,802,000,000	1,802,000,000
Foreign	26,990,434	54,700,345
	13,828,990,434	1,856,700,345
	<b>55,085,085,412</b>	<b>41,208,578,496</b>

The accounts payable is aged as follows:

Particulars	Amount	90 days and below	91 to 180 days	181 to 270 days	271 to 360 days	Beyond 360 days
Private institutions/ corporations/ contractors/individuals	2,279,542,572	2,091,463,818	82,107,083	8,306,628	5,347,475	92,317,568
Grains direct procurement	402,364	402,348	-	-	16	-
PLDT, Smart, Piltel, Globe	90,804,243	42,811,441	7,058,535	1,591,161	1,645,677	37,697,429
	<b>2,370,749,179</b>	<b>2,134,677,607</b>	<b>89,165,618</b>	<b>9,897,789</b>	<b>6,993,168</b>	<b>130,014,997</b>

## 12. INTER-AGENCY PAYABLES

	2016	2015
Due to national treasury	33,080,603,929	30,685,363,799
Due to other NGAs	580,391,972	705,187,883
Due to GSIS	63,503,712	69,535,813
Due to other GOCCs	37,990,875	35,687,291
Due to BIR	31,133,881	46,990,851
Due to LGUs	12,616,750	6,167,256
Due to Pag-IBIG	1,378,575	1,071,165
Due to PhilHealth	460,317	363,707
	<b>33,808,080,011</b>	<b>31,550,367,765</b>

Due to national treasury consists primarily of guarantee fees payable to the Bureau of the Treasury (BTr) of P7.608 billion, advances made by BTr for the settlement of NFA's short term loans through net lending program of P25.179 billion and proceeds of United States Public Law (USPL) 480 rice of P46.223 million.

Due to Other NGAs consists of payables to National Government Agencies such as the BOC and DepEd.

Due to GSIS consists of payable for employees' compulsory life insurance (CLI) and term insurance, amortizations of salary, policy, emergency and other loans, amount payable for unclassified vessel charges and marine insurance and the like.

Due to BIR consists of payables for employees' withholding tax, contractors' tax, expanded withholding tax and value added tax (VAT).

Due to Pag-IBIG and PhilHealth consist of employees' premiums and loan amortizations.

## 13. OTHER LIABILITY ACCOUNTS

	2016	2015
Performance/bidder/bail bonds payable	136,944,809	71,916,816
Guaranty deposits payable	7,954,347	6,090,874
Other payables	373,419,179	423,907,475
	<b>518,318,335</b>	<b>501,915,165</b>

Performance/bidder/bail bonds payable are liabilities arising from the receipt of cash bonds to guaranty the performance of contracts or court order.

Guaranty deposits payable is the amount deposited in compliance with the requirement of a Memorandum of Agreement (MOA) or a contract and subject to refund.

Other payables include payable to Corn Development Fund (CDF) amounting to P161.960 million, Cooperative Development Incentive Fee (CDIF) amounting to P40.256 million, Despatch Held-in-Trust amounting to P58.758 million and payable to Vina Foods amounting to P12.517 million.

#### 14. LOANS PAYABLE – DOMESTIC

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

	2016	2015
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.	26,256,800,000	28,540,000,000
Bank of the Philippine Islands	13,800,000,000	-
Rizal Commercial Banking Corporation	-	15,000,000,000
Development Bank of the Philippines	9,200,000,000	10,000,000,000
China Banking Corporation	7,544,000,000	8,200,000,000
Land Bank of the Philippines	7,360,000,000	8,000,000,000
Philippine National Bank	2,760,000,000	3,000,000,000
Metropolitan Bank & Trust Company	1,683,600,000	1,830,000,000
Mizuho Corporate Bank Ltd.	395,600,000	430,000,000
	69,000,000,000	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	4,500,000,000
Development Bank of the Philippines	4,500,000,000	4,500,000,000
	9,000,000,000	9,000,000,000
3. Loans from Republic of the Philippines (ROP)		
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
	8,000,000,000	8,000,000,000
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 <sup>th</sup> quarter), interest: 3 months, Philippine Dealing System Treasury Fixing (PDSTF) + fixed spread of 1% with quarterly repricing, 5.1423% for the first quarter	2,700,000,000	3,240,000,000
dated January 7, 2010; due date -December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 <sup>th</sup> quarter), interest: 3 months, PDSTF + fixed spread of 1% with quarterly repricing, 5.1719% for the first quarter	2,152,500,000	2,562,500,000
dated January 14, 2010; due date - December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 <sup>th</sup> quarter), interest: 3-months, PDSTF + fixed spread of 1% with quarterly repricing, 5.1369% for the first quarter	2,362,500,000	2,812,500,000

	2016	2015
dated January 14, 2010; due date - December 23, 2021 (payable in 40 equal quarterly amortizations to start at the end of the 9 <sup>th</sup> quarter), interest: 3 months, PDSTF + fixed spread of 1% with quarterly repricing, 5.1435% for the first quarter	2,100,000,000	2,500,000,000
	9,315,000,000	11,115,000,000
5. Corn Development Fund For the Dryermat and Corn Center Project	9,000,000	10,500,000
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
	<b>95,924,619,395</b>	<b>103,726,119,395</b>
Less: Current Portion	13,802,000,000	1,802,000,000
	<b>82,122,619,395</b>	<b>101,924,119,395</b>

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:

	2016	2015
1. 1995 Japanese Rice Loan – Y541.355 million at 2% on the 1 <sup>st</sup> to 10 <sup>th</sup> year and 3% per annum from 11 <sup>th</sup> to 30 <sup>th</sup> year (with 10 years grace period) annual installments of Y27.068 million starting July 31, 2006 to July 31, 2025	103,123,852	105,866,135
2. 1996 USPL 480 at 3% per annum for the 1 <sup>st</sup> to 5 <sup>th</sup> year and 4% per annum for the 6 <sup>th</sup> to 20 <sup>th</sup> year (with a 4-year grace period) annual installments of \$937,393	15,532,231	58,814,994
	<b>118,656,083</b>	<b>164,681,129</b>
Less: Current Portion	26,990,434	54,700,345
	<b>91,665,649</b>	<b>109,980,784</b>

## 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 CY 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:

	2016	2015
<b>Personal services</b>		
Salaries and wages	1,151,153,963	1,154,475,682
Other compensation	462,746,907	467,077,490
Personnel benefits and contributions	160,295,486	164,079,661
Other personnel benefits	236,764,861	116,801,780
	2,010,961,217	1,902,434,613
<b>Maintenance and other operating expenses</b>		
Professional/contract services	477,369,481	512,227,570
Inventory losses	256,037,260	141,374,937
Storage	247,685,187	128,367,839
Handling	200,153,727	147,460,854
Depreciation and depletion	167,272,116	166,220,561
Supplies and materials	116,883,856	96,446,860
Repairs and maintenance	105,942,374	79,623,026
Utilities	103,540,313	105,670,921
Taxes and other fees	80,182,312	46,726,642
Traveling	76,580,837	74,232,255
Rent	40,541,432	38,282,335
Gasoline, oil and lubricants	37,384,102	44,639,698
Communication	33,204,011	32,851,135
Bad debts	16,309,095	30,582,262
Rewards and other claims	9,599,972	9,612,612
Other expenses	115,622,013	72,061,069
	2,084,308,088	1,726,380,576
	<b>4,095,269,305</b>	<b>3,628,815,189</b>

## 19. FINANCIAL EXPENSES

This account consists of the following:

	2016	2015
Interest expense	5,415,506,523	5,542,184,000
Guaranty fees	491,122,550	1,200,222,892
Documentary stamps	121,839,440	146,750,833
Bank charges	270,664	443,854
	<b>6,028,739,177</b>	<b>6,889,601,579</b>

Interest expense is composed of the following:

	<b>Amount</b>
Domestic loans	4,559,888,812
Letters of credit	456,001,739
Promissory notes	395,058,457
Foreign loans	4,557,515
	<b>5,415,506,523</b>

Guaranty fees are the amounts charged by the BTr on guarantees extended to NFA to cover obligations contracted. It is equivalent to one (1) per cent of the amount drawn from the loan.

Documentary stamps are levies on documents evidencing the acceptance, assignments, sale or transfer of an obligation, risk of property incident to it, usually collected at the time of registration of the documents with the concerned authority.

## **20. SUBSIDY INCOME FROM NATIONAL GOVERNMENT**

This account consists of subsidy for food security and stabilization programs. A total amount of P4.250 billion was received from the DBM as subsidy allotment for the year.

## **21. TAX SUBSIDY**

The following Special Allotment Release Orders (SAROs) were released to NFA to cover the payment of customs duties on the NFA importation of rice:

	<b>Amount</b>
BMB-C-16-0030605 dated November 7, 2016	4,780,219,107
BMB-C-16-0037608 dated December 23, 2016	1,616,432,783
	<b>6,396,651,890</b>

## **22. TAX COMPLIANCE**

Taxes withheld and Due to Bureau of Internal Revenue (BIR) for CY 2016 were recorded and remitted to BIR.

	Amount (In Thousand)
Withheld	160.487
Others	350.868
	<b>511.355</b>



### 23. REMITTANCE OF PREMIUMS TO THE GSIS

NFA deducted GSIS premiums from its officials and employees for the year 2016. Aggregate amount of P2.805 million was not remitted as of December 31, 2016 in the following office/regions:

Office/Region	Amount
HO	197,057
I	199,414
II	184,788
III	461
IV	279,437
V	60,399
VI	331,751
VII	20,648
VIII	624,178
IX	87,320
X	109,998
XI	103,018
XII	17,186
National Capital Region	315,648
Autonomous Region in Muslim Mindanao	274,064
CARAGA	-
	<b>2,805,367</b>

**STATUS OF NFA PROPERTIES WITH TITLING ISSUE/S  
AS OF 12-31-2016**

No.	TOWN	PROVINCE	TOTAL AREA in sq.m.	STATUS
1	RAWIS, LAO-ANG	NORTHERN SAMAR	10,000	The property was acquired thru purchase. However, the original copy of the Deed of Sale cannot be located. This is the reason why transfer to NFA cannot be effected. Per report from the FO, the seller is deceased already.
2	KAYCHANRIANAN, BASCO	BATANES	1,012	This lot was donated to NFA by the Municipality of Basco, Batanes. However, the Original Deed is Lost. Memoranda were sent to the PO but they have yet to locate the original copy of the Deed of Donation. Will prepare a follow-up.
3	BRGY. LIWANAG, PUERTO PRINCESA	PALAWAN	2,232	There is a pending application for the issuance of a Special patent by the DENR.
4	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.
5	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.
6	SAN GABRIEL	CAGAYAN	324	
7	BUAYAN, DATU PIANG	MAGUINADANO	23,520	Requested for documents from the Field Office for evaluation.
8			14,911	
9	CENTRO, DATU PIANG,	MAGUINDANAO	41,162	Requested for documents from the Field Office for evaluation.
10	IBA, ZAMBALES P.O. WHSE. 1 and 2	ZAMBALES	7,350	Requested for documents from the Field Office for evaluation.

11	MAGSAYSAY, CASTILLEJOS	ZAMBALES	11,000	Requested for documents from the Field Office for evaluation.
12	PANALONAN BRGY. 1 TACLOBAN CITY PORT AREA	NORTHERN LEYTE	6,849	USUFRUCT ONLY
13	BETINAN, SAN MIGUEL	ZAMBOANGA DEL SUR	2,000	Requested for all documents from local RD, letter to be sent to LGU per recommendation of PM Regino Delfin, to persuade LGU to facilitate transfer of ownership and subdivide the land so NFA can take possession of the corresponding portion of the lot.
14	VALENCIA CITY	BUKIDNON	7,000	Requested for documents from the Field Office for evaluation.
15	MALAYBALAY CITY P.O	BUKIDNON	5,345	Requested for documents from the Field Office for evaluation.
16	BRGY. POBLACION. MARAMAG	BUKIDNON	22,881	For verification with the Regional office re: actual status of lot. TCT NO. T-21301
17	AGLAYAN CITY	BUKIDNON	10,000	Subject of a Civil Case entitled "A. Villon vs. A. Mendoza" pending before RTC, Branch 9, Malaybalay City, Bukidnon. Trial on-going. NFA was dropped as party defendant.
18	BO. POBLACION, KALILANGAN	BUKIDNON	5,345	For verification on status of original documents. Deed of Sale and Sketch Plan on File.
19	MUSUAN, MARAMAG	BUKIDNON	50,000	For verification on status of original documents.
20	BRGY. BANGA, WAO	LANAO DEL SUR	116,785	OCT CLOA-918 under Leonardo Lizada and Milagros Lariza. For verification on status of original documents.
21	BRGY. BANGA, WAO	LANAO DEL SUR	10,000	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.
22	DOTAL ST. POBLACION LAGAWE	IFUGAO	1,325	Requested for documents from the Field Office for evaluation.
23	SAN DIONISIO, ILOILO	ILOILO	10,000	The Deed of Donation from Capisan MPC to NFA was not registered. Hence, the lot owner filed a case against NFA for Unlawful Detainer to re-acquire the property. NFA won the case even on appeal.
24	PACOL, PILI, CAMARINES SUR P.O.	CAMARINES	26,897	The Regional Trial Court (RTC) granted NFA's Petition for Judicial Reconstitution by lost Title.



25	NFA COMPOUND, MARAWI CITY	LANAO DEL SUR	4,824 (5,000)	Requested for documents from the Field Office for evaluation.
26	CAMACHO DRIVE, BALANGA	BATAAN	20,000	Requested for documents from the Field Office for evaluation.
27	KM. 10, BRGY. QUEZON SURIGAO CITY	SURIGAO DEL NORTE	21,678	With memo dated March 18, 2015 from Dir. Paqueo forwarding to LAD various documents including Tax Declaration, DENR Certificate & others.
28	DIGOS CITY	DAVAO DEL SUR	130,506	NFA filed a Petition for the Issuance of a 2nd Owner's Duplicate Copy of TCT No. 2390.
29	BRGY. CULO, MOLAVE	ZAMBOANGA DEL SUR	19,475	In the process of collecting several documents pertaining to the cadastral survey. LAD requested to search for the original deed of donation considering that the photocopy of the same is incomplete, page 2 thereof is missing. Previous owner filed a case against NFA which is pending before the court.
30	POBLACION, BONTOC	MOUNTAIN PROVINCE	800	For records verification.
31	NFA FLGC- NAMILLANGAN, ALFONSO LISTA	IFUGAO	3,000	For annotation of the Affidavit of Loss. Note however, that the Affidavit of Loss was executed before a Notary Public of California and not with the Notary Public for the Philippines or a Philippine Consul duly authorized to administer oath.
32	NFA-AGUIAN VIEWDECK- PATILONG VIEWPOINT, BANAUE	IFUGAO	241	For documents verification.
33	FLGC-WHSE. STA. MARIA, ALFONSO LISTA	IFUGAO	1,247	The Cooperative paid their loan already.
34	BRGY. CARIG, TUGUEGARAO CITY	CAGAYAN	20,001	Sent a Letter to the Office of Provincial Governor, requesting for copies of the Title or Certification.
35	TAWAY, IPIL (SHINN CASE)	ZAMBOANGA SIBUGAY	15,358	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 by Apouses Shinn.
36	LIWAN WEST, RIZAL	KALINGA	20,000	Made a follow-up Memorandum and phone call requesting for copies of the Subdivision Plan and Technical Description.
37	CAMP FULLON, SAN JOSE/AUTAJAY-TAVARRO vs. NFA ANTIQUE	ANTIQUE	18,297	The lot owner Dr. Maribel Autajay-Tavarro 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.
38	NAPO, PANDAN, JICA WHSE.	CATANDUANES	2,000	For Evaluation of documents.
39	ALIAGA	NUEVA ECIIJA	4,707	For Evaluation of documents.
40	ALLILINU, CALAMANUIGAN	CAGAYAN	6,780	For Evaluation of documents.
41	DINALUPIHAN	BATAAN	5,000	For Evaluation of documents.
42	NURSERY SITE, TUGUEGARAO	CAGAYAN	650	Writ of Execution issued. Coordinate with the sheriff for the execution or levying of properties.

43	LOGON, COMBADO, ORMOC CITY	NORTHERN LEYTE	2,200	For Evaluation of documents.
44	BRGY. AGUIT-ITAN, CALBAYOG CITY	WESTERN SAMAR	18297 1,210	LGU wants to give to NFA mere USUFRUCT over the property only.
45	BRGY. LEONARDA, PENGUE RUYU (LOT 3 & 4)	CAGAYAN		Writ of Execution issued. Coordinate with the sheriff for the execution or levying of properties.
46	ALAC, SAN QUINTIN	PANGASINAN	6,271	Original documents cannot be located. For determination as to the propriety of filing an application for Original Registration under P.D. 1529.
47	GOVERNMENT CENTER, CATBALOGAN CITY	WESTERN SAMAR	1,925	Prepared Deed of Acceptance for the Deed of Donation. Mother Title is in the name of the Province.
48	BALALENG, BANTAY, ILOCOS	ILOCOS SUR	6,588	With OCT No. 024-2014000511 (2,764)
49				OCT No. 024-2014000512 (3,758)
50				OCT No. 024-2014000513 (51)
51				OCT No. 024-2014000514 (15)
52	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.
53	BRGY. ASUNCION, MAASIN	SOUTHERN LEYTE		NFA filed an application for Original registration of title. Petition granted. LRA to process issuance of title.
54	BRGY. OSMENA, DAPA	SURIGAO DEL NORTE	2,000 (2,149)	With TCT No. 160-2012000052 issued on Feb. 27, 2012 per memo from SDN dated Aug. 25, 2015.
55	BRGY. 4, CATBALOGAN CITY	WESTERN SAMAR	3,000	With Special Patent No.4452 already.
56	JORDAN, GUIMARAS	CAPIZ	1,099 (1,000)	With pending application to Land Registration Authority.
57	BARAS, PALO, LEYTE (GOV'T. SITE)	NORTHERN LEYTE	28,000	Property in the named of the Provincial Government of Leyte. Which is not amenable to donate the same to the NFA, instead, allowed NFA to use property through usufruct.
58	POB. BOJO, SERGIO OSMENA	ZAMBOANGA DEL NORTE	2,000	Requested for documents from the Field Office for evaluation.
59	BRGY. BANCO, TITAY	ZAMBOANGA SIBUGAY	2,500	Requested for documents from the Field Office for evaluation.
60	POBLACION COMPOSTELA	COMPOSTELA VALLEY	10,000	On 29 March 2011, DENR Region XI already assigned the property Patent No. 3858, which is still pending approval of the DENR Secretary. On April 7, 2011, 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.
61	CADRE, GUIHULNGAN CITY	NEGROS ORIENTAL	3,000	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, Coordination made with the LRA field office for the issuance of the Decree of Confirmation and Registration.



78	MINPROCOR WHSE. 447 DEL MONTE AVE. SFDM	QUEZON CITY, CDO	2,929	Wait for the decision of the Management on the matter.
79	BANGKILING, SUCLARAN, SAN LORENZO	GUIMARAS	10,000	For verification.
80	BOROL 1 <sup>ST</sup> , 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.
81	CALIGUIAN, BURGOS	ISABELA	4,716	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.
82	PROVINCIAL CAPITOL COMPOUND	JOLO SULU	7,125	No available documents.
83	INTEGRATED FLGC, WAO	LANAO DEL SUR	10,000	For resurvey to be conducted by NFA -Regional Office No. X, Deed of Donation to be executed after lot subdivision.
84	BO. LIBERTAD, PORO, TUDELA	CEBU	2,000 (2,107)	Requested for documents to be attached in the petition for registration.
85	BRGY. SALUDARES, DINGRAS	ILOCOS NORTE	10,000	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.
86	MARAMAG	BUKIDNON	26,374	Requested for documents to be attached in the petition for registration.
87	BRGY. CALUMPANG, NAVAL	BILIRAN	3,229	Requested for documents to be attached in the petition for registration.
88	BRGY. CALAGDAAN, CANTILAN	SURIGAO DEL SUR	6,027	Requested for documents to be attached in the petition for registration.
89	TACURONG	SULTAN KUDARAT (SPGC)	19,335	Already referred to the Management for action.
90	POOC, SANTA FE	CEBU	5,000	For completion of documents needed in the filing of the petition.
91	BARUBOC, MALLIG	ISABELA	5,000	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.
92	POB. 2 INATOPILAN, CATUBIG	NORTHERN SAMAR	8,000	Requested for documents and was only given photocopies of Tax Declarations, Deed of Donation and Subdivision
93	BO. CENTRO DATU PIANG	MAGUINDANAO	41,162	Lot is already titled in the name of NFA under TCT No. T-3585 but we do not have the Original Copy., Tax Declaration is also in the name of NFA. 41, 162 sq.m.lot is being occupied by squatters according to the Provincial Office.

62	BRGY. HIPUSNGO, BAYBAY CITY	SOUTHERN LEYTE	10,000	Titled already.
63	DIFFUN	QUIRINO	3,500	For evaluation whether application for free patent under RA 10023, as suggested by the PENRO, is feasible.
64	SAMONTE, QUEZON	ISABELA	5,000	For Evaluation of documents.
65	SAN ANTONIO, SANTA MARIA	ISABELA	20,000	For Evaluation of documents.
66	BRGY. HINDANG, BORONGAN	EASTERN SAMAR	5,000	For Evaluation of documents. 4,136
67	COGON, GUIAUN,	EASTERN SAMAR	2,000	For Evaluation of documents.
68	STA. ANA, DAVAO CITY	DAVAO DEL SUR		With pending for Presidential Proclamation in process, now pending before the Office of the DENR Secretary.
69	BRGY. TAWAGAN, ORAS	EASTERN SAMAR	10,000	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.
70	APAS, BANILAD	CEBU	5,000	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.
71	SHARIF AGUAK	MAGUINDANAO	23,311	To secure from Provincial Office the following documents; Affidavit of Loss, certified copy of TCT by the Register Deeds, Latest Tax Declaration and Publications.
72	BANGKILING, SUCLARAN, SAN LORENZO, GUIMARAS	CAPIZ	5,000	Requested from Provincial Office the following document: Certified Photocopy Survey Plan, Certified Copy of the Deed, Latest Tax Declaration and Technical Description.
73	KABACAN	NORTH COTABATO	10,000	For verification.
74	TUMOG, LUNA, APAYAO	NORTHWESTERN CAGAYAN	20,000	NFA cannot acquire ownership. Title is already named under the Bureau of Plant and Industry. Mere tax declaration is not sufficient proof of ownership.
75	BIDCOR, BRGY. POBLACION, BAYUGAN CITY	AGUSAN DEL SUR	8,000	We still wait for the following documents: Survey Plan, Certified Copy of the Deed, Latest Tax Declaration and Technical Description.
76	BRGY. CALAGDAAN, CANTILAN	SURIGAO DEL SUR	4,172	For filing of a Petition in court.
77	268 QUIRINO HIGHWAY, SAN BARTOLOME, NOVALICHES	QUEZON CITY, CDO	2,892	Ready for filing. The only document lacking is a certification from the RD that TCT was burned during a fire with the RD.



111	COGON, BOGO	CEBU	5,000	DONATION dated 10-21-1975
112	LARENA, SIKUIJOR	SIKUIJOR	3,000	PURCHASED dated 4-18-1977, NFA Siquijor requested from the LRA a certification on the registration of the said lot. Awaiting the requested documents.
113	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.
114	DEL PILAR, TAGUDIN	ILOCOS SUR	2,000	For documents verification.
115	DELFIN ALBANO	ISABELA	3,000	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 for the issuance of new title with ROD.
116	ALIAGA	NUEVA ECIJA	4,707	For Evaluation of documents.
117	CADRE, GUIHULNGAN CITY	NEGROS ORIENTAL	3,000	Still awaiting for the issuance of title by the Land Registration Authority / Registry of Deeds.
118	PRA CEBU PORT CENTER	CEBU	25,000	This lot was purchased from PEA (now PRA). The Deed of Sale cannot be executed due to the issue as to who will pay the Capital Gains Tax. A draft Deed of Sale is already prepared.



## **PART II - OBSERVATIONS AND RECOMMENDATIONS**

### **A. FINANCIAL OPERATIONS**

#### **Merchandise Inventory**

**1. The balance of the Merchandise Inventory (MI) account as of December 31, 2015 was not restated to recognize the customs duties (CDs) for calendar year (CY) 2015 and prior years of P24.329 billion as required in Philippine Accounting Standards (PAS) 1 and 8; thus, the comparative balances of the account as of December 31, 2015 and 2016 of P13.155 billion and P15.886 billion, respectively, are not correctly presented in the Balance Sheet. In addition, the adjustments to recognize the CDs for prior years and those for CY 2016 amounting to P25.780 billion were effected only in the consolidated financial statements as at year-end, but not in the separate books of the Field Offices (FOs), thus the affected accounts in their individual financial statements as of December 31, 2016 remained unadjusted. Moreover, the non-recognition of handling and transportation costs amounting to P5.224 million and other deficiencies such as transcription error, omission, error in costing and non-recording of dispersal loss of P492,592. All these cast doubt on the fair presentation of the MI account in the financial statements.**

**1.1 To stabilize the price and supply of basic food commodities, particularly rice, the National Food Authority (NFA) resorted to importation to augment the domestic production. For such importations, the NFA incurred duty obligations to the Bureau of Customs (BOC) which are settled through Tax Expenditure Subsidy (TES) granted by the National Government (NG).**

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

**1.3 PAS 1 on Presentation of Financial Statements provides that the comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial statements. On the other hand, PAS 8 on Accounting Policies, Changes in Accounting Estimates and Errors provides that an entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue by: (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or, (b) if the error occurred before the earliest prior period presented, restating the opening balances, assets and equity for the earliest prior period presented.**

**1.4 The non-recognition of the CDs in NFA rice importations was previously noted and embodied in CYs 2014 and 2015 Annual Audit Reports (AARs). In response to this, on October 11, 2016, an NFA Message with reference OAAFA-J-014 was issued with instruction to impute custom duties in all NFA rice importation arrivals for CY 2016 at a**

rate of 35 per cent of the contract price, pending approval of the NFA Standard Operating Procedure (SOP) on “The Guidelines in the Accounting, Recognition of Customs Duties as Tax Expenditures Subsidy (TES) on Rice Importation.” Subsequently, NFA issued SOP No. FS-FA14 dated December 6, 2016 to recognize CDs covering rice importation arrivals starting with the pertinent transactions in CY 2016.

1.5 As reflected in the NFA’s consolidated Balance Sheet as of December 31, 2016 and Statement of Income and Expenses for CY 2016, the balances of MI and Cost of Sales (COS) accounts with comparative figures for CY 2015 are presented in Table 1.

**Table 1- Balances of MI and COS for CYs 2015 and 2016**

Account	CY 2016	CY 2015
MI	P 13,154,854,350	P 15,886,102,704
COS	32,107,973,326	19,939,073,655

1.6 In December 2016, the Accounting Services Department-National Accounting Division (ASD-NAD), Head Office (HO), prepared four Journal Entry Vouchers (JEVs) to effect the non-recognition of CDs as part of MI and the TES granted by the NG for the CDs of imported rice (IMR) for CYs 2013 to 2016. The accounts affected include the MI, Prior Year Adjustment (PYA)-Other Income, Subsidy Income from NG, Due to BOC, PYA-COS and COS. The journal entries are summarized in Table 2.

**Table 2- Adjusting Entries to Recognize the Effects of CDs**

JEV No.	Explanations	Accounts	Debit (P)	Credit (P)
16-12-0016	To recognize the receipt of tax subsidies for CYs 2013 to 2016 and set-up the CDs per cereal type	MI PYA-Other Income Subsidy Income from the NG Due to BOC	25,779,971,952   28,165,542,936	 21,768,891,046 6,396,651,890 25,779,971,952
16-12-0017	To recognize the effects of CDs in the CY 2016 COS for the 1,044,221,134.97 kilograms (kgs) IMR sold	COS MI	7,026,047,752  7,026,047,752	  7,026,047,752
16-12-0018	To recognize the effects of CDs in the CY 2014 COS for the 1,160,511,059.66 kgs of IMR sold	PYA- COS MI	9,598,370,155  9,598,370,155	  9,598,370,155
16-12-0019	To recognize the effects of CDs in the CY 2015 COS for the 926,451,753.80 kgs of IMR sold	PYA- COS MI	7,821,352,968  7,821,352,968	  7,821,352,968

1.7 As shown in Table 2, the ASD-NAD made an entry to take up the unrecognized CD for the IMR received by the NFA-FOs in CY 2016, including those of CY 2015 and prior years to record its effect on MI and Due to BOC accounts amounting to P25.780 billion. However, the entries made were only effected in the consolidated financial statements of the NFA as at year-end, but not in the separate books of the FOs. Thus, the affected accounts in the individual financial statements of the FOs as of December 31, 2016 remained unadjusted. Additionally, the total amount of P25.780 billion was recorded as current year’s transaction, which the amount of P24.329 billion should had been allocated to CY 2015 as restatement to the opening balance of CY 2016, while the amount of P1.451 billion was adjusted to CY 2016 ending balance. Details are shown in Table 3.

**Table 3 - Recognition of CDs for the IMR Stocks Received in CY 2016 and PYs**

Year of Importation	IMR Received				
	2015 and PY		2016		Total CD
	Qty (in kgs)	CD	Qty (in kgs)	CD	
2013/2014	2,682,506,128	P 21,768,891,046	-		P 21,768,891,046
2015	402,229,508	2,560,010,361	348,839,788	P 2,220,208,746	4,780,219,107
2016	-	-	249,211,180	1,616,432,783	1,616,432,783
	3,084,735,636	24,328,901,407	598,050,968	3,836,641,529	28,165,542,936
Less: CD recognized in 2016 by FOs			254,032,714	2,385,570,984	2,385,570,984
Balance	3,084,735,636	P 24,328,901,407	344,018,254	P 1,451,070,545	P 25,779,971,952

1.8 Moreover, based on the CY 2016 National Consolidated Schedule of Expenses attached to the National Consolidated Trial Balance as of December 31, 2016, the CDs taken up in the FOs amounted to P2.386 billion during the year. However, it was noted that these pertained only to the IMR received in the latter part of CY 2016 from rice importations during the year, and not for the whole year.

1.9 In the National Capital Region (NCR), review of data and supporting documents on the receipt of IMR disclosed that CDs of P576.074 million or 24.15 per cent of the total CDs recognized in CY 2016 by FOs of P2.386 billion were recognized at year-end. These pertained only to the October and November 2016 arrival and receipt of IMR. Computed CDs on the total receipt of IMR for the year of 4,486,419 bags with net weight of 223,634,325.17 kgs based on Certificate of Complete Delivery and Receipt (CCDR) amounted to P1,439.061 million. Thus, the recognized CD for the year was understated by P862.987 million [P1,439.061 million - P576.074 million], as shown in Table 4.

**Table 4 - CD for IMR Received in CY 2016 by NCR**

Name of Vessel	CD Paid per SOA of BOC	Manifest Load		Average CD		Actual Received per CCDR		Should be CD	Recognized CD	Under/(over) statement in CD
		in Bags	Per Bag	Per NKg	Bags	NKgs				
Tan Binh 45	P 143,933,564	450,000	319.85	6.39705	447,818	22,282,707.00	P 142,543,530	P	-	P 142,543,530
Tan Binh 38	174,680,130	546,000	319.93	6.39854	529,550	26,383,210.00	168,814,013	-	-	168,814,013
Vinaship Pearl	143,174,031	440,000	325.40	6.50791	437,275	21,795,322.00	141,842,005	-	-	141,842,005
Vinh Phuoc	71,586,154	224,000	319.58	6.39162	223,617	11,140,508.00	71,205,904	-	-	71,205,904
Vinaship Ocean	71,085,938	220,000	323.12	6.46236	218,587	10,887,083.00	70,356,228	-	-	70,356,228
Nordic Suzhou	183,446,104	580,000	316.29	6.32573	438,622	21,864,110.17	138,306,408	-	-	138,306,408
Inlaco Express	193,123,621	600,000	321.87	6.43745	598,215	29,818,537.00	191,955,461	-	-	191,955,461
Lan Ha	83,829,996	260,000	322.42	6.44846	259,073	12,930,500.00	83,381,828	94,286,546	(10,904,718)	
My Thinh	83,829,996	260,000	322.42	6.44846	258,672	12,906,560.00	83,227,452	91,253,965	(8,026,513)	
Quang Minh 6	24,714,093	76,000	325.19	6.50371	75,844	3,782,488.00	24,600,200	27,280,792	(2,680,592)	
Vinaship Pearl	135,232,297	416,000	325.08	6.50155	413,989	20,646,982.00	134,237,442	148,661,056	(14,423,614)	
Dong Phong	42,910,248	132,000	325.08	6.50155	131,473	6,554,687.00	42,615,643	47,574,461	(4,958,818)	
Vinaship Diamond	146,996,164	456,000	322.36	6.44720	453,684	22,641,631.00	145,975,127	167,016,863	(21,041,736)	
	<b>P 1,498,542,336</b>	<b>4,660,000</b>			<b>4,486,419</b>	<b>223,634,325.17</b>	<b>P 1,439,061,241</b>	<b>P 576,073,683</b>	<b>P 862,987,558</b>	

SOA – Statement of Account; NKgs – net kilograms

1.10 For CY 2016, the NCR's COS amounted to P5.280 billion. The moving monthly average cost of MI for each rice variety sold for the month (in nkg) is added/debited to the account every month.

1.11 The CDs for the remaining 2,617,316 bags of CY 2015 IMR received during the 1<sup>st</sup> quarter of CY 2016, which were not recognized, resulted in the understatement of the reported MI account balance at year-end by P341.451 million. Table 5 shows the

understatement of MI account balance as of December 31, 2015 and 2016. The amount of CD was computed by multiplying the average CD per bag by the number of bags.

**Table 5 - Understatement of MI Account Balance as of December 31, 2016 and 2015 in NCR**

Variety	Average CD per Bag	CY 2015		CY 2016	
		No. of Bags	Amount	No. of Bags	Amount
VCCW42	413.356124	198,544	P 82,069,378	-	P -
VCEW51	301.668238	130,559	39,385,503	-	-
TFEW51	298.185098	61,737	18,409,053	-	-
VCEW52	306.725075	2,114,426	648,547,473	983,893	301,784,654
TFEW52	316.286386	139,352	44,075,140	-	-
VCCW51	318.917650	866,729	276,415,176	31,108	9,920,890
TFCW51	313.842064	863,415	270,975,946	114,817	36,034,404
VCEW61	320.597890	-	-	142,054	45,542,213
TFEW61	321.872702	-	-	522	168,018
VCEW62	323.878173	-	-	998,806	(35,946,861)
TFEW62	322.360009	-	-	346,116	(16,052,763)
		<b>4,374,762</b>	<b>P 1,379,877,669</b>	<b>2,617,316</b>	<b>P 341,450,555</b>

Notes: Average CD per bag was computed per variety and period of arrival.

No. of bags was based on CY 2016 NCR Annual Accomplishment Report.

CDs for VCEW62 and TFEW62 that arrived in Oct-Nov 2016 had been over recognized.

1.12 Likewise, the COS for the year was understated by P1.592 billion computed by multiplying the average CD per bag of variety by the 5,259,196 bags sold from CY 2016 and prior years' stock receipts, as shown in Table 6. The CDs for VCEW62 and TFEW62 which arrived in October and November 2016 had been over recognized.

**Table 6 - Understatement of CY 2016 COS due to Non-recognition of CD**

Variety	Average CD per Bag	CY 2016	
		No. of Bags	Amount
VCCW42	413.356124	195,886	P 80,970,678
VCEW51	301.668238	130,890	39,485,356
TFEW51	298.185098	61,565	18,357,765
VCEW52	306.725075	1,060,408	325,253,723
TFEW52	316.286386	579,463	183,276,258
VCCW51	318.917650	675,735	215,503,818
TFCW51	313.842064	899,165	282,195,799
VCEW61	320.597890	825,921	264,788,530
TFEW61	321.872702	594,496	191,352,034
VCEW62	323.878173	134,471	(4,839,589)
TFEW62	322.360009	101,196	(4,693,442)
		<b>5,259,196</b>	<b>P 1,591,650,930</b>

1.13 The non-restatement of the MI account as of December 31, 2015 which remained at P15.886 billion as presented in the comparative financial statements was understated by P6.910 [CD CY 2015 & PY of P24.329 billion (Table 3) minus CD COS CY 2014 of P9.598 billion (Table 2) minus CD COS CY 2015 of P7.821 billion (Table 2)] while the balance as of December 31, 2016 of P13.155 billion was overstated by the same amount.

1.14 The non-compliance with PAS 1 and 8 resulted in misstated comparative balances of MI as presented in the Balance Sheet.

*Non-recognition of handling and transportation costs of P5.224 million*

1.15 For the CY 2016 rice 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 was to be paid by the NFA.

1.16 In NCR-Cavite Provincial Office (PO), the stock received from dispersal was charged with “two moves” handling from truck to platform scale and then to pile. Handling cost rate per move of gross metric ton (MT) was P3.65 for the period January 1 to February 29, 2016 and P4.50 for the period covering March 1 to December 31, 2016. It was computed by multiplying the “gross MT” or “gross kilogram divided by 1,000” by “rate per move”. The processing and payment of handling cost was being done at NCR Regional Office (RO). By performing mathematical recalculation, the capitalizable handling costs directly attributable to the receipt of imported rice should have been P2.280 million. However, based on the data made available by Management, the handling cost recognized was only P1.188 million due to the delay by the NCR RO in sending the pertinent JEVs and incomplete information and data given to Cavite PO on the details of payments per disbursement vouchers (DVs) which resulted in unrecognized handling cost of P1.091 million.

1.17 In addition, the importation contracts stipulated that the delivery was freight free provided that the distance was within the 30-kilometer 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, the NCR RO executed a contract with designated cargo handler of the supplier for the delivery of the IMR directly to the Cavite PO warehouses. The transportation expenses beyond the 30-km radius were paid by the NCR RO.

1.18 The additional transportation expenses incurred in bringing the imported rice to the Cavite PO warehouses in the total amount of P4.862 million should have been capitalized as cost component of MI account. For CY 2016 receipt of imported rice and stock dispersal, the Cavite PO recognized transportation cost of only P0.729 million, due to delay by NCR RO in sending the JEV and its supporting documents/details to Cavite PO, resulting in unrecognized transportation cost of P4.133 million.

1.19 The non-recognition of handling cost and transportation cost incurred in CY 2016 amounting to P1.091 million and P4.133 million, respectively, or a total of P5.224 million understated the MI account by the same amount. This observation had been noted in prior years’ audit. Based on the Agency Action Plan and Status of Implementation (AAPSI) for CY 2015 AAR, Management stated thereon that coordination of handling and hauling services is properly monitored by the Provincial Accounting Section.

*Erroneous recording of receipt of IMR of P492,592*

1.20 In NCR- Cavite PO, the total receipt of IMR for the year of 421,704 bags with net weight of 21,032,559.24 nkgs had recorded cost of P431.538 million. However, there were errors in the recording the receipt of IMR as follows:

- a. On January 14, 2016, the arrival of IMR documented by various Warehouse Stock Receipts (WSRs) was erroneously recorded in JEV No. 16-01-0072

supporting schedule with 2,480.50 variance in nkgs due to transcription error. Said error resulted in the understatement of the MI account by P50,218.

b. On October 24, 2016, the arrival of IMR covered by WSR No. 1584441 was omitted in JEV No. 16-10-0108 supporting schedule resulting in an error in the amount of P31,290. Said amount was excluded in the summation of the daily amounts.

c. In November 2016, IMR shipped via Vinaship Diamond was recorded at a price of US\$426.60 for a total of P79.899 million instead of the contract price of US\$424.85 as reflected in the commercial invoice resulting in a difference of P327,763, thereby overstating the MI account by the same amount.

d. The MI account was overstated by P103,766 due to the effect of the errors in summation and contract price (Items b and c) in the custom duties.

The overall effect of these errors was the overstatement of MI account in the total amount of P350,021 [P327,763 + P103,766 - P50,218 - P31,290].

1.21 In NCR-North District Office (NDO), further verification disclosed that dispersal loss in the amount of P92,977 was not recognized from the receipt of 41,100 bags of rice from Cavite PO and South District Office (SDO). The variance of 4,674 kgs from origin (Cavite PO/SDO) to destination (NDO) was taken up in the books of NDO as part of the MI received, thus, overstating the MI account and understating the Operating Expenses accounts by the same amount.

1.22 Likewise, the recording of the 5,390 bags of IMR received from SDO under Technical-In Technical-Out (TITO) method per JEV3 No. 16-02-0129 dated February 29, 2016 was overstated by 50 bags resulting in the overstatement of the MI and Due to Operating Unit- SDO accounts by P49,594.

1.23 Thus, the over-all errors noted in NCR- Cavite PO, NDO and SDO in the recording of the receipt of IMR resulted in the overstatement of MI account in the total amount of P350,021, P92.977 and P49,594, respectively, or a total of P492,592.

*Other deficiency - inexistent inventory and abnormal quantities*

1.24 In NCR-Cavite PO, the balance of MI account as of December 31, 2016 amounting to P514.917 million includes various stocks amounting to P5.367 million which did not exist as of physical inventory count conducted on November 21-23, 2016. The local and imported Vietnam rice with balances of P4.236 million and P0.991 million, respectively, had abnormal quantities of 16,265.10 kgs and 23.543.34 kgs, respectively. The noted variances between the balances per inventory count and per books can be attributed to the following:

a. When the issuance of actual weight per bag is less than what has been recorded, it will result in the weight's negative balance since the valuation of MI is based on moving average method, every addition/adjustments thereof will result in increase of cost;

- b. The adjustment to cost of MI pertaining to prior years was recognized as an additional cost of MI for the current period;
- c. The improper recognition of the actual/correct amounts during the current period was due to delay in sending/receiving the required supporting documents for the stock transfers recorded in the inter-branch transactions; and
- d. Non-availability of documents needed to reconcile the variances.

1.25 Table 7 shows the overall effect of the deficiencies noted on the MI account, which resulted in the overstatement of the account as at year-end by P6,904.446 million, thus casting doubt on the fair presentation thereof in the financial statements.

**Table 7 - Overall Effect of the Deficiencies Noted on MI Account**

<b>Particulars</b>	<b>Amount (In millions)</b>	<b>Effect on MI</b>
Error in recognition of CD	P 6,909.178	Overstated
Non-recognition of handling and transportation costs	5.225	Understated
Erroneous recording of receipt of IMR	0.493	Overstated
<b>Net effect</b>	<b>P 6,904.446</b>	<b>Overstated</b>

1.26 **We recommended that Management require the HO-ASD to:**

- a. **Ensure that the MI account as of December 31, 2016 to be presented in the CY 2017 comparative financial statements be adjusted in the individual books of the FOs to reflect the CDs taken up in the consolidated financial statements as of December 31, 2016; and**
- b. **Henceforth, strictly comply with PAS 1 on the proper presentation of MI account in the financial statements to ensure comparability with the financial statements of previous periods and PAS 8 on correction of material PYs errors.**

1.27 **In NCR-Cavite PO, we reiterated our prior year's audit recommendations that Management closely coordinate with the NCR RO for the timely and complete recognition of the handling and transportation expenses to present the correct balance of MI account at the end of each year; and effect the necessary adjustments in the books the handling and transportation costs in the MI in CY 2016.**

1.28 **On the issue on inexistent inventory and abnormal quantities, we recommended that Management immediately conduct reconciliation of the Inventories and effect the necessary adjustments in the books to come up with the correct balance of the MI account.**

1.29 Management provided the following comments:

- a. In the HO, it had instructed its FOs per General Message OAAFA-E-008 dated May 30, 2017 to take-up in their in-process Trial Balances the corresponding CDs for the IMR received prior to October 2016 and prepared Restated Statement of Income and Expenses, and the Balance Sheet for

CY 2016 with comparative figures for CY 2015 to adjust the CYs 2015 and 2016 MI ending balances.

b. In NCR, instructions from HO specifically pertained to imputation of CDs for CY 2016 rice importation only, based on contracted price. It informed the ASD on the matter and will wait for further advice on the accounting treatment. On the non-recognition of handling and transportation cost, it informed that as of April 2017, handling and hauling services recorded in the books amounted to P1.341 million and closed to Government Equity account. On the inexistent inventory and abnormal quantities, Cavite PO said that there is continuing reconciliation undertaken, especially for those non-existent and abnormal balances. In NDO, the dispersal loss for the stocks transferred by Cavite PO and SDO in CY 2016 and the over recording in the receipt of stocks from SDO of 50 bags were already adjusted per JEV3-17-04-110 and JEV3-17-03-150, respectively.

1.30 As a rejoinder, the Restated Statement of Income and Expenses, and the Balance Sheet for CY 2016 with comparative figures for CY 2015 submitted by the ASD are still unreliable as the FOs' financial statements remained unadjusted. **Thus, we further recommended that, henceforth, Management ensure compliance with the pertinent accounting standards especially on the presentation of the financial statements.** Moreover, in NCR, the cost of handling and transportation expenses which have not been paid at the NCR RO at the end of the year could be computed at the Cavite PO and record as accrued expenses to present the correct balance of MI account at end of year.

#### **Accounts Receivable-Trade**

**2. The validity, existence and collectability of the Accounts Receivable (AR)-Trade of P1.393 billion cannot be ascertained due to the dormant accounts, non-availability of supporting documents, and the absence of updated information on collections; thus affecting the faithful presentation of the account in the financial statements. Moreover, the amount of P540.651 million for the NFA's receivable from Department of Transportation (DOTr) from the sale of parcel of land, where the office and warehouses of SDO were formerly located, was erroneously taken up under the account instead of Due from National Government Agencies (NGAs); thereby overstating the account by the same amount.**

2.1 Section 111 of Presidential Decree (PD) No. 1445 states that, *"(1) The accounts of the agency shall be kept in such detail as is necessary to meet its needs and at the same time to be adequate to furnish the information needed by fiscal or control agencies of the government. (2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information."*

2.2 COA Circular No. 97-001 dated February 5, 1997 provides that, 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 the absence of records and documents, the agency head concerned should request for write-off and/or adjustment of account balances from 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 statement/schedules and supporting vouchers/documents cannot be located.

2.3 COA Circular No. 2016-005 dated December 19, 2016 was issued to amend COA Circular No. 97-001 and prescribe the guidelines and procedures on the write-off of dormant accounts which include, among others, dormant receivables arising from regular trade and business transactions. However, it shall not cover receivables arising from disallowances and charges; receivables arising from cash shortages; and claims from entities' officers and employees and other parties from transactions which are the subject of a pending case in court or before investigative authorities.

2.4 The same COA Circular defines Dormant Receivable Accounts as accounts which balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.

2.5 In NFA, the AR-Trade account is used to record the sale of rice on credit to the NGAs, Local Government Units (LGUs), Government-Owned and Controlled Corporations (GOCCs), private corporations, retailers, employees and farmers. Accounts receivables from NGAs consist of authorized rice loans granted to various government agencies under Memoranda of Agreement (MOAs) entered by NFA-HO with various government agencies. The responsibility for the collection of the accounts rest with NFA-HO. The payments are recorded by the ROs/POs and AR account is credited upon the receipt of advice of payment from the NFA-HO.

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

2.7 As of December 31, 2016, the balance of AR-Trade of the NFA amounted to P1.393 billion, or an increase by P499.133 million compared to the CY 2015 balance of P893.515 million. The breakdown of the account is shown in Table 8.

2.8 As can be gleaned from Table 8, the receivables from NGAs and LGUs of P1.227 billion and P153.557 million, respectively, comprised the 99.15 per cent of the total accounts receivable at year-end.

**Table 8- Breakdown of AR-Trade**

Particulars	HO	ROs/POs	Total	Percentage
NGAs	P 55,785,824	P 1,171,425,894	P 1,227,211,718	88.12
LGUs	-	153,557,007	153,557,007	11.03
GOCCs	-	(6,158,168)	(6,158,168)	(0.44)
Private Corporations	3,531,235	7,936,369	11,467,603	0.82
Retailers	-	606,078	606,078	0.04
Erap Sari-Sari Store (ESSS) Operators	-	29,986	29,986	0.00
Emergency Cereal Loan Assistance Program (ECLAP)	-	13	13	0.00
Employees	-	381,676	381,676	0.03
Farmers	-	5,551,599	5,551,599	0.40
<b>Total</b>	<b>P 59,317,059</b>	<b>P 1,333,330,454</b>	<b>P 1,392,647,512</b>	<b>100.00</b>
Less: Allowance for Doubtful Accounts	59,317,059	661,365,623	720,682,681	
<b>Accounts Receivable – Net</b>	<b>P -</b>	<b>P 671,964,831</b>	<b>P 671,964,831</b>	

2.9 In CY 2015 audit of AR-Trade account disclosed that a total of P133.089 million from the Branch Transactions Accounting Section (BTAS) remained unreconciled. As at year-end of 2016, BTAS reconciling items amounted to P689.500 million, or substantial increase by P556.411 million, as presented in Table 9, which indicates that reconciliations are not being done regularly.

**Table 9 - Comparative BTAS Balance- AR - Trade**

Particulars	2016	2015	Increase/ (Decrease)	Percentage
NGAs	P 615,816,140	P 66,246,303	P 549,569,837	829.58
LGUs	665,008	1,154,235	(489,227)	(42.38)
GOCCs	57,838,638	50,627,629	7,211,009	14.24
Private Entities	10,877,276	10,764,290	112,986	1.05
Retailers	3,526	3,017	509	16.87
ESSS	-	-	-	-
ECLAP	-	-	-	-
Employees	47,046	41,251	5,795	14.05
Farmers	4,252,633	4,252,633	-	-
	<b>P 689,500,267</b>	<b>P 133,089,358</b>	<b>P 556,410,909</b>	<b>418.07</b>

2.10 Review of the AR-Trade account showed that of the P499.133 million [CY 2016 of P1,392.648 million – CY 2015 of P893.515 million] net increase in the account balance, the amount of P540.651 million represents receivable from the DOTr, formerly Department of Transportation and Communications (DOTC) for the sale of a parcel of land with an area of 21,202 square meters owned by NFA which was recorded under AR-Trade account in the books of SDO. Such receivable from DOTr was erroneously recorded by SDO under AR-Trade account instead of under Due from NGAs account, contrary to the MNGAS, Volume III, as the amount due did not result from NFA's trading/business which is the sale of rice and corn.

2.11 Based on the NFA's Report on Aging of AR-Trade as of December 31, 2016, the amount of P617.698 million or 44.35 per cent had been outstanding for four years and more already while P139.916 million are aged two years to less than four years, as shown in Table 10.

**Table 10 - Aging of AR-Trade**

	<b>Amount</b>	<b>Percentage</b>
Less than one year	P 616,727,650	44.28
One year but less than two years	18,306,028	1.32
	<b>635,033,678</b>	<b>45.60</b>
Two years but less than three years	26,115,084	1.88
Three years but less than four years	113,800,471	8.17
	<b>139,915,555</b>	<b>10.05</b>
Four years and above	<b>617,698,279</b>	<b>44.35</b>
	<b>P 1,392,647,512</b>	<b>100.00</b>

2.12 Management may have sufficiently provided for allowance for doubtful accounts in the amount of P720.683 million, as shown in Table 8, 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.

2.13 Moreover, out of the total P757.614 million receivables aged two to four years or more, P674.078 million or 88.97 per cent were receivables from the NGAs, GOCCs and LGUs, composed of the accounts presented in Table 11.

**Table 11 - AR-Trade from NGAs and LGUs Aged Two to Four Years or More**

<b>Agencies</b>	<b>More than 2 years but less than 4 years</b>	<b>Over 4 years and above</b>	<b>Total</b>
<b>NGAs</b>			
Department of Education (DepED)	P 82,671,752	P 122,051,703	P 204,723,455
Department of National Defense (DND)	989,375	141,014,952	142,004,327
Office of the President (OP)	-	55,551,383	55,551,383
Department of Social Welfare and Development (DSWD)	5,534,005	50,113,296	55,647,301
Senate/House of Representatives	131,000	32,514,576	32,645,576
Other Offices	-	(6,468,176)	(6,468,176)
<b>Sub-total</b>	<b>89,326,132</b>	<b>394,777,734</b>	<b>484,103,866</b>
<b>LGUs</b>			
Local Government Offices	49,779,030	75,323,399	125,102,429
Municipal Government Offices	540,000	6,854,093	7,394,093
Provincial Government Offices	-	6,073,153	6,073,153
City Government Offices	-	592,446	592,446
<b>Sub-total</b>	<b>50,319,030</b>	<b>88,843,091</b>	<b>139,162,121</b>
<b>GOCCs</b>			
Government Owned and Controlled Corporation	-	1,155,693	1,155,693
Philippine Sugar Commission (PHILSUCOM)	-	39,809,446	39,809,446
Social Security Services (SSS)	-	8,713,787	8,713,787
Government Service Insurance System (GSIS)	-	906,925	906,925
Philippine Charity Sweepstake Office (PCSO)	-	102,141	102,141
Other Offices	-	124,014	124,014
<b>Sub-total</b>	<b>-</b>	<b>50,812,006</b>	<b>50,812,006</b>
<b>Total</b>	<b>P 139,645,162</b>	<b>P 534,432,831</b>	<b>P 674,077,993</b>

2.14 As in prior years' audit, review and analysis of the receivable accounts revealed that accounts aged two to four years or more were reported in the various NFA offices, as shown in Table 12.

**Table 12 - Status of Accounts Receivable in Some ROs/POs/Districts**

<b>Office/ ROs/POs</b>	<b>Balance per Books as of 12.31.16 (in Million)</b>	<b>Status</b>
HO	P 59.317	Receivables represent sugar and rice issuances to the Office of the President (OP), Bureau of the Treasury (BTr) and Philippine National Red Cross (PNRC) in the amounts of P55.551 million, P234,441 and P3.531 million, respectively. Interview with the concerned ASD personnel revealed that these accounts have been the subject of reconciliation for the longest time, particularly as far as CY 1978 for the PNRC account. The delay in the reconciliation process of these accounts was due to the lapse of time and the absence of documents to support the entries in the books. However, Management was able to make some adjustments to the BTr account in the amount of P270,000 million for issuance made in Region II-Iligan PO for the account of Cong. Cappleman, thus reducing the balance to P234,441. Also, the adjusting entry made in CY 2015 in the amount of P3.495 million from the OP account was reversed in CY 2016 due to lack of documents to support the adjustment made, thus increasing the OP account balance by the same amount.
NCR	39.287	In NCR-RO, the total amount of P22.565 million pertains to receivables from various government agencies and legislators which remained outstanding aged 10 to 20 years. In Central District Office (CDO), the amount of P5.322 million pertains to receivables from DSWD and PNRC aged 10 years and above. In EDO, P63,500 represents receivables from PAGCOR, which until now remained unsettled due to lack of coordination with the HO as to the settlement of the account. In Cavite PO, P6.401 million pertains to unsettled stocks sold to DSWD in CYs 2009, 2012 and 2013 charged to the Priority Development Assistance Funds (PDAFs) of two legislators. In SDO, the amount of P4.666 million remained outstanding and uncollected for four to five years and over. Management is still collecting documents for the accounts of DSWD (Tindahan Natin Project) and NDCC. In Batanes Provincial Unit (BPU), the amount of P270,000 pertains to issuance of rice to Gov. Castillejos and Cong. Villanueva which remained dormant from 7 to 10 years.
Region II	12.680	In Isabela PO, the total amount of P2.584 million pertains to rice withdrawals authorized by HO but remained uncollected for over 10 years. In Cagayan and Allacapan POs, the receivable accounts amounting to P6.437 million and P2.379 million, respectively, represent rice loans granted to various NGAs and LGUs that have remained dormant for 7 to 30 years. In Ifugao and Mt. Province POs, the receivables of P318,750 and P0.961 million, respectively, are rice withdrawals of DSWD and OCD that remained dormant for 7 to 10 years.
Region III-	3.282	These are receivables of Pampanga and Tarlac POs amounting to P2.840 million and P441,970, respectively, pertaining to sale of rice to various government agencies and legislators which remained uncollected from 5 to 33 years.
Region IV-A	13.160	These are receivables of Romblon, Batangas, Infanta and Quezon POs of P6.587 million, P3.515 million, P0.764 million and P2.294 million, respectively, from NDCC, DSWD, PNRC and various legislators which were reportedly outstanding for 5 to 33 years.
Region IV-B	11.744	Receivables of San Jose, Mamburao, Oriental Mindoro, Marinduque, and Palawan POs of P1.193 million, P0.942 million, P356,250, P7.602 million and P1.650 million, respectively, are all dormant with age 6 to 16 years.

Office/ ROs/POs	Balance per Books as of 12.31.16 (in Million)	Status
Region V	41.899	Receivables of Albay, Camarines Sur and Masbate POs of P15.168 million, P18.713 million and P8.018 million, respectively, representing rice issuances to various government agencies and which remained dormant for over 4 years and above.
Region VI (Capiz PO)	1.163	100 per cent of the total balance remained dormant for a period of 7 to 17 years, thus affecting the reliability of the financial statements.
Region VIII	27.830	Receivables of Northern Leyte, Southern Leyte and Northern Samar POs of P2.269 million, P79,280 and P25.482 million, respectively, which have remained dormant for 4 years and above.
Region IX	4.635	Receivables of Zamboanga del Norte PO which have remained dormant for more than 8 years to 30 years due to non- settlement of NFA rice issued to DSWD and various LGUs.
Region X	3.500	Total balance pertains to Misamis Oriental PO's receivables from the Provincial Government of Misamis Oriental which remained outstanding for 19 years.
Region XI	1.057	100 per cent of the total balance pertains to RO and General Santos PO of P0.668 million and P388,750, respectively, which were outstanding for more than 10 years already.
CARAGA	2.580	Total balance pertains to Surigao del Norte PO which remained dormant for more than 10 years.

2.15 The continuous existence of outstanding account receivables in the books of the Agency could be attributed to lack of coordination between the HO and 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.

2.16 While the balance of AR-Trade account as of December 31, 2016 had increased by P499.133 million compared to last year's balance of P893.515 million, accounts receivables that remained dormant and outstanding in the books for many years cast doubt on the existence of the receivables, as well as the accuracy and completeness of the balances. Moreover, uncollected accounts had deprived NFA of the financial resources that could have been utilized for operations and could have minimized the borrowings for procurement of rice, palay and corn for food security program of the government.

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

- a. Require the ASD to fast track the reconciliation of the receivables from NGAs, GOCCs 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. 2016-005 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.**

**2.18 We also recommended that SDO Management reclassify the account of DOTr from AR-Trade to Due from NGAs to correctly present the balances of the accounts; and henceforth, ensure that similar transactions in the future are recorded in their proper accounts.**

**2.19 Management submitted the following actions being taken and to be undertaken to implement the audit recommendations:**

**a. HO - For BTr account, further retrieval of documents has been made and additional adjustment will be reflected in CY 2017. On the other hand, a follow up letter will be sent for the OP account while the FOs were requested to submit certified photocopies of WSIs to support the reconciliation for the PNRC account.**

**b. NCR- For the 1st quarter of CY 2016, CDO, has collected from DSWD the total amount of P110.274 million or 88.61 per cent of outstanding accounts receivable as of December 31, 2015; demand letters to concerned agencies for their unpaid accounts are to be sent out; and more efforts to reconcile the PNRC's negative balance of P390,000 are being exerted. EDO has coordinated with the ASD-HO to verify their records if the receivable from PAGCOR was already paid in previous years. In SDO, reclassification of the sale of property to DOTr was made from AR-Trade to Due from NGAs-DOTr per JEV#-17-04-0123. In Cavite PO, analysis and reconciliation are still on-going while in Batanes PU, relevant documents on the receivable charged to NDCC has been reiterated and forwarded to ASD-HO on February 9, 2017.**

**c. Region III- According to Pampanga PO, the amounts appearing in AR-Trade are accounts due for collection at HO, except for Operation Rehab '86 which was requested for write-off from COA and it is awaiting advice from HO for the settlement of these accounts. Reclassification of long dormant accounts receivable will be effected in the books of accounts as soon as there will be an appropriate account title under the Other Assets. Continuous coordination with HO on the collection of accounts and follow up communication on its request for condonation will be made. Tarlac PO is likewise continuously coordinating with HO and still awaiting for an update on the forwarded documents in CY 2015 and for the billing to be sent to concerned legislators. It is currently preparing the necessary documents to request for authority to write-off the account of Mr. Adolfo Miguel.**

d. Region IV-A- The receivables from NDCC and PNRC are HO accounts. Romblon PO had already submitted Detailed Statement of Accounts for reconciliation to HO and had requested the assistance of Legal Affairs Department (LAD) for certified copies of the complete records on the subject receivables in preparation for any legal action. In Infanta PO, demand letter was sent to Mr. Joselito Astoveza on March 10, 2016 to settle his accounts while the recorded receivables from legislators will again be evaluated for the determination of the appropriate steps to be taken which will include requesting from COA for write-off of the accounts including the receivables from the Cashier who absconded 32 years ago. Batangas PO will follow up its request from HO for the collection of the outstanding receivables from NDCC, Hermano Surgar Corp. and Loans Receivable- Others. It has not received any status yet from the GSIS pertinent to the claims of the Agency. In Quezon PO, despite series of communications to HO requesting for collection and reconciliation updates of the receivables from NGAs and legislators, no collection updates were received as at year-end.

e. Region IV-B- Marinduque PO is amenable with the audit recommendation and reiterated that the audit observations were always tackled in the regional conferences. As regards receivables from NGAs, it is constantly coordinating with the HO for collection and updating of records, and will request HO for the possible transfer of the receivables in the HO's books. Also, it assured the Audit Team of the continuous follow-up for the collection of the Provincial Government (PG) accounts. Mamburao PO committed to continue the verification of accounts by sending demand letters to obtain confirmation and validate the accuracy and reliability of the said receivables, while the Finance Section was able to identify and adjust erroneous entry of P83,400 and collect long overdue receivables amounting to P27,323.

f. In San Jose PO, the amount of P1.778 million has been collected in January 2017 while the receivable of P222,475 granted last October 2012 and erroneously taken up under AR-Trade was reclassified to Due from Other Region in February 2017. The remaining balance of P91,250 due from then Cong. Villarosa, if possible, will be requested for write-off since the documents related thereto were not retrieved and the official was no longer in government service. With regard to the receivable from PG, despite the Sanggunian Panlalawigan Resolution that the PG will pay the NFA, the account remained uncollected. Confirmation made thru COA Office revealed that the amount payable to NFA was not taken up in the PG's books. Palawan PO will send demand letters to all concerned, locate documents to support their verification and request for write-off, if possible, while Oriental Mindoro PO had already sent series of demand letters to Cong. Valencia.

g. Region V- In Albay PO and Camarines Sur PO, Management created Task Force Oplan Collection Team, respectively, to fast track collection of past due accounts. They will coordinate with the HO to determine what accounts to be collected at PO level and those at the HO level. In Masbate PO, the DSWD receivable account balance of P8.153 million has been established. Reconciliation Statement prepared by the former Senior Accounting Specialist (SAS) was furnished to NFA-Albay for further verification of the unrecorded payments made by DSWD to be applied to Masbate PO. In the case of the

Armed Forces of the Philippines (Army and Navy) accounts, it is awaiting advice to effect the necessary adjustments as reconciliation was already undertaken at ASD-HO. The negative balance of the NDCC account represents advice from HO on May 5, 2010 of P40,000 and on February 29, 2011 of P90,000 for payment of stocks in excess of what has been issued awaiting advice from the HO for the necessary adjustments in addition to the Office of Civil Defense (OCD) account.

h. Region VI-Capiz PO- It communicated with HO-Grains Marketing Operations Department (GMOD) and ASD dated June 23, 2015 and July 5, 2016, respectively, facilitating the reconciliation of these accounts. Follow up was made on March 7, 2017, but unfortunately HO is still in the course of reconciliation.

i. Region VIII- Leyte PO informed that the balance of the receivables pertains to prior years' balances which were not collected despite the issuance of demand letters due to the absence of documents to support the claims. At present, analysis, review and reconciliation of the accounts are undertaken. Coordination with the HO will be made since some payments were made thereat. In Southern Leyte PO, the Provincial Manager is now undergoing personal follow-up on the collections from the creditors, while in Northern Samar PO, DSWD had paid its outstanding accounts at RO but the advice for the payment has not been received. The SAS likewise informed that it is exerting effort to reconcile the account, but due to lack of manpower, it is difficult to attain full reconciliation of the accounts.

j. Region XI- The RO was amenable to the audit observation and admitted that supporting documents of the dormant accounts were difficult to retrieve and some of those were actually missing, hence request for write-off is hard to completely document, while in General Santos PO, based on records and coordination with HO, the AR from NDCC is on reconciliation process. Advices for the received payment from said agency had not been sent until now. On Deminay Trucking which was already bankrupt and non-operating, demand letter will be sent to the trucker and will comply with all requirements needed for request for write-off.

k. CARAGA- It had already requested for a write-off from COA and sent communication/demand letters to various concerned agencies of their accountabilities to NFA.

2.20 As a rejoinder, we appreciate the actions taken/to be taken by Management to verify and reconcile the records of the long outstanding accounts, and the efforts to settle the accounts, which shall be continuously monitored in audit.

### **Inter-Agency Receivables**

**3. The validity, existence and collectability of the inter-agency receivables totaling P241.268 million cannot be ascertained due to various dormant accounts, insufficient documents and negative results of confirmation, thus, affecting the fairness of presentation of the balances in the financial statements.**



3.1 As of December 31, 2016, the reported balance of the Inter-agency Receivables such as the Due from NGAs, Due from GOCCs and Due from LGUs accounts amounted to P241.268 million, as presented in Table 13.

**Table 13- Inter-agency Receivable Accounts**

<b>Account</b>	<b>HO</b>	<b>FOs</b>	<b>Total</b>
Inter-agency receivables			
Due from GOCCs	P 94,990,028	P 63,827,350	P 158,817,378
Due from NGAs	7,209,680	60,477,500	67,687,180
Due from LGUs	5,626,136	9,137,557	14,763,693
	<b>P 107,825,844</b>	<b>P 133,442,407</b>	<b>P 241,268,251</b>

3.2 As in last year's audit, analysis of the Due from GOCCs, NGAs and LGUs accounts for CY 2016 revealed that, of the total P241.268 million year-end balance of inter-agency receivables, 44.38 per cent or a total of P107.067 million pertain to accounts from the HO that are considered dormant (Table 14) as the balances have been carried in the books for ten years and above.

3.3 Except for the account of the Department of Budget and Management (DBM) which has a balance of P0.759 million, out of the total P107.826 million due from NGAs, GOCCs and LGUs in the HO, the amount of P107.067 million or 99.30 per cent was recorded in the books without supporting schedules and details. Inquiry from the ASD revealed that the account balances were handed over from previous accounting personnel and remained dormant as these are non-moving prior to CY 2007 or for more than 10 years already, as presented in Table 14.

**Table 14 - Status of Inter-agency Receivables in the NFA-HO**

<b>Account</b>	<b>Particulars</b>	<b>Amount</b>
Due from NGAs	Department of Agriculture (DA)	P 6,402,311
	Department of Budget and Management (DBM)	759,394
	Bureau of Post-Harvest Research (BPHR)	47,975
		<b>7,209,680</b>
Due from GOCCs	Quedan Guaranty Fund Board (QGFB)	35,571,645
	Philippine International Trading Center (PITC)	355,774
	Government Services Insurance System (GSIS)	58,680,433
	Manila International Airport Authority (MIAA)	382,176
		<b>94,990,028</b>
Due from LGUs	Bukidnon Provincial Office	55,201
	Nueva Ecija Provincial Government	5,469,190
	National Farmers Advisory Council (NFAC)	101,745
		<b>5,626,136</b>
<b>Total Inter-Agency Receivables</b>		<b>P 107,825,844</b>
<b>Total Dormant Accounts</b>		<b>P 107,066,449</b>

3.4 Generally accepted accounting principles dictate that receivables must be existing, the balances are accurate, complete and realizable for fair presentation in the financial statements. In December 2016, to determine the existence of some receivables, confirmation requests were sent to all 13 inter-agency accounts. However, only three responded, and evaluation thereon disclosed a difference of P1.420 million between the balance per books and as confirmed, as shown in Table 15.

**Table 15- Difference Between Balance per Books and as Confirmed**

<b>Account</b>	<b>Balance, 12/31/16</b>		<b>Difference</b>
	<b>Per Books</b>	<b>As Confirmed</b>	
BPHR	P 47,975	P -	P 47,975
QGFB	35,571,645	34,555,154	1,016,491
PITC	355,773	-	355,773
	<b>P 35,975,393</b>	<b>P 34,555,154</b>	<b>P 1,420,239</b>

3.5 The QGFB, now Quedan and Rural Credit Guarantee Corporation (QUEDANCOR), account has been in the books of NFA since/prior to CY 2007. According to the concerned ASD personnel, a meeting was set by ASD in an effort to collect from the said Agency. The QGFB representative informed the NFA that all of its liabilities to different agencies were under moratorium due to its incapacity to pay.

3.6 In Region III, the receivables from LGUs of P708,023 which remained dormant for four years and above pertained to sales of rice on credit in response to calamities that have stricken the respective Municipalities of Guagua, Macabebe, Minalin and San Simon, under the MOAs between the Chief Executive of the LGUs and the Provincial Manager of Pampanga PO. The details/documents on these receivables were requested but there were no data/documents provided.

3.7 In Region IVA- Batangas PO, the Due from GOCCs amounting to P3.209 million pertained to insurance claims from GSIS due to Typhoon Reming in December 2006 and the damaged vessels of MV Vinh Phuoc, MV Golden Lines 8, MV Golden Star, MV Sanyo Clara in CYs 2008 and 2009. The receivable also included the claim of the PO of P40,338 for the replacement of the staled check dated February 13, 2008 supposed to be issued to NFA as the PO was not informed during that period that the check is available for issuance. This account remained non-moving for nine to 10 years.

3.8 In the absence of subsidiary records and supporting documents, the validity of the inter-agency receivable accounts and details such as identity of debtors and their addresses could not be established and verified. Receivables that remained dormant and not supported with documents cast doubt on their existence, as well as the accuracy of the balances. Moreover, uncollected accounts had deprived NFA of the financial resources that could have been utilized for its operations.

**3.9 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. 2016-005;**
- 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 collect these receivable accounts.**

3.10 Management submitted the actions that have been and to be taken on the following accounts:

a. Due from NGAs account- ASD will prepare confirmation letter as their initial action, the document will form part of the supporting paper in the request for write-off of the account. As to the DBM account, ASD staff met with DBM-accounting staff on March 13, 2017 regarding the advances made. DBM furnished copies of their subsidiary ledgers (SLs) for reconciliation with their records. Initial findings disclosed that partial deliveries were not recognized in the NFA books until the advances were fully delivered. These unrecognized deliveries will be booked up in NFA's books once reconciliation is completed.

b. Due from GOCCs- ASD will prepare another letter to PITC indicating that the claim for the unclassified vessel premium was not deducted from the Agency's payment. Confirmation letter will be sent to GSIS as its initial action to be made in writing-off dormant accounts. For QUEDANCOR, it will prepare follow up letter for the collection of the P35.584 million including interest. Meanwhile, as to MIAA account, ASD was able to retrieve the supporting documents to this the claim and will furnish MIAA of the same for possible collection.

c. Due from LGUs- ASD will prepare another demand letter to LGUs of Nueva Ecija and Bukidnon as one of the requirements in writing-off of the account. ASD will continuously seek assistance from concerned FOs for possible collection. For the account of NFAC, it will prepare another demand letter and shall conduct visitation and coordination with Head of the Barangay in Quezon City and with Securities and Exchange Commission (SEC) to confirm/validate its existence.

d. Due from LGUs in Region III pertained to penalties for delayed payments of sales of rice on credit. The Municipalities of Guagua, Macabebe, Minalin, and Masantol paid the principal and interest amount only, while San Simon paid the principal amount only. These penalties were requested by the municipalities concerned for condonation and their letter requests were forwarded to NFA-LAD for favorable action. NFA-LAD responded recently that such request must be addressed by the LGU to COA and the OP, thus: (a) communication to this effect was sent to LGUs; (b) reclassification of long dormant accounts receivable will be effected in the books of accounts as soon as there will be an appropriate account title under the Other Assets; (c) documents for the accounts of the LGUs will be submitted to COA's office for its evaluation; (d) continuous coordination with HO on the collection of accounts; and (e) follow up and ask for a copy of communication on its request for condonation.

e. On the Due from GOCCs, the Batangas PO has not received any status from the GSIS pertinent to the claims of the Agency.

3.11 As a rejoinder, we acknowledged the continuous effort taken by the Agency in the reconciliation and settlement of the accounts. The results of reconciliation and verification in clearing the dormant accounts shall be continuously monitored in audit.

## Due from Officers and Employees- Stock Shortages

4. Shortages of Stock Accountable Officers (SAOs) recorded as Due from Officers and Employees in the total amount of P227.209 million remained uncollected due to Management's inability to strictly implement its own policy, which casts doubt on the full recovery of the receivable account.

4.1 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.

4.2 NFA SOP No. FS-GP20 issued on 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. This SOP allows the payment of shortages through installment basis. However, NFA issued General Memorandum Order (GMO) No. AO-2K10-01-003 dated January 20, 2010 which requires full payment of grains and MTS shortages of NFA Accountable Officers within 15 working days from receipt of demand letter subject to certain provisions related to the filing of administrative/criminal case against the SAOs.

4.3 It was observed that the provision of GMO No. AO-2K10-01-003 on the payment of shortages of SAOs was not strictly implemented and carried out. As of December 31, 2016, the Due from Officers and Employees-Stock Shortages account in the total amount of P227.209 million consists of shortages of Accountable Officers of P214.559 million for stocks and P12.650 million for MTS, as presented in Table 16.

**Table 16 - Due from Officers and Employees-Stock Shortages**

Region	Shortages - Stocks	Shortages - MTS	Total
I	P 50,997,149	P 459,815	P 51,456,964
II	3,418,649	301	3,418,950
III	50,476,324	—	50,476,324
IV	22,263,617	8,001	22,271,618
V	21,925,115	3,550,438	25,475,553
VI	350,567	—	350,567
VII	810,330	—	810,330
VIII	7,974,712	80,713	8,055,425
IX	2,571,117	12,440	2,583,557
X	5,086	(1,615)	3,471
XI	385,955	—	385,955
XII	1,004,584	—	1,004,584
XIII	35,442,555	3,828,785	39,271,340
XIV	10,078,273	4,710,679	14,788,952
XV	6,855,365	—	6,855,365
<b>Total</b>	<b>P 214,559,398</b>	<b>P 12,649,557</b>	<b>P 227,208,955</b>

4.4 As shown in Table 17, a significant decrease in the balance of Due from Officers and Employees in the amount of P578.574 million from last year's total balance of P805.783 million due to a Memorandum issued by ASD-HO last October 2016 under wire instruction ASD-NAD-J-001 dated October 14, 2016 for the reclassification of shortages with final TOLA Computation of SAOs no longer connected with the NFA to Other Assets. Considering that the claims of NFA against these SAOs are final and definite, as final TOLA was computed, it is inappropriate to reclassify them as Other

Assets, since it might result in inadequate effort by the Management to impose collection due to their classification as contingent.

**Table 17 - CYs 2016 and 2015 Due from Officers and Employees-Stock Shortages**

	<b>2016</b>	<b>2015</b>	<b>Increase/ (Decrease)</b>
Stock Shortages- Stocks	P 214,559,398	P 783,710,020	P(569,150,622)
Stock Shortages- MTS	12,649,557	22,072,880	(9,423,323)
	<b>P 227,208,955</b>	<b>P 805,782,900</b>	<b>P(578,573,945)</b>

4.5 The status of the recorded stock shortages in several NFA offices, which remained uncollected due to the inability of Management to strictly implement the Agency's policy and guidelines, is presented in Table 18.

**Table 18- Status of Stock Shortages in ROs/POs**

<b>RO/PO</b>	<b>Status</b>
NCR	The outstanding final shortages amounting to P12.794 million remained uncollected for several years due to missing warehouse documents, resulting in un-recouped losses on stock shortages and doubtful collectability of the recorded balances of the Due from Officers and Employees as at year-end.
Region I	Total stock shortages in the Due to Officers and Employees account by the SAOs has increased from P9.817 million in CY 2015 to P11.519 million in CY 2016 in Eastern Pangasinan PO while in Western Pangasinan PO it amounted to P8.970 million.
Region II	Shortages of SAOs recorded as Due from Officers and Employees in the total amount of P8.806 million remained uncollected.
Region IV-B- San Jose PO	Shortages of SAOs in the total amount of P18.445 million recorded as Due from Officers and Employees remained uncollected. In addition, NFA had already filed administrative/criminal case against two (2) of the concerned accountable officers. On the other hand, 37 final examination of accountabilities amounting to P48.005 million with recorded claims on unrelieved losses on contingent assets (CULCA) per books or 168 per cent out of 22 cases of accountabilities have been made as of December 31, 2016.
Region V- Camarines Sur and Masbate POs	Shortages of SAOs had accumulated to P20.142 million as of December 31, 2016 and these amounts remained uncollected.

4.6 Compromise agreements for the shortages of some SAOs were offered by the top Management but most of the SAOs did not submit their compromise contracts in accordance with the resolution agreed upon.

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

4.8 The delay in the prosecution of the remaining cases involving warehouse supervisors affects the collectability of the accounts as the cases were not yet filed in appropriate courts.

**4.9 We reiterated our recommendations in prior years' audit that Management:**

- a. Revisit 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. Prioritize the establishment of 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, criminal and civil cases, and collection of shortages;**
- c. Prioritize the liquidation of the accountabilities of SAOs who are still in active service, especially those who are nearing retirement, and leverage on the role of Senior Accounts Specialist/Accountant, who conducts the deduction from benefits accruing to SAOs for the payment of shortages, in order to ensure NFA's welfare over the interest of SAOs; and**
- d. Persistently follow-up the early resolution of the cases of concerned accountable officers to effect immediate collection of their shortages.**

**4.10 Management informed the actions taken on issue on the Due from Officers and Employees – Stock Shortages, which included the following:**

- a. Region I- Eastern Pangasinan PO-** The Provincial Inventory Team was authorized to take over and prioritize the issuance of remaining stocks of absconded SAO to facilitate the liquidation of accountability and establishment of total shortages. It also implemented the reshuffling of SAOs and cut-off of accountabilities. In addition, the PO has signified its intention to act judiciously for the resolution of each case.
- b. Region II–** Notice of Failure to settle and cases under litigation had been forwarded to HO. Some SAOs have submitted their appeals for re-computation of shortages while others have executed Compromise Agreements in the payment of final shortages.
- c. Region IV-B-San Jose PO-** It was able to cut-off all current accountabilities with no recorded shortages of more than two per cent and three per cent for rice and palay, respectively, and favorably endorsed to the RO the handling of accountabilities for current year operations. It will continue to issue demand letters to SAO with shortages after receipt of Final TOLA computation to enforce collection, and report the non-payment thru Notice of Failure to Settle Shortages (NFSS) to HO.
- d. Region V-** At least once a year, it conducts a per region seminar for warehouse supervisors to remind them of the proper handling of their accountability and to give updates on relevant SOPs. In addition, it created a Provincial Collection Committee under Office Order No. 2016 CSU-L051 that will facilitate the collection of receivables from shortages of SAOs. Lastly, a SAO had filed an Appeal and Reconsideration for TOLA computation, which was already

discussed and finalized by the members of the Regional Tolerable Allowance Committee (RTAC) for proper action.

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

## Investments

**5. Two investment accounts, namely, Gasifier and Equipment Manufacturing Corporation (GEMCOR) in the amount of P1.242 million and Capitol City Sports and Country Club (CCSCC) of P22,500, or a total of P1.265 million, were written off from the NFA's books without authority from the Commission on Audit (COA) contrary to COA Circular No. 97-001 dated February 5, 1997. In addition, investments aggregating to P1.217 million did not reconcile with confirmed balances as of December 31, 2016 or not supported with documents due to non-monitoring of the account; thus, affecting the reliability of the Investment account balance at year-end.**

5.1 As of December 31, 2016, the NFA's Investment account had a balance of P1.120 billion. This comprises of investments in subsidiary, shares of stocks from corporations and sports and country clubs as well as investments in the form of trust. Except for the new Trust accounts with the Development Bank of the Philippines (DBP) and Land Bank of the Philippines (LBP), the Investment account remained dormant prior to CY 2007. The breakdown is presented in Table 19.

**Table 19- Breakdown of Investment Account as of December 31, 2016**

<b>Investee</b>	<b>Amount</b>
Food Terminal, Inc. (FTI)	P 500,000,000
DBP- Trust (197-01-09)	302,014,682
LBP- Trust	301,580,073
Center for International Trade Expositions and Missions (CITEM)	14,745,735
Manila Electric Company (MERALCO)	651,930
NFA Employees Association (NFA-EA)	407,200
DBP- Trust (197-01-05)	179,159
Quezon City Sports Club	70,000
Philippine Long Distance Telephone, Inc. (PLDT), formerly PLDT Company	68,257
Celebrity Sports Plaza	35,000
Philippine Columbian Association	16,000
Kutowato Country Club	10,000
<b>Total</b>	<b>P 1,119,778,036</b>

5.2 COA Circular No. 97-001, dated February 5, 1997 provides the guidelines in the write-off/adjustment of account balances, which include the following:

*10. 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:*

*10.1 List of available records and extent of validation made on the accounts; and*

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

5.3 COA Circular No. 2016-005 dated December 19, 2016 was issued superseding COA Circular No. 97-001. It prescribes the procedures for the write-off of dormant receivables, unliquidated cash advances and transfers aged 10 years and over. However, this Circular does not cover write-off of investment accounts.

5.4 Review of the Investment account revealed, however, that two (2) sub-accounts, namely, GEMCOR and CCSCC were derecognized on November 30, 2013 under JEV No. 2013-11-021975 without obtaining authority from COA. GEMCOR is a GOCC established in August 1981, in which the NFA has an investment of 1,242 shares of stock in the amount of P1.242 million while CCSCC is a corporation registered in June 1976 in which the NFA has a membership thereof in the amount of P22,500. The NFA's reasons for the write-off of the accounts are shown in Table 20.

**Table 20 - Investments Derecognized in the Books**

<b>Investee</b>	<b>Amount Derecognized</b>	<b>Reason for Derecognition</b>
GEMCOR	P1,242,000	GEMCOR was abolished in CY 1985. Based on available supporting documents provided by Management, the plant of GEMCOR was sold in 1990 by the Asset Privatization Trust (APT) under the Department of Agriculture (DA). A letter was sent by NFA to DA requesting for the return of NFA's investment but no reply was received as of CY 2013.
CCSCC	22,500	CCSCC could no longer be located and there were no information available related to CCSCC, except for the report from SEC that the said Corporation's registration was revoked on August 11, 2003, which could support its derecognition in the books.
<b>Total</b>	<b>P 1,264,500</b>	

5.5 Further review of the documents supporting the Investment account and confirmation of investment balances from the investees revealed that four (4) investments amounting to P1.217 million were not supported by documents or no longer existing in their books. The details are shown in Table 21.

**Table 21- Investment Accounts Without Supporting Documents/  
No Longer Existing in the Books of the Investees**

<b>Investee</b>	<b>Balance as of 12/31/16</b>	<b>Remarks</b>
Kutowato Country Club	P 10,000	There were no supporting documents/information provided by Management.
DBP-Trust	179,159	DBP's reply to the confirmation letter showed that the trust account was already closed.
MERALCO	620,300	Confirmation showed that the NFA's investment is no longer existing as of December 31, 2016.
NFA-EA	407,200	Confirmation reply of NFA-EA for its investment balance as of December 31, 2015 revealed that the NFA's investment does not exist in its records/file. The NFA-EA's reply to the Audit Team's confirmation letter for the December 31, 2016 balance has not been received to date.
<b>Total</b>	<b>P 1,216,659</b>	



5.6 Under PAS 39, an entity shall derecognize a financial asset when, and only when: (a) the contractual rights to the cash flows from the financial asset expire; or (b) it transfers its contractual right to receive the cash flow or retains the contractual right but assumes contractual obligation to pay the cash flows to one or more recipients. However, if the result of the transfer retains substantially all the risk and rewards of ownership or has retained control, it shall continue to recognize the financial asset.

5.7 The derecognition/write-off of investments without authority from COA, existence of accounts without supporting documents or no longer existing in the books of the investees affect the reliability of the Investment account balance as of December 31, 2016.

5.8 **We recommended that Management require the ASD to:**

- a. Reverse the entry writing-off investments in the GEMCOR and CCSCC;**
- b. Coordinate with DA for the return of NFA's investment in GEMCOR considering the sale of its assets; and**
- c. For investments in Kutowato, DBP-Trust, MERALCO and NFA-EA, exert utmost efforts to retrieve/obtain documents to support the balance presented in the books and to reconcile with the investees the difference between the book and confirmed balances.**

5.9 Management informed that it has prepared adjusting journal entries to reverse the write-off of investment to GEMCOR and CCSCC in the books of accounts without authority/approval from COA. Likewise, it earnestly apologized for the long time that it takes them to reconcile the accounts as they are still in the process of coordinating with concerned departments for the profiling of the accounts and retrieval of all documents related thereto. Management also assured that it is exerting utmost efforts to fast track the reconciliation of the accounts in CY 2017.

5.10 As a rejoinder, we appreciate the immediate compliance of Management with the first audit recommendation as well as its willingness to comply with the other recommendations. However, as at audit date, it has not yet provided the HO Audit Team with any communication that it has coordinated with DA for the return of NFA's investment in GEMCOR. Further, we will continuously monitor the strict implementation of the other audit recommendations.

#### **Other Assets- Stock Shortages**

6. **Stock shortages taken up in the books under Other Assets account amounted to P2.791 billion, most of which remained outstanding for more than five years, and cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports and the slow-paced stock examination and computation of 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.**

6.1 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 Provincial Office (PO) and computation of TOLA by the 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 by the SAOs or the WSs concerned.

6.2 As of December 31, 2016, as shown in Table 22, the total stock shortages that were still under the Other Assets account amounted to P2.791 billion.

**Table 22- Stock Shortages under Other Assets Account**

Region	Without Stock Examination	With Stock Examination- Without TOLA Computation	With Stock Examination- for TOLA Computation	With Final Shortages/ Resolved Appeal – no longer connected with NFA*	Total
I	P 21,606,117	P 2,546,090	P 3,526,738	P 28,292,506	P 55,971,451
II	26,724,108	15,662,975	26,364,539	–	68,751,622
III	39,976,276	2,506,227	487,991	35,084,240	78,054,734
IV	412,380,475	23,357,376	47,452,120	360,759,498	843,949,469
V	100,380,849	22,678,389	11,419,780	146,088,482	280,567,500
VI	142,312,697	11,146,097	18,562,294	15,427,803	187,448,891
VII	14,177,221	687,335	26,220,628	49,847	41,135,031
VIII	53,274,122	116,605,670	668,607	–	170,548,399
IX	36,583,403	7,342,617	26,421,436	21,359,300	91,706,756
X	104,253,341	32,381,363	42,681,452	–	179,316,156
XI	38,260,404	1,864,777	1,371,597	–	41,496,778
XII	85,491,918	2,042,270	8,845,993	14,375,853	110,756,034
XIII	(2,258,047)	15,109,050	21,526,361	98,170,973	132,548,337
XIV	74,346,008	173,994,093	170,463,804	–	418,803,905
XV	35,158,399	48,858,571	5,082,170	360,319	89,459,459
<b>Total</b>	<b>P 1,182,667,291</b>	<b>P 476,782,900</b>	<b>P 411,095,510</b>	<b>P 719,968,821</b>	<b>P 2,790,514,522</b>
<b>Percentages</b>	<b>42.38</b>	<b>17.09</b>	<b>14.73</b>	<b>25.80</b>	<b>100.00</b>

\* Included in Other receivables – contingent assets

6.3 Shortages without stock examination amounting to P1.183 billion, representing 42.38 per cent of the total stock shortages, were 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 P476.783 million were shortages wherein stock examinations were already made but the results are not yet submitted to RTAC, while the P411.096 million represents shortages with stock examinations and 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.

6.4 However, on October 14, 2016 a Memorandum was issued by ASD-HO under wire instruction ASD-NAD-J-001 for the reclassification of shortages with final TOLA computation or those with resolved appeal of the SAOs who were no longer connected with the NFA to the account Other Non-Current Assets- Other Receivables- Contingent Assets. Considering that the claims of NFA against these SAOs are final and definite, as final TOLA was computed, it is inappropriate to reclassify them as Other Assets since

it might result in inadequate effort by the Management to impose collection due to its classification as contingent.

6.5 The amount recorded as stock shortages under Other Assets account is temporary. The possibility of realizing the accuracy and reliability of the recorded amount would depend on the computation of TOLA. In the computation of TOLA, the TOLA Committee considers some factors such as the Moisture Content (MC) variation, insect, rodent and bird infestation, and other factors beyond the control of the SAOs. The adjusted stock shortages become the final amount due and demandable from the concerned SAOs.

6.6 The reported status of stock shortages recorded as Other Assets in some of the ROs/POs are shown in Table 23.

**Table 23- Status of Stock Shortages under Other Assets Account in the ROs/POs**

<b>RO/PO</b>	<b>Status</b>
NCR	The outstanding final shortages of P98.171 million remained uncollected for several years and the stock examination of 10 cases of stock accountabilities of P14.603 million covering CYs 1985 to 2000 could not be completed due to missing warehouse documents, resulting in unrecouped losses on stock shortages, unaccounted stock accountabilities of SAO and doubtful collectability of the recorded balances of Other Assets-Other Receivables-CULCA accounts as at year-end.
Region III	Stock shortages recorded in the books as Other Assets amounting to P30.196 million remained outstanding and could not be reclassified to Due from Officers and Employees due to missing stock reports, incomplete/delay stock examination and TOLA and lack/delay of legal action from the NFA Management, thus affecting adversely the determination of the final shortages of the concerned SAOs and their settlement. Thus, full recovery of the shortages becomes doubtful.
Region IVA-Batangas PO	Stock shortages of P9.254 million or 48.02 per cent of the total stock shortages taken up in the books under Other Assets account remained outstanding for more than 13 to 33 years due to missing/incomplete warehouse stock reports and the slow-paced stock examination, thus, adversely affecting the determination of the final shortages of the concerned SAOs and hindering the enforcement of collection/settlement.
Region IV-A-Infanta PO	The reliability and recovery of the Other Assets account representing shortages of SAOs of P1.799 million were doubtful due to the slow pace of the final liquidation and/or TOLA evaluation on the stock accountabilities of WSS with shortages, thus, precluding the determination of the final amounts for collection and settlement.
Region IV-A-Romblon PO	Shortages of SAOs recorded in the Other Assets account in the total amount of P3.280 million remained uncollected due to Management's inability to strictly implement its own policy, which cast doubt on the full recovery of the receivable account.
Region IV-B	Shortages in Marinduque, Mamburao and San Jose POs totaling P703.178 million had been taken up in the books under the Other Assets account, most of which remained outstanding for more than five (5) years and cannot be reclassified to Due from Officers and Employees account due to missing/incomplete warehouse/stock reports, the slow-paced stock examination and computation/determination of 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.

<b>RO/PO</b>	<b>Status</b>
Region V – Albay PO	Shortages of P145.556 million had been lodged in the Other Assets account, P100.544 million of which remained outstanding for more than five (5) 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 TOLA.
Region VI- Aklan and Capiz POs	Shortages of SAOs booked as Other Assets amounting to P3.508 million remained outstanding for more than five (5) years and were not reclassified as Due from Officers and Employees despite the determination of final stock shortage through final TOLA Examination conducted.
Region VIII	Stock shortages totaling P157.183 million of Leyte, Biliran, Southern Leyte, Northern Samar, Eastern Samar, and Samar POs taken up in the books as Other Assets- Other Receivables remained outstanding for more than five (5) years and not yet reclassified to Due from Officers and Employees due to slow-paced stock examination and computation of TOLA, thus the stock shortages of the concerned SAOs cannot be established thereby causing the non-collection/settlement of the outstanding accounts.
Region IX	Shortages of SAOs lodged to Other Assets- Other Receivables account in Zamboanga City and Zamboanga del Norte PO accumulating to P48.599 million remained uncollected since CY 1974 and cannot be reclassified to Due to Officers and Employees account since most of the accountable officers are no longer connected with NFA and due to Management's failure to implement its SOP, thus casting doubt on the full recovery of the receivable account that could have been used for the Agency's operational requirements.
Region X	Low accomplishment on TOLA computation at NFA RO No. X involving P52.290 million rice stocks, has caused the delay on the determination of final accountability of SAOs while stock examination of 132 stock accountabilities of SAOs in Misamis Oriental PO, from CYs 1970-1990, remained dormant and could not be completed due to incomplete documents.
Region XI – General Santos PO	Stock shortages taken up in the books under Other Assets account amounted to P4.270 million, most of which remained outstanding for more than 10 years and cannot be reclassified to Due from Officers and Employees due to missing/incomplete warehouse/stock reports, thus adversely affecting the determination of the final shortages of the concerned SAOs and enforcement of collection/settlement from them could not be pursued.
ARMM	Stock shortages amounting to P18.977 million remained under Other Assets. Reclassification of such amount to Due from Officers and Employees cannot be made due to lack of proper documentation such as the final stock examination and TOLA computation to arrive at a final stock shortage.

6.7 NFA SOP No. GM-WH13 dated April 22, 2003 prescribes the guidelines on the New Computerized Stock Examination and Tolerable Allowance (TOLA) Computation, which 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 include amendments on the manner of payment and the responsibility of the Provincial Manager to file/initiate appropriate administrative and/or criminal charges against the SAOs.

6.8 However, it was observed that the stock examination and TOLA computation were still very slow, considering that some of the SAOs concerned were no longer connected with the NFA due to retirement, death, resignation and absence without leave.

6.9 The significant amount of P2.071 billion stock shortages that had remained outstanding in the books of NFA showed inadequate effort in the conduct and completion of the stock examination and TOLA computation. Thus, the final shortages on these accountabilities could not be established and the collection/settlement from accountable officers concerned could not be pursued. The TOLA should have been given priority in the determination of final shortage so that the enforcement of settlement could have been done against the concerned SAOs. In addition, the reclassification made from Due to Officers and Employees of P719.969 million to the account Other Non-Current Assets- Other receivables-contingent assets only because of the criterion that those personnel were no longer connected with NFA was not proper. Considering the amount involved, NFA could have incurred substantial losses in stocks and government resources that could be utilized to augment the funds for food security program.

**6.10 As this observation was also raised in our last years' audit, 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 Stock Examination Report (SER) to the RTAC for TOLA computation;**
- b. Require the RTAC to speed up the TOLA computation to establish the final shortages of the SAOs/WSs so that the settlement/collection of the amounts could be pursued and the balance of the accountabilities that could not be ascertained be 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;**
- 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; and**
- e. Include stock examination, TOLA computation and collection targets in the Agency Annual Plans and Targets, particularly those SAOs who are deceased/separated or had resigned and with huge amounts of, long overdue and outstanding stocks accountabilities, as a means of not only gauging the efficiency of stock examinations and TOLA computation of**

**concerned personnel but also on the collection of stock shortages from these SAOs.**

6.11 Management provided the following comments:

a. NCR-NDO- The delay of TOLA computation of the past accountabilities of SAOs that are still pending in the RO was due to numerous missing warehouse documents. The matter was already coordinated with the RO, but there was no feedback yet. For those with Notice of Failure to Settle Stock Shortages issued to concerned offices, a follow-up letter was sent to the LAD and Security Services Investigation Department (SSID) in April 2016. The SSID replied that the cases were already indorsed to the LAD. For those SAOs who are already deceased, a revised request for write-off which includes their shortages and their past accountabilities without stock examinations and accountabilities that cannot be completed due to missing documents was already submitted to the Audit Team of NDO. In the case of recently retired SAOs, the RO informed that shortages will be deducted from their retirement pay. Advice will be sent immediately upon payment to effect necessary adjustments in the NDO books.

b. NCR-CDO- It is steadfast in implementing the processes and provisions of NFA SOP No. GM-WH13 on the New Computerized Stock Examination and TOLA Computation. It accomplished ten stock liquidations with TOLA computations of warehouse accountable officers during CY 2016 and four stock liquidations with TOLA computations for the 1<sup>st</sup> quarter of the CY 2017. Until now, it is still waiting for the result of its request for write-off of the shortage and overage of accountable officer Liberato Acedera (deceased) amounting to P4.390 million and P8.400 million, respectively, which it has filed with the COA-Commission Proper last March 2016. Cases filed against accountable officer Mr. Fernando Aranzaso are on-going. He has been facing both administrative and criminal cases (#668-V-11 & 669-V-11).

c. NCR-SDO- Management will coordinate again with LAD regarding the status of cases filed against SAOs Lance Ferrer and Gervacio Roa who were already separated from the service. With regard to Mr. Benedicto Regis' shortages amounting to P974,536, Management has coordinated with the Internal Audit Services Department (IASD) through Memo NCR-SDO-FIN-L-003 dated December 15, 2016. It was informed that ASD will coordinate with NTAC-TWG regarding the status of Mr. Regis per IASD-FAD-L-15 dated December 21, 2016.

d. Region III- Aurora PO will create a Stock Examination Working Group (SEWG), and will exert efforts to liquidate stock accountabilities to recover the shortages of SAOs. The Bulacan PO already has SEWG under the supervision of the Provincial Accountant; it assured that the sanctions provided in the SOP are strictly implemented and followed, and efforts are done to recover the shortages. In Zambales PO, a demand letter was sent to a SAO for non-payment of stock accountability since he is currently seriously ill and bedridden. On the other hand, consolidated resolution from the Office of the Ombudsman was forwarded to the NFA-LAD to seek legal opinion/assistance in filing the criminal charges. The RO is still waiting for the final report and outcome on the

studies being made by the HO relative to the shrinkage characteristics of imported rice unloaded at Subic Bay Metropolitan Authority (SBMA).

e. Region IV-A

e.1 Batangas PO- It has requested for additional two units of computer to be able to hire additional two encoders, but the same is not yet available. There was neither proper turn over nor inventory of records endorsed by the outgoing to the incoming Accountant and although some of the accounting records can be used to extract some of the needed data in the liquidation it will not suffice all the data needed.

e.2 Romblon PO- Stock shortages of one SAO will be requested for write-off from COA since he already passed away while the Office of the Administrator has a pending case against one SAO which is still awaiting resolution.

e.3 Infanta PO- It had created a SEWG, composed of the SAS as head, Accountant II and two Job Orders as members, to ensure the completeness and correctness of the SERs of the SAO. The accomplishment of the group will be monitored by the Provincial Manager to ensure the correctness of the reports before their submission to the RTAC and to avoid delays in the computation of TOLA.

f. Region IV-B

f.1 Marinduque PO- The delay in the completion of the stock examination was due to the corruption of the TOLA database and lack of personnel in the Accounting Section, which is responsible for the conduct of the examination. It requested for additional time for rechecking and verification of the transactions and documents. Also, it has assured that the stock examination for the RTAC computation of TOLA will be finished.

f.2 Mamburao PO- It was able to liquidate 22 cases with equivalent value of P2.669 million for CY 2016. For CY 2017, SEWG is set to examine 23 accountabilities. It has been exerting efforts to fast track examination of stock accountabilities. For the reclassification of final stock shortages of SAOs who are no longer connected with NFA, it will again endorse the issue to RO and HO for comments.

f.3 San Jose PO- The SEWG targeted to accomplish liquidation of 18 accountabilities this CY 2017 and will regularly follow-up the result of TOLA computation from RTAC to establish the final shortages of SAOs for collection. The present SEWG conducted inventory of documents and stock reports of the past accountabilities of SAOs including those who are no longer connected with NFA and could not provide their own copies of documents. The accountabilities with complete files were secured while the incomplete and tattered files were returned and kept in the temporary file room at old Employee Association (EA) staff house.

g. Region V- Albay PO- Of the P145.556 million Other Asset Account, the amount of P21.660 million are accountabilities for CYs 1983-2003 of SAOs whose documents can no longer be retrieved and were held before the implementation of SOP No. GM-WH13. Demand letters were sent and cases were already filed against some of these SAOs. In an instance, stock examination forwarded to RO was not returned back to Albay PO, since such was destroyed during the occurrence of Typhoon Reming along with completed stock examination of stock accountabilities of SAOs. It is doing its best to fast track the stock examination of said accountabilities. To date, stock examinations for SAOs were already submitted to the RO for TOLA computation.

h. Region VI- Aklan PO- Review of the records and supporting documents will be done by the Accounting Section to facilitate request for write-off, if qualified. However, reclassification of cited accountabilities to Due from Officers and Employees is not possible as they were no longer connected with NFA per wire instruction ASD-NAD-J-001 dated October 14, 2016 by ASD, while the NFA Capiz PO kept on sending demand letters as efforts to collect unsettled accounts from the accountable officers. Unfortunately, these letters were either received by their representative or with unreturned slip receipt. There was difficulty in the collection of receivables especially from those employees who were already separated from NFA. For these accounts that are difficult to collect, a recommendation for writing -off from the book of accounts shall be made.

i. Region IX- Zamboanga City PO- Available documents will be reconstructed to meet with the documentary requirements specified in the COA Circular for write-off of receivables particularly the stock shortages of accountable officers who are no longer connected with NFA. Zamboanga del Norte PO informed that mostly of the SAOs listed were either deceased or whereabouts are unknown, thus, they requested from the Audit Team the possibility of writing-off the accounts.

j. Region X-RO- It will notify in writing all SAOs on their 1970s and 1980s accountabilities. Further, in order to speed up the liquidation process, the SAOs will be required to produce WS II, copy of all accountable forms. If their WS II copies are no longer available, secondary documents must be presented to the Accounting Section.

k. Region XI-General Santos PO- These stock shortages were accounted back to 1978 and no more primary and secondary documents are available to support liquidation of said accountability. Moreover, the PO prioritizes the liquidation of accountabilities of incumbent employees for their impending retirement. The PO will coordinate with HO to come up with policies concerning stock shortages of deceased accountable officers and follow up the RTAC for prompt computation of TOLA for accountability with Final Stocks Liquidation Report.

6.12 As rejoinder, we recognize the efforts exerted and actions to be taken by Management on the long outstanding stock accountabilities of the deceased accountable officers. However, strict monitoring and follow up on the accounts of the SAOs/WSs, which collections are still possible should be undertaken. In addition, the Audit Team supports the strict compliance of the provisions of NFA SOP No. GM-WH13.



**As to the amount reclassified from Due to Officers and Employees to the account Other Non-Current Assets- Other Receivables—contingent assets of P719.969 million, we recommended that the same be reverted back to the Due from Officers and Employees account.** With the adoption of the Philippine Public Sector Accounting Standards (PPSAS) for CY 2017, such reclassified balance may be overlooked and be included in the Other Assets-Stock Shortages balance that will be taken out from the books as it is considered a contingent asset.

#### **Other Receivables- Contingent Assets**

**7. Uncollected overdue receivables amounting to P76.026 million from various companies, private 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 of the concerned officials to undertake measures for the proper disposition of the dormant accounts pursuant to COA Circular No. 2016-005 and NFA SOP No. FS-FA 13, thus rendering the accuracy and existence of the reported balances doubtful.**

7.1 COA Circular No. 2016-005 dated December 19, 2016 was issued to amend COA Circular No. 97-001 which prescribes the guidelines and procedures on the write-off of dormant accounts which include, among others, dormant receivables arising from regular trade and business transactions. However, it shall not cover receivables arising from disallowances and charges; receivables arising from cash shortages; and claims from entities' officers and employees and other parties from transactions which are the subject of a pending case in court or before investigative authorities.

7.2 The same COA Circular defines Dormant Receivable Accounts as accounts which balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.

7.3 On the other hand, NFA SOP No. FS-FA 13 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; or
- 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.

7.4 As of December 31, 2016, reported receivables from various companies, private individuals and former NFA officials/employees who died, resigned or retired from the

service, that remained dormant for five to 10 years and more amounted to P76.026 million. These receivables were reported in various NFA offices, as shown in Table 24.

**Table 24 - Reported Other Receivables with Remote Collectability**

<b>NFA Office</b>	<b>Amount</b>
HO	P 41,593,612
Tarlac PO	251,494
Region IV- B	31,951,876
Batangas PO	1,194,943
Infanta PO	236,547
Agusan del Sur PO	797,541
	<b>P 76,026,013</b>

7.5 In HO, the increase in Other Receivables account balance by P40.434 million was mainly due to the reclassification of receivables from various companies and individuals, private and former NFA officials/employees who died, resigned or retired from the service from Other Assets account to its proper account to conform with the New Government Accounting System (NGAS), in response to prior year's audit recommendations. Of the total balance of P41.594 million, the amount of P41.264 million or 99.21 per cent remained dormant for the past 10 years due to lack of supporting documents.

7.6 In Tarlac PO, Other Receivables account of P251,494 remained outstanding from five to 33 years. Based on the history of the accounts, the collectability of these receivables is uncertain and might not be collected within 12 months after the reporting period.

7.7 In Region IV-B, the Other Receivables account of San Jose, Mamburao and Palawan POs of P28.109 million, P0.301 million and P3.542 million, respectively, or a total of P31.952 million as of December 31, 2016, which are due from various private individuals, farmers' cooperatives and NFA miller contractors, and whose residence and/or which business locations can no longer be ascertained and lack of supporting documents to support the transactions, have remained outstanding for more than five to 29 years.

7.8 In Batangas PO, Other Receivables account of P1.195 million from various defaulting millers has remained outstanding for more than five to 33 years. The receivables from these defaulting millers were forwarded to NFA-LAD on September 16, 1988. The owner of the Rivera Ricemill is out of the country while the proprietor of Tumbaga Ricemill is already deceased. There are no available documents.

7.9 In Infanta PO, Other Receivables account of P236,547 represents cash shortage of former Cashier, incurred and taken up in the books since CY 1984, had been outstanding for 32 years. According to the Acting SAS, records were no longer available while demand letter was not served as the former Cashier's whereabouts was unknown. Thus, the possibility of its collection is very remote.

7.10 In Agusan del Sur PO, Other Receivables account amounting to P0.798 million from a defaulting milling contractor has been outstanding since CY 1987. Management's inability to observe the guidelines provided under NFA SOP No. FS-FA13 rendered the collectability of account doubtful.

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

- a. Institute all appropriate measures to document the receivables and continuously send demand letters to all concerned to enforce collection of the dormant receivable accounts; and**
- b. For those with remote or nil recovery, require the Accountant to take appropriate action to have the accounts written-off pursuant to existing laws, rules and regulations.**

**7.12 Management's gave the following comments:**

- a. HO- ASD will prepare an endorsement letter to COA for the write-off of dormant accounts with negative balance aged more than 15 years.
- b. Region IV-B- Management will send demand letters to all concerned, work back entries, and locate documents to support its verification and to obtain confirmation. Otherwise, the subject collectible accounts shall be requested for write-off.
- c. Infanta PO- Request to write-off receivables of the former Cashier who absconded 32 years ago will be prepared.
- d. Agusan del Sur PO- It will issue an Office Order reconstituting the creation and mobilization of "Task Force Oplan Collection of NFA Receivables" to assist the task force created at HO.

**7.13 As a rejoinder, we appreciate the actions taken/to be taken by Management to clear/settle the accounts. However, we 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.**

## **Property and Equipment (PE)**

**8. The net book value (NBV) of the PE account of P2.140 billion remained not reliable due to: a) unreconciled variance of P65.920 million between the book balance and the inventory count in the HO and six FOs; b) net understatement of accumulated depreciation in HO by P142,194 resulting in overstatement of Retained Earnings; c) undocumented ownership of parcel of land valued at P29.005 million in three FOs; d) inclusion of negative/abnormal balances amounting to P1.485 million in NFA-NCR; and e) incomplete physical inventory reports/Report on the Physical Count of Property, Plant and Equipment (RPCPPE) in five FOs.**

**8.1 Section 42 of the MNGAS, Volume I, provides, among others, that the Property Accounting System consists of the system of monitoring, controlling and recording of acquisition and disposal of property. Its sub-system includes the following:**

- a. Receipt, inspection, acceptance and recording deliveries of equipment; and
- b. Requisition and issuance of equipment.

8.2 Sections 490 and 491 of the Government Accounting and Auditing Manual (GAAM), Volume I, require the reconciliation of inventory report with the Accounting Department's General Ledger (GL) accounts and property and equipment ledger cards and the Property Office's records, and discrepancy, if any, be investigated and cleared immediately. The conduct of reconciliation of accounting records with the physical count is a basic control over physical assets as it provides the necessary check on the completeness and accuracy of accounting and property records and determines the existence and condition of items comprising the Property, Plant and Equipment (PPE) account.

8.3 COA Circular No. 2003-007 dated December 11, 2003 also provides the accounting policies and guidelines on PPE. The Circular requires that the straight-line method of computing depreciation for government PPE shall be adopted and a residual value equivalent to ten per cent (10%) of the acquisition cost/appraised value shall be deducted before dividing the same by the estimated useful life. It also provides the estimated useful life of PPE by classification. On the other hand, COA Circular Letter No. 2004-03 dated October 4, 2004 provides that the computation of the depreciation expense shall start on the following month after the purchase/completion of PPE, irrespective of the date within the month.

8.4 Meanwhile, the relevant SOPs of NFA with regard to its Property and Equipment are: (a) SOP No. GS-PD19 dated March 24, 2003 on the Revised SOP on Fixed Assets Inventory, Monitoring and Control System to monitor the movement and condition of the assets and update the documentation, reporting and accounting systems and provides, among others, the reconciliation of the physical inventory count with the book balances, and NFA SOP No. FS-GP21 dated September 7, 2007 on Revised SOP on Depreciation Accounting as guide in the recognition of depreciation, residual value and accounting treatment of fully depreciated but still serviceable property, among others.

8.5 Furthermore, Section 39 (2) of PD No. 1445 provides that "*Xxx the Commission shall require a certificate of title entered in favor of the government or other evidence satisfactory to it that the title is in the government.*"

8.6 Audit of PPE account disclosed the following deficiencies:

*Unreconciled variance between books/accounting records and property records amounting to P65.920 million*

8.7 As of December 31, 2016, the PE account is valued at cost in the amount of P5.259 billion. The accumulated depreciation and adjustments amounted to P3.119 billion, thus the NBV of P2.140 billion. However, comparison between the book balances of the PE accounts as of December 31, 2016 and the RPCPPE in the HO and in NCR, Region II and Autonomous Region in Muslim Mindanao (ARMM) revealed a variance of P65.920 million (absolute figure), as shown in Table 25. This variance decreased by P41.482 million from P107.402 million in CY 2015.

**Table 25 - PE Book Balances vs. Physical Inventory Count**

<b>NFA Office</b>	<b>Per Books</b>	<b>Per Inventory Report</b>	<b>Variance (Absolute Figure)</b>
HO	P 833,908,298	P 813,586,208	P 20,322,090
NCR-RO	68,651,414	29,141,551	39,509,863
NCR-CDO	39,558,435	41,125,641	1,567,206
NCR-NDO	182,833,274	181,470,604	1,362,670
NCR-SDO	16,252,418	13,734,753	2,517,665
Region II- Kalinga PO	35,979,861	35,749,023	230,838
ARMM- Lanao del Sur PO	12,278,402	12,687,828	409,426
			<b>P 65,919,758</b>

8.8 In HO, Management was able to submit to the Audit Team an Inventory Report of PE as of July 31, 2016 in which the balance of the Construction in Progress (CIP) was not included. To establish the actual physical inventory as of December 31, 2016, the Audit Team considered the acquisition and transfers from August 1, 2016 to December 31, 2016. Of the P833.908 million balance of PE in the books as of December 31, 2016, the total amount of P1.636 million PE acquired in CYs 1970 to 2006 was recorded under "For Reconciliation" accounts during migration (transfer) in the CY 2007 of balances from the old accounting system to e-NGAS. While the balance in CY 2015 of P14.571 million was significantly reduced to P1.637 million in CY 2016, the existence of the "For Reconciliation" accounts is still considered one of the major causes for the noted variance as the amount constitutes 8.05 per cent [ $P1,636,511/P20,322,090 \times 100$ ] of the total variance.

8.9 It was also noted that based on the JEVs, the adjustments for the reduction of the "For Reconciliation" accounts by P12.394 million were taken up under Prior Year's Adjustments account, however, the JEVs were not supported with pertinent documents.

8.10 In NCR-RO, only P29.141 million of the P68.651 million PE was included in the inventory report, rendering the remaining items costing P39.510 million equivalent to 57.55 per cent unaccounted for at year-end due to perennial non-reconciliation of property records with the accounting records after the conduct of annual physical inventory. The Regional Finance Section did not prepare the reconciliation on the comparison between balances per books and balances per RPCPPE, as noted in audit for several years, notwithstanding formal and written requests for its submission to COA. Alternative audit procedures could not be made on the PE items costing P39.510 million due to the absence of subsidiary records and incomplete information in prior years accounting entries' supporting documents to substantiate the reported balances.

8.11 Moreover, the Property Section prepared a "list of items not included in the inventory" consisting of fabricated items without corresponding cost and Memorandum Receipt (MR). These were not treated as PE items. The unaccounted value and non-recording of fabricated items had been among the audit issues raised in prior years and reiterated in audit since CY 2013 due to its non-inclusion in the annual physical inventory (RPCPPE) and non-compliance with Item 3.6.3 of NFA SOP No. GS-PD19 dated March 24, 2003 which states that, *"The General Services Department-Procurement Planning and Management Division (GSD-PMMS) in coordination with GSD-Administration Facility Services Division (AFSD) shall determine the cost of the fabricated furniture or fixture. An MR shall then be prepared as soon as the fabricated property has been finished and issued."*

8.12 In NDO, comparison between the balances per books and the established physical count as of December 31, 2016 showed a net variance of P1.363 million. This variance could be partly attributed to the adjustments made in the books of NDO for the repair and improvement of the Administration Building and various warehouses amounting to P1.677 but were not taken up by the Property Officer in the Inventory Report as at year-end due to lack of advice.

8.13 In CDO, the District was not able to submit to the COA Auditor a property inventory report as of December 31, 2016. However, it conducted physical inventory of PE in August 2016 based on the inventory report as of July 31, 2016 of the Property Section. In the Audit Team's work forward analysis of PE as of July 31, 2016 with additions/deductions to establish the inventory as of December 31, 2016, it noted a variance of P1.568 million between the costs per inventory of P41.126 million and per books of P39.558 million for seven PE sub-accounts as at year-end.

8.14 In SDO, as of December 31, 2016, the PE account was valued at cost in the amount of P16.252 million. The accumulated depreciation and adjustments amounted to P13.739 million, thus the NBV of P2.513 million. However, comparison between the book balance of the PE accounts as of December 31, 2016 and the RPCPPE revealed a net variance of P2.518 million. This could be partly attributed to the disposed assets, which were not derecognized and unrecorded properties in the books.

8.15 In Region II- Kalinga PO, as of December 31, 2016, the PE account was valued at cost in the amount of P35.980 million. The accumulated depreciation amounted to P26.106 million, thus the NBV of P9.874 million. However, comparison between the balances in the inventory report and accounting records revealed a net variance in the total amount of P230,839. Also, the balance per books included two equipment for reconciliation amounting to P87,718.

8.16 In ARMM - Lanao del Sur PO, the PE account as of December 31, 2016 had a variance of P409,427 between the property records of P12.688 million and accounting records of P12.278 million. Management explained that the variance could be attributed to purchase of PE items which were not recognized immediately as fixed assets, but instead recorded as supplies first and not transferred to PE account.

*Net understatement of accumulated depreciation in HO by P142,194 resulting in overstatement of Retained Earnings*

8.17 As of December 31, 2016, the HO's PE account had a balance of P833.908 million, the Accumulated Depreciation of which amounted to P459.436 million leaving a NBV of P374.472 million.

8.18 Review of the purchases of PE in the HO during the year revealed that there were discrepancies in the computation of accumulated depreciation and acquisitions during the year that were not provided with the corresponding depreciation contrary to the provisions of COA Circular No. 2004-003, resulting in understatement of accumulated depreciation in the amount of P142,194, as summarized by account in Table 26.

**Table 26- Variances in Accumulated Depreciation**

Account Code	Account Name	Total per Books	Should be (Per Audit) As of December 31,		Understatement
			2016		
223	IT Equipment	P 54,076,118	P 54,082,193	P 6,075	
221	Office Equipment	17,493,601	17,499,511	5,910	
236	Technical and Scientific Equipment	146,882,410	146,973,134	90,724	
226	Machineries	3,808,275	3,823,509	15,234	
229	Communication Equipment	10,396,340	10,420,591	24,251	
Total		P 232,656,744	P 232,798,938	P 142,194	

8.19 The Electronic New Government Accounting System (e-NGAS) has been programmed to generate the first depreciation in the second month from the date of acquisition as recorded by the Accountant in the PPE Ledger Card (PPELC), and will stop to generate at the end of the PE's useful life as aligned to Section 4(o) of the MNGAS. It will also not update any late depreciation due to late recording, thus, understating the depreciation expenses of the PE and overstating its NBV.

8.20 The variances due to incorrect calculation of accumulated depreciation were arrived at by comparing the accumulated depreciation of each property number of NFA's PE computed by the e-NGAS and the accumulated depreciation as recomputed manually by the Audit Team based on the details/information in the PPELC such as date of acquisition and useful life of an asset. The comparison disclosed that majority of the PE's accumulated depreciation generated by the e-NGAS matched with the recomputed balances.

8.21 The recomputed balances that did not match with the balances per e-NGAS were further verified from the PPELC of the items. Results of verification showed that the variances could be attributed to the following:

- a. Delayed recording of acquisition of PE in the books which were 1 to 6 months later than the date of acquisition; and
- b. Non recording of adjusting entries for the depreciation not generated by the system from the date of acquisition.

8.22 The incorrect calculation or non-taking up of accumulated depreciation on the second month from the date of acquisition caused the understatement of the accumulated depreciation of the PE accounts which resulted in the overstatement of the NBV of the same accounts.

*Undocumented ownership of parcel of land  
valued at P29.005 million in three FOs*

8.23 Table 27 shows the parcels of land valued at P29.005 million recorded in the books of three FOs, i.e. NCR-RO, NCR-CDO and Quirino PO, however, ownership thereof could not be established due to absence of documents.

**Table 27 – Undocumented Parcels of Land**

<b>District/Region</b>	<b>Amount (in millions)</b>
NCR- RO	P 13.117
NCR- CDO	12.962
Region II- Quirino PO	2.926
<b>Total</b>	<b>P 29.005</b>

8.24 In NCR-RO, the ownership over a parcel of land with recorded historical cost of P13.117 million remained undocumented. Based on the AAPSI for CY 2015, Management stated thereon that coordination with the HO on the parcel of land recorded in the books disclosed that no Transfer Certificate of Title (TCT) could be found.

8.25 In NCR-CDO, despite previous requests, Management did not submit the documents showing proofs of ownership of properties with total cost of P12.962 million recorded under Land and Other Structures accounts with balance of P1.146 million and P11.816 million, respectively, at year-end. As the ownership could not be established, the balances of the two accounts amounting to P12.962 million are unreliable.

8.26 In Region II- Quirino PO, the lot including repairs and improvements of the warehouse, where NFA Diffun FLGC Warehouse is situated, with a book value of P2.926 million were not titled as required under Section 39 (2) of PD No. 1445; hence, ownership and rights could not be ascertained. Interview with the Manager of the PO disclosed that she had submitted all the requirements for the titling of Diffun FLGC Warehouse Lot last September 16, 2016. However, as of this writing, the bulk of documents required are still pending at HO- LAD. Hence, the titling process has not yet commenced.

8.27 In Region IX-Zamboanga del Norte PO, two parcels of land occupied by NFA Warehouses particularly in Banigan Liloy and Sergio Osmeña, Zamboanga del Norte were not yet covered with TCTs to establish ownership, and have no recorded value, hence, legality issues may arise as to ownership, valuation and recording. The PO is still in the process of gathering legal documents to facilitate the transfer of titles which was more than 10 years since the time that the warehouses in Banigan Liloy and Sergio Osmeña were constructed. Furthermore, verification from the Register of Deeds disclosed that there were no annotations at the back of the TCTs that the parcels of land were already donated to the PO, which could prevent the concerned donors from disposing the land to interested buyers. Failure and delay of Management to work on the titling of these parcels of land, pose risk of losing these properties in the event that the donors reclaim or reacquire the land. If this happens, the NFA might be considered unlawful tenant occupying a property without legal rights.

*Inclusion of negative/abnormal balances amounting to P1.485 million in NFA-NCR*

8.28 In NCR, four accounts amounting to P4.357 million have negative book value of P1.485 million as shown in the Table 28.



**Table 28- PE with Negative NBV**

SL	Account	Cost	Accumulated Depreciation	NBV
223	IT equipment and software	P 3,114,577	P 3,638,059	P (523,482)
226	Machineries	446,162	1,393,026	(946,864)
344	Watercraft	-	2	(2)
250	Other PPE	796,559	811,412	(14,853)
<b>Total</b>		<b>P 4,357,298</b>	<b>P 5,842,499</b>	<b>P (1,485,201)</b>

*Incomplete physical inventory reports/  
RPCPPE in five FOs*

8.29 Table 29 shows that the NCR-RO, Mamburao PO, Quezon PO, Laguna PO, and Agusan del Norte PO were either not able to complete the physical count of PE or submit the RPCPPE to the concerned Audit Teams.

**Table 29 – Incomplete Physical Inventory Reports/ RPCPPE in five FOs**

Office	Particulars
NCR RO	The Regional Finance Section did not prepare the reconciliation on the comparison between balances per books and balances per RPCPPE, as noted in audit for several years, notwithstanding formal written requests for its submission to COA. Alternative audit procedures could not be made on the PE items costing P39.510 million due to the absence of subsidiary records and completeness of information in prior years accounting entries' supporting documents to substantiate the reported balances.
Region IV-B- Mamburao PO	The existence, accuracy and reliability of the recorded balance of PE account with NBV of P16.553 million, could not be ascertained due to non-submission of RPCPPE. Inquiry with Management revealed that the actual physical inventory of property was conducted on July 26-28, 2016. However, verification revealed that the required RPCPPE was not submitted to the Audit Team.
Region IV-A- Quezon PO	The inventory count of PE was not completed by the previous Property Officer and corresponding report was not turned over to the current Property Officer, hence the PE Inventory Report as of December 31, 2016 was not prepared and submitted by the Acting Property Officer. Inquiry with the Acting Property Officer, who assumed his duties on August 16, 2016, revealed that inventory reports of PE with total acquisition costs and net book values amounting to P15.564 million and P4.849 million, respectively, as at year-end were not yet prepared since the physical inventory of these properties has not been completed as at year-end.
Region IV-A- Laguna PO	Preparation and submission of the Quarterly Consolidated Updated Fixed Assets Inventory Report was not undertaken by the Supply Officer, thus, regular monitoring of the movement of the agency's PPE was not undertaken which may result in possible loss. On August 11 and 19, 2016, the Audit Team, as observer, witnessed the conduct of annual physical inventory count in four (4) warehouses, and noted that instead of the Quarterly Updated Fixed Assets Inventory Report dated June 30, 2016, the report used as basis for inventory taking was the Schedule of PE dated October 1, 2015, which incidentally was not properly filled up. Most, the serial numbers, acquisition costs and property codes were not indicated in the Report.
CARAGA- Agusan del Norte PO	Inventory Report of PE was not submitted, thus, the accuracy and existence of the balance of PE account of P7.635 million as of December 31, 2016 could not be ascertained. As such, the absence of the Inventory Report resulted in the difficulty in ascertaining the accuracy and existence of the year-end balance of PE account of P7.635 million.

8.30 The non-reconciliation of PE balance between books and inventory reports; incorrect calculation or non-recognition of Accumulated Depreciation which resulted in the understatement of Accumulated Depreciation and overstatement of the NBV; and non-documentation of parcels of Land, among others, create doubts on the reliability of the PE account. In addition, the non-submission of the Inventory Reports/RPCPPE and the absence of an updated and complete property records precluded the Audit Teams from applying alternative audit procedures, hence, the reliability, existence and completeness of the PE account could not be ascertained.

**8.31 We recommended that Management:**

- a. Require the conduct of complete and thorough verification and reconciliation of the property and accounting records to determine the cause/s of discrepancies so that necessary corrections/adjustments can be effected in both records to arrive at the correct/reconciled balances;**
- b. Prepare and effect the necessary adjusting entries for the PE that the Accumulated Depreciation was understated;**
- c. Fast track efforts to secure the documents needed for the transfer and registration of the land title in the name of NFA as basis for issuance of TCTs;**
- d. Follow up vigorously the actions taken by HO-LAD on the titling of the parcels of land to establish full ownership over the property and provide basis for recording the value in the books of accounts and to avoid incurrence of losses for the funds spent on improvements thereon; and**
- e. Strictly adhere to the rules and regulations on the submission of inventory reports, reconcile any discrepancy between the accounting records and inventory report, and take up adjustments accordingly.**

**8.32 Management provided the following comments/justifications:**

- a. HO- As a result of continuous reconciliation of the accounts, the variance of P37.508 million as of December 31, 2015 was reduced by P17.186 million. Likewise, for CY 2016, the "For Reconciliation" account was reduced by 85.07 per cent or P12.394 million. A meeting is set with concerned departments (GSD, CPMSD, FDC and TRSD) by July 2017 to thresh out problems, formulate actions to be undertaken to address pressing issues on PE and to be apprised on the status of the amendments on the SOP on PEs. Depreciation schedule of PE is being reviewed to avoid understatement of accounts. The ASD also partially submitted JEVs with complete supporting documents amounting to P17.603 million representing adjustments of the "For Reconciliation" account.
- b. NCR
  - b.1 RO- The staff tasked for the PE reconciliation had already finished encoding the SLs for fixed assets and its accumulated depreciation as recorded per books. To date, Regional Finance is still in the process of analyzing available documents relative to the reconciliation of PE accounts.

There was no TCT secured after coordination with HO regarding the undocumented parcel of land. It has been trying to retrieve available documents/reports/files supporting the transfer and registration of the land title.

b.2 SDO- It committed to continue the reconciliation of records with Property Unit in order to determine the remaining discrepancies and arrive at the correct balances.

b.3 CDO- It has already communicated to LAD the concern regarding the titling of land specifically the Minprocor property located at San Francisco Del Monte, Quezon City, and according to LAD, it has already forwarded to top Management its recommendation on said issue. As of December 31, 2016, the PE accounts recorded in the books were already reconciled with the inventory report prepared by the Supply Officer.

b.4 NDO- Reconciliation of property and accounting records is still on-going. Adjustments will be immediately effected as soon as it finishes the reconciliation.

c. Region II- Kalinga PO- The Accounting and GSD units are continuously and diligently looking into the variances between the inventory and accounting records. In fact, the variance has been reduced by P562,681 from CY 2012. The Sections responsible shall continue looking for the source documents to decrease or to eliminate the variances. Regarding the Drier and Bulk Storage, it will follow up from RO the status of the inspection and appropriate action to be done.

d. Region II- Quirino PO- The Special Patent for the titling of NFA Diffun FLGC Warehouse had been received but pending release of the original copy since the Diffun Municipal Treasurer's Office required the updating of Real Property Tax payment amounting to P48,988 and registration fee of P2,975. It also informed that the NFA has a pending request for tax exemption from the Department of Finance. The HO-LAD is now working whether it will pay the real property taxes for the release of the original copy of the Special Patent for the NFA Diffun lot.

e. Region IV-A-Laguna PO- The Provincial Manager issued Memorandum LGN-OPM-J-509 dated October 13, 2016 to Supply Officer instructing her to comply with the Audit Team's recommendations. The recent closure of some warehouses, which requires updates on accountable personnel/end user, and additional assignment given to the Supply Officer as Provincial Industry Services Officer (PISO) pursuant to Special Order No. AO-2K17-01-031 dated January 19, 2017, hindered the immediate completion and submission of reports. In addition, one personnel has been assigned to assist the Supply Officer in her preparation of report.

f. Region IV-A-Quezon PO- The Provincial Manager commented that the outgoing and the incoming Property Officers agreed to complete and finalize the inventory report of PE as of December 31, 2016 and submit the inventory report thereon the soonest.

g. Region IV-B-Mamburao PO- The revised RPCPPE will be submitted by the Supply Officer soonest. Furthermore, updating of property cards and PE ledger cards has been already started and will be accomplished by the concerned officials.

h. Region IX-Zamboanga del Norte PO- It assigned personnel to work on the titling of the lots and already coordinated with the HO and submitted necessary documents last January 2016.

8.33 As a rejoinder, we appreciate the efforts exerted by Management in reducing the variance on PE account between the accounting records and inventory report as well as the "For Reconciliation" account in order to arrive at the correct balances, and its continuing commitment on strict compliance with the policies and procedures on monitoring and proper reporting of PE to prevent possible loss of government property. However, we will continue monitoring the reconciliation of property and accounting records to ensure the correct balances will be reflected in the books.

### **Inventories for Consumption**

**9. Lapses in accounting, monitoring and control of supplies and materials such as: a) the non-reconciliation of the balance per books and inventory reports; b) incomplete conduct of physical inventory; c) poor maintenance of Stock Cards by Supply Officers; and other deficiencies, contrary to pertinent provisions of the MNGAS, Volumes I and II, and the non-alignment of NFA SOP No. GS-PD16 to MNGAS resulted in unreliable balance of P419.251 million Inventory for Consumption accounts at year-end.**

9.1 As of December 31, 2016, Inventory for Consumption accounts had a total balance of P419.251 million as presented in Table 30.

**Table 30 - Breakdown of Inventory for Consumption Accounts  
as of December 31, 2016**

<b>Inventory Account</b>	<b>Amount</b>
Office supplies inventory	P 15,369,737
Accountable forms inventory	22,349,159
Drugs and medicine inventory	562,674
Medical, dental and laboratory supplies inventory	2,961,852
Gasoline, oil and lubricants inventory	1,067,152
Agricultural supplies	39,973,031
Other supplies inventory	313,519,849
Confiscated, abandoned/seized good inventory	1,242
Spare parts inventory	12,828,046
Construction materials inventory	10,617,895
	<b>P 419,250,637</b>

9.2 The MNGAS, Volume I provides, among others, the maintenance of records for supplies and materials and the specific guidelines and procedures on acquisition, requisition and issuance of inventory items, as follows:

- a. For check and balance, the Property and Supply Office/Unit shall maintain Stock Cards (SC) for inventories. The balance in quantity per SC should always reconcile with the Supplies Ledger Card (SLC) of the Accounting Unit. (Section 43)
- b. The Accounting Unit shall be responsible in computing the cost of inventory on a regular basis in the SLC. (Section 44)
- c. Regular purchases shall be coursed through the inventory account and issuances thereof shall be recorded as they take place except those purchased out of Petty Cash Fund for immediate use or on emergency cases. (Section 4j)
- d. Section 45 provides the procedures in the receipt, inspection, acceptance and recording of deliveries of inventory items wherein the Property Inspector of an agency performs a critical function in ensuring compliance by the supplier with the specifications and/or terms of inventory items received.
- e. Section 46 provides the procedures in the requisition and issuance of inventory items wherein the Accounting Unit of an agency performs an important role in the monitoring and control of issuances of inventory items.

9.3 In addition, the MNGAS, Volume II, provides the following:

- a. The Supply Officer shall prepare the Report of Supplies and Materials Issued (RSMI) which shall be used by the Accounting Unit as a basis in preparing the Journal Entry Voucher (JEV) to record the supplies and materials issued. The report is to be prepared on a daily basis. (Section 62)
- b. The Report on the Physical Count of Inventories (RPCI) shall be used to report the physical count of supplies by type of inventory as of a given date. It shows the balance of inventory items per cards and per count and shortage/overage, if any. (Section 65)

9.4 Moreover, NFA SOP No. GS-PD16 dated April 1, 1999 prescribes the Revised Supplies and Materials Management and Control System. The SOP provides the specific responsibilities of the parties involved in the monitoring and control of inventories. Under the said SOP, the General Services Department (GSD) has the custody and management of all stocks of expendable and semi-expendable supplies and materials, except for items under the management and custody of the concerned Functional Offices, as shown in Table 31.

**Table 31 - Inventory Items Under the Custody and Management of the Concerned Functional Offices**

<b>Inventory Item</b>	<b>Concerned Functional Offices</b>
All stocks of expendable and semi-expendable supplies and materials except as enumerated below	GSD, Property and Supply Management Division (PSMD), Property Materials Storage and Disposition Section (PMSDS)
Pest control and other chemical supplies	FDC, Technology Resource and Development Department
Dental and medical supplies	HRD, Medical Services Division
Ammunition	GSD, Security Services Division
Other supplies exclusively used by specific office (ex. credit memo, subsidiary ledger, cash journal book)	Other Concerned FOs (ex. ASD)

9.5 Furthermore, NFA SOP No. GS-PD03 dated January 15, 1985 provides for the procedure on issuance and control of NFA accountable forms, to wit:

*As NFA accountable forms and accountability reports are considered public documents, misuse or neglect of such constitute an offense.*

*Xxxx*

*NFA employees to whom accountable forms are issued for the purpose of documenting NFA operational transactions as well as Custodians of Accountability Reports (i.e. Warehouse Supervisor, Cashier, Teller, Accountant and Supply Officer) shall be held responsible for such and shall therefore be liable for any legal retribution that may be imposed upon as a result of misuse, neglect or loss thereof either through their own personal acts or that of others.*

9.6 In the determination of differences in the balances of inventories, a comparison of the balances in the books and the balances per count should be made. Hence, completeness of the Inventory Report based on the inventory count and the reliable costs are necessary before a precise determination of variances can be performed.

9.7 In the course of the audit, deficiencies were observed in the accounting and monitoring of Inventory for Consumption Accounts in several NFA offices as presented in Table 32.

**Table 32- Status of Inventory for Consumption Accounts in ROs/POs**

<b>RO/PO</b>	<b>Status</b>
NCR - CPO	Other Supplies Inventory account of P1.219 million did not exist based on the results of physical inventory conducted in CY 2016, resulting in doubtful accuracy of the reported balance in the Balance Sheet and its disclosure in the Notes to the Financial Statements.
NCR- SDO	The non-reconciliation of the variance of P0.515 million for Office Supplies Inventory between the balances per books and balances per Office Supplies Inventory contrary to NFA SOP Nos. GS-PD19 and GS-PD16, casts doubt on the reliability of the account balances as at December 31, 2016. Moreover, Inventory Custodian Slips were not prepared and issued to the recipients for tangible assets costing P15,000 or less which are recorded as inventories and expense upon issuance, contrary to the provisions of COA Circular No. 2005-002 dated April 14, 2005.

<b>RO/PO</b>	<b>Status</b>
Region I- Ilocos Sur and Abra POs	The reliability, accuracy and existence of Other Supplies Inventory account in NFA Ilocos Sur and Abra POs amounting to P5.227 million could not be determined due to the (a) inclusion of items already issued to end-users or recipients; (b) inability of the Accounting and Property Sections to maintain and update subsidiary records and prepare Inventory Report; and (c) the non-conduct of physical inventory at least once in every semester.
Region IV-B - San Jose and Mamburao PO	The accuracy, reliability and existence of inventory accounts held for consumption amounting to P11.194 million as of December 31, 2016 could not be ascertained due to failure to conduct year-end physical inventory taking, some inventory items were booked as outright expense, and deficiencies in the accounting and monitoring of such inventories contrary to Section II (g) of NFA SOP No.GS-PD16 and pertinent provisions of the MNGAS.
Region V-Masbate PO	The accuracy and reliability of inventories for consumption accounts amounting to P2.596 million could not be ascertained due to deficiencies in the monitoring and accounting for supplies and materials, contrary to Sections 43 and 62 of the MNGAS, Volumes I and II, respectively.
Region V- Camarines Norte PO	The Supply Officer (SO) II and the Special Disbursing Officers (SDOs) neglected to ensure that the Official Logbook for Accountable Forms and the Monthly Report of Accountability for Accountable Forms (MRAAF) were updated and failed to exercise the diligence in securing evidence of receipt and return of Accountable Forms, contrary to SOP No. GS-PD03, thus, casting doubt on the accuracy and reliability of records and reports prepared in documenting the movement of, and accountability for the accountable forms.
Region VI	The accuracy and reliability of four (4) inventory accounts totaling P2.2 million as of December 31, 2016 were deemed doubtful due to the absence of physical count of inventories and reports thereon, contrary to MNGAS, Volume I. Likewise, the Agency failed to prepare and submit the proper inventory forms and reports as prescribed in MNGAS, Volume II.
Region XI-Davao del Sur PO	The prolonged storage of non-moving, obsolete, loose and partially damaged unused accountable forms as well as overstocking due to inefficient management and control of accountable forms in the PO is reflective of improper stewardship, thereby, resulting in wastage and exposing resources of the Agency to risks of losses and misuse.
ARMM-RO	Supplies Inventory account totalling of P3.148 million, as reflected in the financial statements for the year ended December 31, 2016, could not be relied upon due to the inclusion of agricultural supplies, other supplies and spare parts inventory items with a total amount of P2.427 million which remained unchanged for more than three (3) years with no supporting documents. Moreover, Stock Cards (SCs) were not maintained which should have been the basis for recording receipts and issuances of inventories as well as to reflect the balance on hand at all times.
ARMM- Maguindanao PO	Other Supplies Inventory account amounting to P6.157 million as of December 31, 2016 could not be relied upon due to inclusion of pallets and canvasses which remained in the inventory items for more than eight (8) years amounting to P1.725 million, and the abnormal negative balance of P0.497 million as reflected in the financial statements.

9.8 In HO, a comparison of the balances in the books and the physical inventory count resulted in variances amounting to P6.275 million. Thus, the accuracy and reliability of the Inventory for Consumption accounts of the HO amounting to P15.939 million could not be ascertained.

9.9 The doubt on the accuracy and reliability of the reported Inventory for Consumption balance per books could be partly attributed to the following:

a. Some Functional Offices were not able to complete the conduct of inventory count, hence did not submit Inventory Report. In the HO, the GSD and FDC did not conduct inventory count on the inventory items, as shown in Table 33.

**Table 33 – Inventory Items in HO not included in the Physical Count**

Functional Office	Inventory Items
GSD-Security Services Division	Ordinance supplies- ammunitions
FDC	Microanalytical Laboratory
	Chemistry and Contaminants Laboratory
	Microbiology Laboratory
	Engineering Supplies Inventory
	Laboratory Supplies
	Training Materials

b. There was timing difference between the recording by the ASD for the receipt and issuance of inventory items and the recording of the concerned Functional Offices such as the purchases from the Procurement Service of the Department of Budget and Management which were already paid in advance but not yet delivered. Likewise, the RSMI is prepared and submitted by the Property/Supply Officers to the ASD on a monthly basis as required in NFA SOP No. GS-PD16 instead of daily basis as required in Section 62 of MNGAS, Volume II.

c. As of December 31, 2016, inventory items recorded in the books as “For Reconciliation” and “For Reclassification” amounted to P2.061 million and P0.705 million, respectively. These items, which have remained in the books for a number of years, were not considered in the Inventory Report.

9.10 It was also noted that in compliance with the prior year’s audit recommendation, the ASD and GSD and other concerned Functional Offices already maintained SLCs and SCs, respectively. However, review of some of the SLCs maintained by the ASD showed that these were not reliable as the unit costs of the items using the Moving Average Method were not correctly computed. For instance, on accountable form “Empty Sack Receipt,” variances occurred in every issue made. As shown in Table 34, the unit cost per SLC as of December 29, 2016 of P92.49 was incorrect; hence, actual variances could not be accurately determined.

**Table 34- Unit Cost per Audit and SLC**

Date	Qty.	Receipt		Issued		Balance		Unit Cost per Audit	Unit Cost per SLC	Variance
		Unit Cost	Total Cost	Qty.	Qty.	Unit Cost	Total Cost			
09/01/2016	40	P 91.94	P 3,677.60	-	40	P 91.94	P 3,677.60	P 91.94	P 91.94	P -
09/01/2016	13	91.94	1,195.22	-	53	91.94	4,872.82	91.94	91.94	-
11/30/2016	-	-	-	10	43	91.94	3,953.42	91.94	91.93	0.01
12/01/2016	10	95.26	952.60	-	53	92.57	4,906.21	92.57	92.56	0.01
12/29/2016	-	-	-	3	50	92.57	4,628.50	92.57	92.53	0.04
12/29/2016	-	-	-	4	46	92.57	4,258.22	92.57	92.49	0.08

9.11 On the other hand, there were still Property/Supply Officers who did not maintain the SCs and did not comply with the use of RPCI form in rendering inventory report after the conduct of physical count. The Inventory Report of some of the Functional Offices



lacked the material columns required, such as, the Stock Number/Code, Unit of Measure, Unit Value, Balance per Card, On Hand per Count, Shortage/Overage (in quantity and amount), and Remarks. Thus, reconciliation of balances could not be facilitated.

9.12 The deficiencies in monitoring and control of inventories resulted in variances in the balance of inventories between books and actual count, thus, the reliability and accuracy of the inventory accounts could not be ascertained.

9.13 Moreover, the inefficient management and control of the accountable form is reflective of improper stewardship resulting in wastage and exposing the resources of the Agency to risks of losses and misuse. It can also be deduced that the lack of coordination between unit offices in the POs attributed to the deficiencies. Also, the lack of proper planning and foresight of the POs and the HO resulted in overstocking by continuous transfer of accountable forms without due consideration of average consumption need, level of inventory, buffer levels and storage capacity.

**9.14 We reiterated our prior year's audit recommendations that Management:**

- a. Instruct the ASD and GSD/concerned Functional Offices to exert efforts to reconcile the balances of inventory for consumption in accounting and property records;**
- b. Require all Property/Supply Officers of the GSD/concerned Functional Offices to use and maintain SCs while the ASD to properly maintain the SLCs to ensure better control and monitoring of the inventories;**
- c. Instruct all Property/Supply Officers of the GSD/concerned Functional Offices to conduct an inventory count as well as submit the results thereof using the prescribe Report on Physical Count of Inventories (RPCI); and**
- d. Re-visit the provisions of NFA SOP No. GS-PD16 to identify the provisions that need to be revised/amended and those lacking provisions in order to align these to the provisions in the MNGAS.**

**9.15 We also recommended that Management:**

- a. Strictly comply with the provisions in the MNGAS, particularly on the preparation, authorization and submission of RIS and RSMI;**
- b. Instruct the ASD to use the asset method in which purchases of office supplies are recognized under Inventory account instead of as outright expense;**
- c. Instruct the Accounting Office to prepare schedules of sub-accounts lodged to Other Supplies Inventory account as prescribed in Sections 111(1) and 114(2) of PD No. 1445. (Region I- Ilocos Sur and Abra POs);**
- d. Strictly adhere to NFA SOP in the accounting, safekeeping, monitoring and control, and issuance of accountable forms, specifically on the use of Invoice and Receipt of Accountable Forms (IRAF) in receiving**

**and returning unused accountable forms. (Region V- Camarines Norte PO and Region XI- Davao del Sur PO)**

9.16 Management informed the actions taken on Inventories, which included the following:

a. In HO-

a.1 According to the GSD, the use of stock cards is now being implemented while continuous coordination with ASD is being done for the reconciliation of variance. In addition, GSD submits daily reports on deliveries and issuances using RSMI Form and committed to use the RPCI form in the inventory count in the CY 2017 year-end inventory taking.

a.2 The FDC informed that its Supply Officers maintain Stock Cards, but it is difficult to maintain due to voluminous workloads. The FDC's Accountant will also assist its counterpart at ASD in reconciling the affected accounts so that the variances per books versus inventory reports as of December 31, 2016 will be zeroed-out by September 30, 2017. To eliminate the occurrence of variances in the future, FDC assured that it will properly comply with the provisions of the MNGAS.

b. Region I-Ilocos Sur PO- Reconciliation will be made by the Accounting and Property Sections for inventory items consisting of pallets and brand new MTS, while adjustments to charge to prior year expense for the issued items of other supplies inventory will be made in January 2017. Likewise, the two Sections were instructed to constantly coordinate with one another regarding the recording of supplies to ensure that their records tally in account names and amounts.

c. Region I- Abra PO- The Accounting Office and Supply Officer have been instructed already to maintain subsidiary records and prepare Inventory Reports, respectively, to comply with Sections 111 and 114 of PD No. 1445. Reconciliation is on-going to determine and verify all items included in the Other Supplies Inventory account. Necessary adjustments in the books will be taken up once reconciliation is done. Likewise, the Inventory Committee was also instructed to conduct physical inventory of all inventories to adhere to Section 490 of GAAM, Volume I.

d. Region IV-B- San Jose PO had already created inventory committee last January 30, 2017 for the conduct of physical inventory on January 31, 2017, and committed to conduct year-end inventory annually. Moreover, the Supply Officer prepared and submitted to ASD a Schedule of Inventory of Office Supplies as of January 31, 2017 which will be the initial amount of inventory account. Lastly, proper procedures on accounting, requisition, procurement, monitoring and issuance of supply inventories have been implemented starting February 1, 2017.

e. Region IV-B-Mamburao PO- Its Finance Section already made an adjustment in its February Trial Balance, recognizing agricultural supplies inventory in the books which was reconciled/tallied with the report of Technical Research Services Department (TRSD). Moreover, since the asset method will

be used for the recognition of inventories held for consumption, SCs and SLCs will be maintained

f. Region V-Masbate PO- The Supply Officer and the Senior Accounting Specialist committed to install measures in monitoring receipt and issuance of supplies and materials such as use of the prescribed format of RPCI, maintenance by the Supply Division of SCs instead of SLCs and preparation of the RSMI on a daily basis. Likewise, reconciliation of SCs and SLCs will be made regularly to ascertain accurate and reliable balances of the accounts.

g. Region V-Camarines Norte PO- As early as September 2016, the Supply Officer II has already updated the official logbook for accountable forms and a corresponding IRAF for the received and issued accountable forms and likewise instructed to strictly adhere to the existing SOP on Issuance and Control of Accountable Forms.

h. Region XI-Davao del Sur PO- It is waiting for the reply from the RO and HO as it has already forwarded a copy of the Audit Observation Memorandum (AOM) to both. As far as the PO is concerned, prudence is already being exercised in the request for accountable forms based on need and historical usage of the forms to avoid unnecessary costs and overstocking.

i. ARMM-Maguindanao PO- The Accounting Section ensured that accounts reflected in the Trial Balance and Financial Statements are fairly stated. Those accounts are under reconciliation so that the appropriate adjustments could be done. Also, current transactions concerning the accounts were properly accounted for.

9.17 As a rejoinder, we noted in the latest inventory count that most of the Supply Officers did not maintain SCs. Likewise, the Audit Team did not receive any report on the conduct of inventory counts by the concerned Functional Office. Moreover, variances are only lodged in the "For Reconciliation" account and have not been fully reconciled. The Audit Teams will monitor the implementation of the audit recommendations specifically on the use of RPCI in subsequent inventory counts as well as the submission of daily reports on deliveries and issuance using RSMI form.

## **Accounts Payable**

**10. The validity and accuracy of the balance of Accounts Payable amounting to P2.371 billion as of December 31, 2016 are doubtful due to existence of long outstanding accounts amounting to P130.015 million; dormant accounts amounting to P2.741 million, accounts with abnormal/negative balances amounting to P489,570, and other deficiencies noted in recording transactions.**

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. It is presented in the financial statements under Payable accounts.

10.2 Section 4(6) of PD No. 1445 requires that claims against government funds shall be supported with complete documentation. On the other hand, 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 As of December 31, 2016, the balance of the Accounts Payable account amounted to P2.371 billion. The breakdown is shown in Table 35.

**Table 35- Accounts Payable as of December 31, 2016**

<b>Particulars</b>	<b>Amount</b>
Private Institutions/Corporations/Contractors/Individual	P 2,279,542,572
Grains Direct Procurement	402,364
PLDT, Smart, Piltel, Globe	90,804,243
	<b>P 2,370,749,179</b>

10.4 Review of the Ageing Report submitted by the HO-ASD revealed that of the account balance of P2.371 billion, the amount of P130.015 million or 5.48 per cent remained outstanding for beyond 360 days, as presented in Table 36.

**Table 36- Ageing of Accounts Payable**

<b>Particulars</b>	<b>90 days and below</b>	<b>91 to 180 days</b>	<b>181 to 270 days</b>	<b>271 to 360 days</b>	<b>Beyond 360 days</b>	<b>Amount</b>
Private Institutions/ Corporations/ Contractors/Individual	P 2,091,463,818	P 82,107,083	P 8,306,628	P 5,347,475	P 92,317,568	P 2,279,542,572
Grains Direct Procurement	402,348	-	-	16	-	402,364
PLDT, Smart, Piltel, Globe	42,811,441	7,058,535	1,591,161	1,645,677	37,697,429	90,804,243
	<b>P 2,134,677,607</b>	<b>P 89,165,618</b>	<b>P 9,897,789</b>	<b>P 6,993,168</b>	<b>P 130,014,997</b>	<b>P 2,370,749,179</b>

10.5 The status of the Accounts Payable account as of December 31, 2016 in HO and some ROs/POs is shown in Table 37.

**Table 37- Status of the Accounts Payable Account in HO and Some ROs/POs**

<b>RO/PO</b>	<b>Balance at Year-end (In millions)</b>	<b>Dormant/Inadequate Documentation</b>	<b>Status</b>
HO	P 1,536.637	P 99,521	0.01 per cent or P99,521 is dormant for more than five years.
NCR- RO	2.410	2,217,953	92.01 per cent or P2,217,953 is dormant for 10 years and below.
Region II- Ifugao PO	0.400	22,615	5.65 per cent or P22,615 is dormant for three to four years.
Region VI- Aklan PO	3.719	349,530	9.04 per cent or P349,530 is dormant for three to 10 years.
Region XI- Davao del Sur PO	1.004	51,129	5.09 per cent or P51,129 is dormant for two years and more.
	<b>P 1,544.170</b>	<b>P 2,740,748</b>	

10.6 In HO, the dormant amount includes payable to Sodexo Pass Inc. of P50,000. Results of the confirmation to the creditor yielded zero balance in its books.

10.7 In Region II- Ifugao PO, the dormant amount represents payable to Digitel Corporation which closed in December 2012 following its acquisition by PLDT. Inquiry from the Acting SAS revealed that as of year-end, no demand letters were received for the payment of the payable.

10.8 In Region XI- Davao del Sur PO, the amount of P51,025 represents wage differential of the security guards of Solid Guard Security Agency (SOLGUS) covering the period January to August 2010. The case was arbitrated through the Department of Labor and Employment (DOLE) between the SOLGUS and initiated by the previous Provincial Manager of Davao City. It was resolved that the Agency shall show proof of payment of the salary differential to the concerned guards which is to be refunded by the NFA.

10.9 In Region XII- Sultan Kudarat PO, the balance of P2.707 million still includes obligations to Megamoon Security Services for the security assistance rendered for the month of August 2015 amounting to P547,291. Verification of the available records disclosed that the amount has already been paid by the RO on November 17, 2015. However, interview with the accounting personnel disclosed that no advice as to the actual payment of the said account has been received by the PO, thus the account remained outstanding in the books.

10.10 In HO, in addition to the dormant accounts, those with abnormal/negative balances and with age 90 days and below amounted to P489,570. Thus, the balance of Accounts Payable account at year-end was reduced by the same amount. The existence of abnormal/negative balances indicates errors/deficiencies in recording of transactions. Moreover, results of the confirmation made by the Audit Team to determine the correctness and existence of the payable balances as at December 31, 2016 resulted in a difference of P137,438.

10.11 The existence of dormant accounts under Accounts Payable account had been raised in the CY 2015 audit. As at December 31, 2016, the HO had partially implemented our prior year's recommendations as it had reversed a total amount of P3.796 million dormant accounts.

10.12 However, the continuous existence of long-outstanding, dormant and abnormal/negative balance of accounts; the negative results of confirmation; and other deficiencies in recording transactions cast doubt on the validity and accuracy of the reported payable account.

**10.13 We, therefore, reiterated our prior year's recommendation that Management consider the applicability of the guidelines and procedures prescribed under DBM- COA Joint Circular No. 99-06 dated November 13, 1999 on the reversion of accounts payable.**

**10.14 We also recommended that Management require the ASD to:**

- a. Analyze, verify and validate the dormant and abnormal/negative accounts and prepare necessary adjusting entries; and**
- b. Review and reconcile the payable account with negative results of confirmation.**

10.15 In Region XII- Sultan Kudarat PO, the concerned Audit Team **recommended that the PO Accountant be advised immediately by the RO to effect the payment to the agency in order to have a fair presentation of the accounts in the financial statements. It also recommended the close coordination with the RO and maintenance of the individual SLs of the suppliers for proper monitoring of payment and determination of the accrued expenses.**

10.16 Management gave the following comments:

- a. HO- The ASD had provided JEVs dated February and March 2017 to adjust the deficiencies noted. It further informed that it is currently reconciling other accounts and will prepare the necessary adjustments upon verification and validation of the transactions.
- b. Region II-Ifugao PO- It agreed to revert the accounts payable amounting to P22,615 that remained outstanding for more than two years and succeeding payables of similar nature.
- c. Region VI-Aklan PO- Review of the Accounts Payable as to validity of claims and completeness of supporting documents is currently on-going in the Accounting Section. Reversals or adjustments will then be made upon completion of said validation.
- d. Region XII-The PO already recorded the payment made by the RO to Megamoon Security Services per JEV3 #17-02-0001. It added that close coordination with the RO and maintenance of the SLs are religiously undertaken.

10.17 As rejoinder, Management should ensure the proper and timely recording of the transactions to report the correct balance of the payable account.

### **Loans Payable- Domestic and Foreign**

**11. The reliability and validity of the Loans Payable- Domestic and Foreign accounts as at December 31, 2016 amounting to P95.925 billion and P118.656 million, respectively, remained doubtful due to the existence of dormant accounts for more than six years of P600.619 million and absence of necessary supporting documents.**

11.1 In support to the grain stabilization activities and for the financing requirements, the NFA is allowed to incur short-term and long-term loans for its operation. These loans consist of payables from different private and government banks, Bureau of the Treasury (BTr) net lending program and other agencies (domestic and foreign).

11.2 Section 4(6) of PD No. 1445 requires that claims against government funds shall be supported with complete documentation.

11.3 As at December 31, 2016, the balances of the Loans Payable-Domestic and Foreign accounts are P95.925 billion and P118.656 million, respectively. The breakdown is presented in Table 38.

**Table 38 - Breakdown of Loans Payable-Domestic and Foreign**

<b>Creditor/Particulars</b>	<b>Balance</b>
<b>Loans Payable- Domestic</b>	
Syndicated Long Term Loans from various banks due in CY 2021	P 69,000,000,000
Land Bank of the Philippines (LBP) due in CY 2021	9,315,000,000
Syndicated Long Term Loans from various banks due in CY 2024	9,000,000,000
Republic Guaranteed Notes due in CY 2018	8,000,000,000
Human Settlement Development Corporation (HSDC)	509,093,711
Development Bank of the Philippines (DBP) - MinProCor Properties	91,200,000
Corn Development Fund (CDF) – Dryer mat and Corn Center Project	9,000,000
Agrarian Credit Loan	205,000
Ministry of Agriculture and Food (MAF)	120,684
<b>Total</b>	<b>P 95,924,619,395</b>
<b>Loans Payable- Foreign</b>	
1995 Japanese Rice Loan (¥ 243,609,579)	P 103,123,852
1996 United States Public Law (USPL) 480 (\$312,394.02)	15,532,231
<b>Total</b>	<b>P 118,656,083</b>

11.4 Analysis of the Loans Payable- Domestic account revealed that of the P95.925 billion account balance as at December 31, 2016, the amount of P600.619 million domestic loans or 0.63 per cent pertains to dormant accounts for more than six years to 30 years. The breakdown is shown in Table 39.

**Table 39 - Long Outstanding Loans Payable- Domestic**

<b>Particulars</b>	<b>Amount</b>
HSDC	P 509,093,711
DBP- MinProCor Properties	91,200,000
Agrarian Credit Loan	205,000
MAF	120,684
<b>Total</b>	<b>P 600,619,395</b>

11.5 Based on the documents submitted by Management, particularly the Memorandum of Agreement (MOA) with Assumption of Obligations entered into by NFA, HSDC and DBP on August 31, 1984, the payable by NFA to HSDC was in view of the transfer and assignment in favor of NFA, all of HSDC's rights, title and interests in its shareholdings in the Food Terminal, Inc. (FTI), which HSDC acquired from the DBP by virtue of the Deed of Assignment dated April 16, 1979.

11.6 In consideration of the transfer and assignment of the said shares, NFA agreed to assume all of the obligations of FTI/HSDC with the DBP as of August 31, 1983, in the total amount of P553.824 million, payable over 25 years without interest in equal quarterly installments (the principal was later decreased by P11.500 million), the 1st installment to fall due upon execution of the Agreement in the amount of P5.538 million.

11.7 The loan payable to DBP-MinProCor emanated from the contract entered into by NFA and DBP on March 22, 1979, for the sale to NFA on installment, parcels of lands owned by DBP situated at Tacurong, Sultan Kudarat and Quezon City, together with all the buildings and improvements thereon, machineries and equipment installed and/or situated therein, and transportation units amounting to P127 million payable as follows:

- a. Down payment of P7 million; and
- b. Balance of P120 million payable in 25 equal annual installments of P4.8 million on or before March 31, 1980 and every calendar year thereafter.

11.8 The Statement of Account on Domestic Loan furnished by Management revealed that payments to HSDC were made only in CYs 1984 to 1985 in the total amount of P21.729 million, while payments to DBP were made only in CYs 1980 to 1985 in the total amount of P35.800 million.

11.9 As regards the accounts of Agrarian Credit Loan and MAF, there were no documents made available to the Audit Team to support the transactions under the accounts despite repeated requests.

11.10 In the CY 2015 audit of the loans from foreign sources, the reply of the Commodity Credit Corporation (CCC), an agency and instrumentality of the United States of America (USA) with which the NFA had mutually agreed to the sale of agricultural commodities under the CYs 1995 and 1996 USPL, to our letter requesting for the loan balances yielded negative result as it disclosed a discrepancy of P8.085 billion or US\$171.792 million [P47.060 = US\$1 Bangko Sentral ng Pilipinas Closing Rate as at December 31, 2015], between the loan balance per CCC's reply and the balance on NFA's books. Hence, reconciliation of the Agency's records with the records of the CCC was recommended.

11.11 Relative to such audit observation and recommendation for CY 2015, Management informed that it prepared a letter to the CCC dated March 18, 2016 requesting details/information and supporting documents for the breakdown of the amount per CCC's reply to pursue the reconciliation. However, we were informed by the ASD that the letter was not sent to CCC as at audit date. Thus, reconciliation of the account balance was not undertaken.

11.12 For CY 2016 audit, we sent another confirmation letter dated January 30, 2017 to CCC requesting for the loan balance as at December 31, 2016. However, no reply was received as of writing of this Report.

11.13 As regards the prior year's recommendation of obtaining documents or any evidence of payments from the CCC, aside from the acknowledgement receipt issued to the NFA by the remitting bank, Management was still unable to comply.

11.14 The existence of significant amount of long outstanding accounts, absence of necessary supporting documents and the continued inability to secure evidence of payments directly from the supplier affected the reliability, validity and accuracy of the Loans Payable- Domestic and Foreign accounts in the financial statements.

**11.15 We, therefore, reiterated our prior year's audit recommendations that Management require the ASD to:**

- a. Exert extra effort to secure the supporting documents to facilitate the review of the long outstanding loans payable and prepare the necessary adjusting entries;**



**b. Reconcile records with the records of the CCC; and**

**c. Obtain copies of documents from the creditor evidencing payments on the loans and the corresponding interests.**

11.16 Management had provided the Audit Team with a copy of the retrieved documents pertaining to Agrarian Credit Loan and Ministry of Agriculture and Food (MAF). It further informed that for other dormant accounts, it is still in the process of reconciling and retrieving the supporting documents.

11.17 With regard to NFA's loan to CCC, Management further informed that it had fully paid the mentioned loan. But will reiterate its letter to CCC requesting details/information to facilitate reconciliation and to obtain acknowledgement receipts for the payments made. It also submitted, among others, copies of transmission messages of the remitting bank to the receiving bank.

11.18 As rejoinder, we stand firm that Management pursue to secure copies of documents evidencing the payments from the creditor to fully establish the validity of the payments made by NFA. It is worth mentioning that documents made available by Management include Acknowledgement Receipts by the remitting bank (local bank) only but not by/from the CCC, itself. Since confirmation reply resulted in a variance, assurance is necessary that the payments are acknowledged by the CCC.

## **Due to the National Treasury**

**12. The Due to the National Treasury account balance amounting to P33.081 billion as of December 31, 2016 is unreliable due to the existence of dormant/long outstanding accounts, abnormal balance, and absence of necessary supporting documents which affected the reliability, validity and accuracy of the Inter-agency payable accounts. Moreover, outstanding guarantee fees of P7.608 billion and interest on advances/net lending amounting to P1.164 billion or 51.28 per cent of the total Interest Payable of P2.270 billion remained unsettled for one to two years and above, thereby depriving the National Government (NG) of the use of the funds to supplement its other priority goals, programs and projects.**

12.1 The Due to the National Treasury account is used to record collections due for remittance and setting-up of liability to the BTr such as guarantee fees, advances availed for the settlement of NFA's short term loans through net lending program, and COA Cost of Audit Services, among others. The interest from the net lending is recorded under Interest Payable account. As of December 31, 2016, the Due to the National Treasury account has a balance of P33.071 billion (net of abnormal balance).

12.2 Review of the Ageing Report submitted by the ASD revealed that of the account balance of P33.071 billion in the HO, the amount of P24.970 billion or 75.50 per cent remained outstanding for two years and above, as presented in Table 40.

**Table 40- Ageing of Balances - Due to the National Treasury – Head Office**

Particulars	Total	Less than 1 year	Less than 2 years	2 years and above
USPL 480 Title I	P 7,840,256	P -	P -	P 7,840,256
China Rice I	37,940	-	-	37,940
Australian Rice	(1,615,851)	-	-	(1,615,851)
Countrywide Development Fund	881,582	-	-	881,582
Guarantee Fee	7,607,915,365	491,122,549	1,200,222,892	5,916,569,924
Net Lending Program	25,179,117,580	2,329,117,580	4,000,000,000	18,850,000,000
USPL 480 Iron Fortified Rice	46,223,010	-	-	46,223,010
COA Audit Services	230,629,214	-	80,784,047	149,845,167
<b>Total</b>	<b>P 33,071,029,096</b>	<b>P 2,820,240,129</b>	<b>P 5,281,006,939</b>	<b>P 24,969,782,028</b>
<b>Percentage</b>	<b>100.00</b>	<b>8.53</b>	<b>15.97</b>	<b>75.50</b>

12.3 Further analysis of the account disclosed that the total amount of P53.367 million (net of P1.616 million abnormal balance) is dormant for more than nine years, as presented in Table 41. There were likewise no supporting documents pertinent to the accounts provided to the Audit Team despite repeated requests from ASD.

**Table 41- Dormant and Abnormal Accounts**

Dormant/Abnormal Account	Amount
USPL 480 Title I	P 7,840,256
China Rice I	37,940
Countrywide Development Fund	881,582
USPL 480 Iron Fortified Rice	46,223,010
Australian Rice	(1,615,851)
<b>Total</b>	<b>P 53,366,937</b>

#### *Non-payment of the payables*

12.4 The amount of P24.970 billion which was outstanding for two years and above as shown in Table 40, includes the Guarantee Fees due to the BTr amounting to P5.917 billion or 23.69 per cent for the outstanding loans of the NFA that were guaranteed by the NG. In CY 2016, the NFA applied P425 million of its Subsidy from the NG to partially pay the guarantee fees due to the BTr.

12.5 The balance of Interest Payable account amounted to P2.270 billion as at year-end. This includes the interests charged by the BTr on the net lending/advances made to the NFA amounting to P1.612 billion or 71.01 per cent. However, review of the Ageing Report on Interest Payable revealed that of the balance, the amount of P1.164 billion or 72.18 per cent is outstanding for one year to more than two years, as shown in Table 42. There were no payments made during the year as well as in prior years for interests accruing to the BTr.

**Table 42 - Ageing of Balances for Interest Payable- Net Lending**

Age	Amount	Percentage
Less than 1 year	P 448,455,059	27.82
Less than 2 years	412,592,247	25.59
2 years and above	751,227,732	46.59
	1,163,819,979	72.18
<b>Total</b>	<b>P 1,612,275,038</b>	<b>100.00</b>

12.6 The BTr sends Statements of Account on a monthly and quarterly basis and regularly reminds the NFA for the immediate settlement and to confirm/reconcile the amounts in said Statement of Accounts with NFA's records. On April 8, 2015, the Department of Finance (DOF) sent a letter to the NFA Administrator requesting the prompt payment of any outstanding advances by the NG, including the interest, and if unable to settle due to limited cash balance, negotiate possible payment plan with the Corporate Affairs Group-DOF (CAG-DOF). However, the former Administrator, in his reply dated April 22, 2015, stated that NFA's Road Map as approved by the NFA Council in its meeting in June 2014 has for its end objective the eternal transfer of the NFA's liabilities to the NG. As part of the procedures laid down is the conversion of these advances to subsidy.

12.7 This issue has already been raised in the CY 2015 audit. Based on the AAPSI on the audit recommendations contained in the CY 2015 NFA AAR, there is on-going negotiation with the Economic Cluster on NFA Reforms through the CAG-DOF for the possible transfer of NFA's obligations to the NG such as Net Lending to the BTr and Loans Payable- Domestic Accounts. It further stated that the evaluation by the Economic Cluster on NFA Reforms is for approval of the President.

12.8 The continuous non-payment of these obligations, despite the receipt of billions of subsidy, deprived the NG of the use of the funds to supplement its other priority goals, programs and projects. This also reflects Management's incapability to effectively and efficiently manage the Agency's debts.

**12.9 We, therefore, reiterated our previous year's recommendation that Management require the ASD to prioritize the retrieval of the supporting documents in order to undertake an in-depth analysis, verification and full extent of validation of dormant accounts, including the account with negative balance, so that necessary adjusting entries can be made.**

**12.10 We further recommended that Management follow-up the status of its request for the possible transfer of NFA's obligation to NG; if not granted, settle outstanding advances, including the interest and guarantee fees; and if unable to settle due to limited funds, request negotiation on possible payment plan with the CAG-DOF.**

12.11 Management explained that it had previously requested the DOF for the conversion of CYs 2011 and 2012 NG Advances into subsidy but to no avail. In CY 2017, it reiterated its request for the conversion into subsidy the amount of P17.830 billion which was incorporated in its CY 2018 Budgetary Estimates. As regards the outstanding guarantee fees, it is in constant communication with the BTr, the latest of which was on April 6, 2017 informing them that the NFA is still experiencing cash flow difficulties as a result of interest payments of its outstanding short and long-term loans. For the other dormant accounts, it is still in the process of reconciliation and retrieval of supporting documents.

12.12 As rejoinder, we maintain our stand that Management fast track the reconciliation and retrieval of the supporting documents so that necessary adjustments can be made in order to come up with reliable and valid balance of the payable accounts.

## Inter-agency Payables and Other Payables

**13. Trust liability accounts totalling P268.057 million in the books of HO have remained dormant for the past 10 years, rendering the existence of the obligation of NFA in the total amount of P558.916 million as of December 31, 2016 doubtful.**

13.1 Section 3 of PD No.1445 describes trust funds as 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 fulfilment 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 (SA) any unused balance upon completion of the project.

13.3 Also, COA Circular No. 2016-005 dated December 19, 2016, provides guidelines and procedure on the Write-off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Fund Transfers of NGAs, LGUs, and GOCCs. Under this Circular, Dormant Receivable Accounts are defined as accounts which balances remained inactive or non-moving in the books of accounts for 10 years or more and where settlement/collectability could no longer be ascertained.

13.4 The NFA as an IA receives funds to undertake various programs/projects for its attached agencies and other government agencies by virtue of Memorandum of Agreement (MOA)/Letter of Agreement (LOA) which were recorded as funds held in trust under Due to Other NGAs, Due to Other GOCCs and Other Payables accounts.

13.5 As of December 31, 2016, funds held in trust by the NFA amounted to P558.916 million taken up in the books under three accounts, as presented in Table 43.

**Table 43 - Trust Liability Accounts as of December 31, 2016**

Account Code	Account Description	Balance
416	Due to Other NGAs	P 251,731,651
417	Due to Other GOCCs	17,451,978
439	Other Payables	289,732,055
<b>Total</b>		<b>P 558,915,684</b>

13.6 Verification and analysis of trust funds in the possession of the NFA revealed that of the total P558.916 million, the amount of P268.057 or 47.96 per cent represents dormant or non-moving accounts since or prior to CY 2007, as presented in Table 44. Except for five accounts, these accounts were the same dormant accounts reported in the CY 2015 AAR. Management is still unable to fully identify and properly classify these accounts due to unavailability of MOA/LOA and other documents to indicate the completion or closure of these projects/programs.

**Table 44 - Unutilized Trust Funds since CY 2007**

<b>Project/Source Agency</b>	<b>Amount</b>
<b>Due to Other NGAs and GOCCs</b>	
Bureau of Custom Duties-Sugar	P 181,195,200
DA - Donated Chinese Yellow Corn	11,078,612
Agricultural Credit Policy Council (ACPC)	1,261,020
DILG - Australian Imported Rice	1,150,886
National Post-Harvest and Research Institute – SVLF	184,135
2001 Consultative Fund-Lifting of Rice Monopoly on Importation	171,876
Food and Agricultural Organization - Grains Post Harvest	313,820
Philippine Foods and Feedstuffs (PFF)	26,932
Agricultural Development Fund	15,500,000
Corn Advocacy Program	3,299,932
Commercial Crop Program (FDC) (Gintong Ani)	734,063
Quedan Corporation	
Corn Development Fund	3,657,667
Special Vehicle Loan Fund (SVLF)	31,892
Philippine International Trading Corporation (PITC)	125,488
Grains Insurance Corporation	7,526,568
Philippine Crop Insurance Corporation (PCIC)	37,371
Philippine Charity Sweepstakes Office	288,952
	<b>226,584,414</b>
<b>Other Payables</b>	
Mindanao El Niño Victims	15,835,342
Rice Subsidy Program	1,070,667
Philippine Rice Maligaya – IRRI	39,666
Philippine Council Industrial Research & Development (PCIRD)	11,531
Lingap Para sa Mahihirap	24,514,926
	<b>41,472,132</b>
<b>Total</b>	<b>P 268,056,546</b>

13.7 As IA, one of the responsibilities of the NFA is to see to it that the unexpended balance is remitted/returned to the SA, the agency to which the allotment has been originally released and in whose behalf or benefit the project will be implemented as stated in Section 3.3 of COA Circular No. 94-013 dated December 13, 1994. The relatively small balances of several accounts such as the SVLF, PCIC, IRRI, PFF and PCIRD indicate improper liquidation of the project funds as well as disposition of the excess funds.

13.8 The Lingap Para sa Mahihirap is a program based on Executive Order (EO) No. 92 dated April 12, 1999 with P400 million released to NFA to implement the project “Price Support for Rice and Corn.” As in last year, the unliquidated balance amounted to P24.515 million as of December 31, 2016. Verification showed that this remained unreconciled by the ASD with the balance as audited by the Internal Audit Services Department (IASD) in CY 2008 which had showed that the P400 million Lingap Fund received by NFA was already fully utilized. It was also raised in the CY 2015 audit that the adjustments made by the ASD on the Lingap Fund in the total amount of P14.902 million in CYs 2007 to 2015 lack supporting documents. While several JEVs together with other documents to support the adjustments in CY 2014 were submitted on August 4, 2015, these documents were all photocopies and print-out of recapitulation of Due to Operating Units account.

13.9 The trust liability accounts of P268.057 million that remained non-moving since/prior to 2007 rendered the existence of obligation of NFA on trust liability accounts in the total amount of P558.916 million as of December 31, 2016 doubtful.

13.10 In addition, the continuing existence of the dormant accounts in the books may not only be contrary to the purpose for which these funds had been set up, but likewise, put at risk the funds to possible misuse/misapplication. Furthermore, unwarranted retention of the unutilized trust funds deprived the concerned SAs of resources that could be put to better use in other activities.

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

- a. Require the thorough verification of the nature or purposes of the projects, with long outstanding balances, and determine the status whether already completed, discontinued or abandoned;**
- b. Fast track the 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 concerned agencies; and**
- d. Require the ASD and IASD to reconcile their records on Lingap Para sa Mahihirap Project Fund, effect the necessary adjustments which are adequately documented in order to reflect the correct balance, and submit fund utilization report indicating the summary of expenses and status of the report of accomplishments certified by the Accountant.**

**13.12 We also recommended that Management in coordination with concerned SAs request for COA's authority to write-off dormant accounts in accordance with COA Circular No. 2016-005.**

13.13 Management informed that reconciliation of the accounts is still on-going due to difficulty in retrieving various documents. Initial findings on the reconciliation of the said accounts were due to erroneous posting, wrong classification of accounts and unreconciled inter-branch transaction. Also, it is exerting all efforts and coordinating with concerned departments for the possibility of retrieving documents to reconcile the accounts and had set meetings with the concerned departments to discuss write-off/condonation of accounts aged 10 years and above. It has sent letters to concerned agencies to confirm some of the payables; however, no replies have been received to date.

#### **Deficient Liquidation of Funds Transferred by LDC, DA-BAR and UNU-KIRIN**

**14. The documents supporting the Statements of Fund Balance/Annual Financial Status Reports for projects implemented by NFA-Food Development Center (FDC) were deficient and incomplete to support the liquidation of**

**P11.213 million for the funds transferred of P14.928 million, contrary to Section 4 (6) of PD No. 1445, Section 28 of MNGAS, Volume I and pertinent provisions of the MOA/ Institutional Contractual Agreement (ICA) executed by the NFA with DA-BAR, LDC and UNU-Kirin; thus, the reliability of the financial reports and the validity of the projects and expenses incurred could not be fully ascertained.**

14.1 Section 4 (6) of PD No. 1445 requires that claims against government funds shall be supported with complete documentation. Likewise, Section 28 of the MNGAS, Volume I, provides the basic requirements for disbursements as enumerated below:

- a. Existence of a lawful and sufficient allotment certified as available by the Budget Officer;
- b. Existence of a valid obligation certified by the Chief Accountant/Head of Accounting Unit;
- c. Legality of transactions and conformity with laws, rules and regulations;
- d. Approval of the expense by the Chief of Office or by his duly authorized representative; and
- e. Submission of proper evidence to establish the claim.

14.2 In addition, Paragraphs 6.4 and 6.5 of COA Circular No. 94-013 dated December 13, 1994, on Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies, states that:

*6.4 Within five (5) days after the end of each month, the Accountable Officer (AO) shall prepare the RCI and the RD and shall submit them with all supporting vouchers/payrolls and documents to the Accountant. These reports shall be approved by the Head of the Agency;*

*6.5 Within ten (10) days after receipt from the AO, the Accountant shall verify the Reports, provide accounting entries, record and submit the duplicate copies of the Reports with all the originals of vouchers/payrolls and all supporting documents to the Implementing Agency (IA) Auditor. The Accountant shall ensure that only expenses for the project are included in the Reports. He shall submit the original copy of the Reports to the Source Agency (SA) (Attention: The SA Accountant).*

14.3 In CYs 2009 to 2011, the NFA entered into a MOA with the Livestock Development Council (LDC), Department of Agriculture-Bureau of Agricultural Research (DA-BAR) and the United Nations University (UNU)-Kirin for the implementation of six projects by NFA-FDC. As of December 31, 2016, funds transferred by the three agencies to NFA amounted to P14.928 million, as shown in Table 45.

**Table 45- Funds Transferred by LDC, DA-BAR and UNU-KIRIN**

Name of Project	MOA Date	Project Duration (Per MOA)	Amount Received by NFA	OR	
				No.	Date
<b>LDC Funded Project</b>					
1. Microbial Risk Assessment of Frozen and Newly Slaughtered Meat in Philippine Wet Markets	3/29/2012	90 days	P 4,000,000	0125576	4/4/2012
<b>DA-BAR Funded Projects</b>					
2. Improving the Quality & Shelf Life of Tupig and Other Rice-Based Products	5/17/2011	1 year	580,000	0484960	8/24/2011
3. Achievable Levels of Cadmium in Philippine Seafoods for Export	12/5/2011	2 years	3,286,000 1,162,400	0125721 0127307	6/6/2012 4/4/2014
4. Method Development and Analysis of Some Residues of Priority Pesticides on Mango, Rice and Other Fruits and Vegetables in Support of the Establishment of Maximum Residue Limits (MRLs) Required in International Trade	5/2/2011	1 year	2,500,000 2,500,000	0484961 0126339	8/24/2011 1/30/2013
<b>UNU-Kirin Funded Projects</b>					
5. Application of Heat Treatments for the Delay in the Ripening of Banana for Utilization into Value-Added Products	10/28/2010	2 years	438,791	IBT#10-11-219	11/12/2010
6. Human Bacterial Pathogens in Lettuce and Spinach in the Philippines	11/20/2009	2 years	461,105	IBT#10-08-196	7/29/2010
			<b>P 14,928,296</b>		

14.4 As of December 31, 2016, liquidations for the funds transferred amounted to P11.213 million based on liquidation reports and supporting documents received for the same projects. The breakdown by project is presented in Table 46.

**Table 46 - Liquidation of Funds Transferred by LDC, DA-BAR and UNU-Kirin**

Project	Liquidation Report		Period Covered
	Date	Amount	
<b>LDC Funded Project</b>			
1. Microbial Risk Assessment of Frozen & Newly Slaughtered Meat in Philippine Wet Markets	3/13/2014	P 3,006,934	4/2012-12/31/2013
		<b>3,006,934</b>	
<b>DA-BAR Funded Projects</b>			
2. Improving the Quality & Shelf Life of Tupig & Other Rice-Based Products	10/24/2014	352,669	8/2011-8/31/2014
		226,651	9/1/2014-9/30/2015
		<b>579,320</b>	
3. Achievable Levels of Cadmium in Philippine Seafoods for Export	7/11/204	2,442,163	6/2012-12/31/2013
	12/13/2014	926,526	1/1/2014-11/30/2014
	1/7/2016	623,679	12/1/2014-12/31/2015
		<b>3,992,368</b>	
4. Method Development and Analysis of Some Residues of Priority Pesticides on Mango, Rice and Other Fruits and Vegetables in Support of the Establishment of Maximum Residue Limits (MRLs) Required in International Trade	-	259,338	8/24/2011-/30/2012
	10/3/2014	2,531,958	5/1/2012-6/30/2014
	6/1/2015	19,600	7/1/2014-3/31/2015
		<b>2,810,896</b>	
<b>UNU-Kirin Funded Projects</b>			
5. Application of Heat Treatments for the Delay in the Ripening of Banana for Utilization into Value-Added Products	2/13/2015	424,481	1/1/2011-12/31/2013
		<b>424,481</b>	
6. Human Bacterial Pathogens in Lettuce & Spinach in the Philippines	4/13/2015	398,623	1/1/2011-11/30/2014
		<b>398,623</b>	
		<b>P 11,212,622</b>	



14.5 The Audit Team inquired from NFA-FDC on the results of its review on the MOA entered into by and between NFA and the LDC on March 28, 2012, for the implementation of the LDC funded project entitled “Microbial Risk Assessment of Frozen and Newly Slaughtered Meat in the Philippine Wet Markets.” Among the issues raised were the following:

a. No document marked as “Attachment A” was attached to the MOA. Section 1, Article 4 of said MOA provides, among others, that NFA through FDC shall be responsible for the orderly, systematic and timely implementation of the project based on Attachment A. Also, Section 1 of Article 6 of the MOA states that Attachment A shall be considered as an integral part of the MOA.

b. The Detailed Proposal, Work Plan Schedule and Budget Summary attached to the MOA bear the letterhead of BAR instead of NFA-FDC which is the requesting and implementing agency, and were not signed by the approving authorities of both NFA and LDC.

14.6 The NFA-FDC explained that the document referred to as “Attachment A” of the MOA is the Detailed Project Proposal, which includes the Work Plan Schedule and Budget Summary. The label “Attachment A” was inadvertently missed which was supposed to be printed on page 1 of the Detailed Project Proposal.

14.7 NFA-FDC further explained that in the preparation of the project proposal, FDC adopted the format of the DA-BAR which did not contain provision for approval. Since LDC has no format for project proposal, NFA-FDC made use of the format of DA-BAR, the funding agency of several of FDC’s special projects, which was deemed approved by LDC as attachment to the MOA.

14.8 While there is a provision in the MOA that certain attachments shall form part of said MOA, it is our view that said attachments should be properly marked as “Attachment A” if it is the attachment referred to in said MOA. Likewise, to prove the validity and conformity by both parties on the stipulations provided in said attached document, it should be signed/approved by the authorized signatories of both parties.

14.9 The same observations were noted in the three other MOAs executed by the NFA-FDC with the DA-BAR, namely: “Achievable Levels of Cadmium in Philippine Seafoods for Export,” “Method Development and Analysis of Some Residues of Priority Pesticides on Mango, Rice and Other Fruits and Vegetables in Support of the Establishment of Maximum Residue Limits (MRLs) Required in International Trade,” and “Improving the Quality and Shelf life of Tupig and other rice based products” booked under Other Payables account.

14.10 It was also raised by the Audit Team that the submission of the terminal report and liquidation report for the LDC-funded project on March 24, 2014 by NFA-FDC was not within the period prescribed in Section 1 of Article 3, and Section 3 of Article 4, of the MOA and with the reportorial and liquidation requirements stated in Paragraphs 6.4 and 6.5 of COA Circular No. 94-013. Moreover, the duration of the Project differed in the documents submitted to support the liquidation of the fund transferred.

14.11 Section 3 of Article 4, of the MOA provides that in addition to the Liquidation Report, NFA through FDC shall submit a write-up Accomplishment/Terminal Report using the prescribed format and other documents required within 30 days after the completion of the project subject to the final approval thereof by the LDC.

14.12 On the other hand, Paragraphs 6.4 and 6.5 of COA Circular No. 94-013 on Rules and Regulations in the Grant, Utilization and Liquidation of Funds Transferred to Implementing Agencies, provide for the preparation and submission by the Accountable Officer (AO), of the Report of Checks Issued (RCI) and the Report of Disbursement (RD) to the Accountant, duly approved by the Head of the Agency. The Accountant, within 10 days after receipt from the AO, shall verify the Reports, provide accounting entries, record and submit the duplicate copies of the Reports with all the originals of vouchers/payrolls and all supporting documents to the Implementing Agency Auditor.

14.13 Based on Section 1, Article 3 of the MOA, the duration of the project was for 90 days only, whereas the unsigned Detailed Proposal and Work Plan Schedule provide for the project's duration of six months. However, based on the Annual Financial Status Report submitted, the duration of the project was from April 2012 to December 31, 2013, or one year and eight months, which is more than the period specified in the MOA, Detailed Proposal and Work Plan Schedule but not supported by document showing the approval of the extension of project duration.

14.14 The NFA-FDC commented that the duration of the project in the MOA was overlooked. Also, several reasons were enumerated which caused the completion of the project on September 30, 2012 which was already beyond the required period such as, coordination with the National Meat Inspection Service (NMIS) and owners of slaughterhouses in various places and with the NMIS cold storage plant; validation of the method and conduct of several runs of experiments at the Mandaluyong wet market and at the FDC laboratory; several meetings were held with the project consultants for the review of the results after each experiment and to discuss the results prior to writing of the report.

14.15 Considering that there were changes in the duration of the project as well as on the date of the finalization of the report, the NFA-FDC should have submitted an approved Detailed Project Proposal bearing the agreed dates, or addendum to the MOA to support the changes in the dates.

14.16 As to the liquidation requirements, while NFA-FDC enumerated the process for the replenishment of revolving fund/liquidation of cash advance, there were no explanations provided why the required period enumerated in Paragraphs 6.4 and 6.5 of COA Circular No. 94-013 were not complied with.

14.17 It was further observed in the other contracts enumerated below that footnotes at the bottom page of the Detailed Proposal Format, Work Plan Schedule, Budget Summary, Logical Framework and Project Summary indicate the following words: "Document No.; Revision No.; Revision Date and Effectivity Date of 09 September 2005", when these contracts were executed between NFA and DA-BAR only in CY 2011.

- Achievable Levels of Cadmium in Philippine Seafoods for Export
- Method Development and Analysis of Some Residues of Priority Pesticides on Mango, Rice and Other Fruits and Vegetables in Support of the Establishment of Maximum Residue Limits (MRLs) Required in International Trade
- Improving the Quality and Shelf life of Tupig

14.18 Further review of the MOA and other documents supporting the liquidation reports for the five projects disclosed the deficiencies presented in Table 47.

**Table 47 – Deficiencies Noted on the Documents Supporting the Liquidation Reports for 5 Projects**

Project	Deficiencies/Remarks
1. Method Development and Analysis of Some Residues of Priority Pesticides on Mango, Rice and Other Fruits and Vegetables in Support of the Establishment of Maximum Residue Limits (MRLs) Required in International Trade	<p>a. The project duration stated in Section 1, Article 3 of the MOA was for a period of one year which is contrary to the Detailed Proposal Format which provides for the project's duration of three years. The starting date indicated in the Work Plan was 4/1/2011 and the completion date was 3/31/2012 for the project's duration of 12 months. The MOA, however, was signed only on May 2, 2011 or one month after the starting date of the project.</p> <p>b. The Budget Summary was for one year and the target date of completion as indicated in the project summary was March 2012. However, the Statement of Fund Balances submitted showed that as of April 10, 2014 or more than three years after receipt by NFA of the initial project fund of P2.500 million on August 24, 2011, the project has not been completed. The inconsistency of the data as to project duration between the MOA and the Work Plan is contrary to Section 4, Article 2 of the MOA which provides that the schedule for the implementation of the project shall be set forth in the Work Plan.</p> <p>c. The Terminal Report has not been submitted as of this date despite the provision in the MOA about the duration of the Project and the verbal request made from FDC for its submission. Also, for the extensions/amendments to the MOA, no document showing the approval by the Head of Agency (DA-BAR) was submitted which is contrary to Section 4, Article 2 of the MOA between NFA and DA-BAR, which provides that delay or deviation in the implementation schedule of the project based on the Log Frame shall not be allowed without the written consent of the BAR.</p>
2. Achievable Levels of Cadmium in Philippine Seafoods for Export	<p>a. The Detailed Proposal Format, Work Plan Schedule and Budget Summary submitted were not signed and approved by the approving authority of both NFA and DA-BAR which is contrary to Section 4 (6) of PD No. 1445 and Section 1, Article 2 of the MOA between NFA and DA-BAR which requires that NFA shall strictly implement the project in accordance with the approved project proposal as contained in Project Proposal which shall form part of the Agreement.</p> <p>b. Likewise, the Detailed Proposal Format, Work Plan Schedule, Budget Summary submitted bear the letterhead of BAR instead of NFA casting doubt on the validity of the project. Also, footnotes in the Detailed Proposal Format, Work Plan Schedule, Budget Summary, Logical Framework and Project Summary indicate the words Document No., Revision No., Revision Date and Effectivity Date of 09 September 2005, when initial release of project fund was made by DA-BAR only on August 24, 2011.</p> <p>c. Furthermore, the Terminal Report has not been submitted as of this date despite the provision in the MOA that the duration of the Project was for two (2) years and there was no extension nor amendment to the MOA approved by both Heads of Agency for the extension of the project.</p>

Project	Deficiencies/Remarks
3. Quality and Shelf Life of Tupig and other rice based products	Documents show that the Project has not been completed as of December 31, 2014 or after 3.5 years after execution of the MOA. The duration of the Project was extended based on the letter dated September 10, 2014 of the Director, BAR to the OIC, NFA-FDC approving said extension which is not in conformity with Section 3, Article 8 of the MOA which provides that the MOA may be renewed or extended upon mutual agreement in writing by the parties. Inasmuch as the parties to the original contract were the Director of the DA-BAR and the Administrator of the NFA, it is our view that any renewal or extension in the duration of the MOA should be signed by said parties.
4. Human Bacterial Pathogens in Lettuce and Spinach	<p>a. The Project Proposal was not included in the documents submitted supporting the Statement of Fund Balance.</p> <p>b. The duration of the project per Institutional Contractual Agreement (ICA) was for two years from November 30, 2009 to November 30, 2011. However, the liquidation report for expenses incurred from July 2011 to March 2013 was submitted only on April 20, 2015 which is beyond the approved duration of the project.</p> <p>c. There were inconsistencies in the Research Grant Application submitted to the UNU in terms of project duration and project cost. The starting date of the project was October 2009 and completion date on September 2011 which is two years but the project cost was only for 12 months.</p>
5. Application of Heat Treatment for the Delay in Ripening of Bananas for Utilization into Value-Added Products	<p>a. The Terminal Report for the project was received by the Audit Team only on May 4, 2017 when the project should have been completed in June 2013, or after more than three years.</p> <p>b. The duration of the Project per ICA was for two years, from May 14, 2010 to May 31, 2012. However, series of communications through email stated that an extension was approved until June 2013 but the liquidation report covering expenditures from January 2011 to December 2013 was submitted only on February 24, 2015 which is one year and eight months beyond the end of the approved extension of the project.</p>

14.19 Considering the deficiencies in the documents supporting the Statements of Fund Balance/Annual Financial Status Reports as well as the delayed/non-submission of the Terminal Reports for the six projects implemented by NFA-FDC, the reliability of the financial reports and the validity of the projects and expenses incurred could not be fully ascertained.

#### 14.20 We recommended that Management:

**a. Require the NFA-FDC to support the Statement of Fund Balance/Annual Financial Reports for projects implemented with the following:**

**a.1 Detailed Project Proposal; Work Plan Schedule; Budget Summary; Logical Framework; Project Summary and request for extension of the projects duly corrected and signed/approved by the authorized signatories of both parties to prove their validity and conformity with the stipulations provided in the MOA;**

**a.2 Terminal reports as required in Section 1, Article 3 and Section 4, Article 2 of the MOA, and prescribed in Paragraphs 6.4 and 6.5 of COA Circular No. 94-013;**

**b. Closely monitor the implementation of the projects to ensure their completion within the required period considering that planning should have been undertaken before the project proposal is submitted for**

**approval by authorized officers, and the required project liquidation and terminal reports are submitted within the prescribed period; and**

**c. Exercise due diligence in the preparation and execution of the MOA to ensure that the project proposals, work plan schedules, budget summaries and other attachments to the MOA submitted are duly signed/approved and bear the letterhead of the NFA-FDC which is the requesting and implementing agency of the projects, and that the Document No., Revision No., Revision Date and Effectivity Date indicated in footnotes of the documents should pertain to NFA-FDC and contain information as agreed upon by the contracting parties.**

14.21 Management acknowledged COA's reported deficiencies and provided explanations for each deficiency. In addition, Management justified that it is not feasible to comply with COA's recommendations to submit corrected Detailed Project Proposal, Work Plan Schedule, Budget Summary, Logical Framework, and requests for extension duly signed/approved by authorized signatories due to the following reasons:

a. The authorized signatories and the Accountant in-Charge of the projects were no longer connected with NFA-FDC;

b. All Research and Development experiments were finished and terminal reports were submitted to the funding agencies except for one UNU-Kirin project, namely, "Human Bacterial Pathogens in Lettuce and Spinach in the Philippines" for which the Terminal Report is currently being finalized; and

c. The funding agencies have approved the extensions and amendments for all projects. As per letter of the DA-BAR Director dated October 27, 2015 in reply to FDC's request for the proposed amendments of the MOAs for the three DA-BAR funded projects of NFA-FDC, DA-BAR reiterated the provisions in the original MOA between BAR and NFA that all modifications and deviations shall be allowed *"provided with a written consent of the bureau"*, which FDC secured. *"The requested extension of the duration and fund utilization/re-alignment, which were both addressed and allowed by the bureau thru an official communication, were clearly in accordance with and supported by the abovementioned provision."*

14.22 Also, Management explained that submission of corrected/revised documents duly signed/approved by the authorized signatories as specifically required in our audit recommendation will not be feasible, hence, they request for COA's consideration.

14.23 As audit rejoinder, the NFA-HO Audit Team appreciates the effort taken by Management, however, we stand by our audit recommendations on the submission of the required documents and the strict adherence to COA Circular No. 94-013 and the provisions stated in the MOAs. In addition, for the three projects funded by DA-BAR, there were documents showing the approval of the DA-BAR Director while for the project funded by UNU-Kirin, there was no approved extension. However, for the approved extensions for the BAR-funded projects, the requests for extension were signed only by the FDC Manager instead of the NFA Administrator as signatory in the MOA, contrary to Section 3, Article 8 of the MOA which provides that the MOA may be renewed or extended upon mutual agreement in writing by the parties. The head of the agency of

both the contracting parties should have signed the request and approval of the extensions.

### **Intra-agency Receivable and Payable Accounts**

**15. The intra-agency receivable and payable accounts were not zeroed out as at December 31, 2016 as there were significant balances amounting to P356.674 billion and P356.676 billion, respectively, due to timing differences 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. Moreover, in five Regions, there were variances of P8.272 billion for Intra-agency Receivables and P12.623 billion between the book balances as at year-end and the balances confirmed; thus casting doubt on the accuracy, completeness and existence of the reported year-end balances of the accounts.**

15.1 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.

15.2 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.

15.3 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.

15.4 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.

15.5 The composition of the intra-agency receivables and payables as of December 31, 2016 is presented in Table 48.

**Table 48- Intra-Agency Receivables and Payables**

Intra-agency Receivables Accounts	Amount	Intra-agency Payables Accounts	Amount
Due from Regional Office (FOA)	P 31,959,661,635		
Due from Operating Units (FOA)	121,327,959,204		
	<u>153,287,620,839</u>	Due to Central Office (HOA)	P 159,231,151,547
		Due to Regional Office (FOA)	5,289,559,036
		Due to Operating Units (FOA)	<u>115,878,370,311</u>
			121,167,929,347
Due from Central Office (HOA)	124,357,639,039	Due to Operating Units (BOTA)	2,919,619,133
Due from Regional Office (ROTA)	557,303,316	Due to Regional Office (ROTA)	12,535,148,007
Due from Operating Units (BOTA)	15,314,720,378	Due to Operating Units ROCA)	14,457,069,123
Due from Operating Units (ROCA)	13,769,402,848	Due to Operating Units (HOCA)	13,747,188,867
Due from Operating Units (HOCA)	13,913,333,830	Due to Central Office (COCA)	22,671,913,441
Due from Central Office (COCA)	22,543,280,930	Due to Operating Units (POA)	5,189,330,984
Due from Regional Office (ROA)	3,844,554,136	Due to Regional Office (ROA)	4,756,149,892
Due from Operating Units (POA)	6,238,725,776	Due to Regional Office (BOCA)	-
Due from Regional Office (BOCA)	2,847,049,332		
<b>Total</b>	<b>P 356,673,630,424</b>		<b>P 356,675,500,341</b>

FOA – Field Office Account      ROCA – Regional Office Clearing Account      ROA – Regional Office Accounts  
HOA – Home Office Account      HOCA – Head Office Clearing Account      POA – Provincial Office Accounts  
ROTA – Regional Office Transaction Account      COCA – Central Office Clearing Account      BOCA – Branch Office Clearing Account  
BOTA – Branch Office Transaction Account

15.6 Verification of various reports/documents pertaining to the Intra-agency accounts disclosed deficiencies as detailed in Table 49.

**Table 49 – Deficiencies Noted in the Verification of Intra-agency Accounts**

Office	Amount (in Millions)		Remarks
	Receivables	Payables	
NCR-RO	P30,503.495	P20,897.613	Based on the aging schedule provided by Management, the amount of P26.519 billion or 86.94 per cent of the Intra-agency Receivables and P7.479 billion or 35.79 per cent of the Intra-agency Payable accounts have been dormant from 11 years and beyond, some dating back in CY 1997.
NCR-BPU	28.785	134.046	The total amount of included dormant balances.
NCR-CPO	1,322.562	598.254	The balances included dormant balances.
NCR-EDO	352.691	1,295.984	The balances mostly included transactions of more than five years.
NCR-NDO	347.298	6,824.349	The review of the Subsidiary Ledgers (SLs) showed that 71.53 per cent or P248.423 million composed of 20 accounts and 91.94 per cent or P6.275 billion composed of 16 accounts for receivables and payables, respectively, were dormant or non-moving for five years and above. Moreover, based also on the SLs, three accounts totalling P8.525 million had negative/abnormal balances which were indications of material errors in accounting and recording of transactions.
NCR-CDO	12,680.498	13,571.933	Of the balances as at year-end, the amount of P(10.403) billion and P(2.428) billion for intra-agency receivable and payable accounts, respectively, remained unreconciled for 10 years and beyond.
NCR-SDO	4,335.349	3,748.460	Unreconciled balances of the intra-agency receivables and payables as at year-end include dormant accounts for five years and beyond.

Office	Amount (in Millions)		Remarks
	Receivables	Payables	
Region III- Aurora PO	484.448	176.663	Most of the inter-branch transactions pertained to CYs 2003 and below, and the records were not yet reconciled. It was gathered that the Senior Accounting Specialist (SAS) prepares only the monthly reconciliation statement for the Due from CO, but none is prepared for other accounts because of missing documents. Also, there were no monthly schedules of inter-branch transactions and monthly reconciliation statements received from the CO/RO/OU.
Region III-Tarlac PO	2,173.063	83.651	Reconciliation of the intra-agency accounts was not undertaken; hence, they also remained outstanding in the books as at year-end.
Region IV- Palawan PO	157.491	49.135	The Reconciliation Statement as of June 2016 received from CO includes unresponded/unreconciled transactions. Several amounts have not been reconciled for several years, some of which were recorded way back in CY 1995. Moreover, Due from OUs- Region XII account balance amounting to P174,259 pertains to motor vehicle transferred in CY 2005 which remained unreconciled as of this date.
Region VI- Negros Occidental PO	1,187.098	111.698	The Due from OUs- NDO showed that Debit/Credit Advice forms were issued for transfers of refined sugar to NDO in prior years. It was noted that the forms submitted for audit were not the original copies. The previous SAS commented that the original copies were sent to the receiving party for confirmation and posting. However, the forms were not returned, hence the necessary adjustments in the books of Negros Occidental PO were not reflected. This was already reported in previous year's audit but remained not acted upon.
Region X- RO and Misamis Oriental PO	153.520	469.702	The intra-agency accounts remained unreconciled as at year-end. In RO, the Due from CO amounting to P9.899 million and Due to CO and OUs with total amount of P714.374 million remained dormant for over five years. Intra-agency receivables and payables were not reconciled with the records of CO due to the voluminous work of the Accountant.
Region XI-RO	10,150.664	7,004.196	Reconciliation Statements were not prepared to reconcile the receivable and payable accounts to/from CO.
CARAGA- Surigao del Norte PO	-	893.257	Only 13.27 per cent or P136.629 million payables has been adjusted and reconciled during the year.
ARMM RO	252.532	-	Intra-agency receivables remained inactive and unreconciled for more than five years. The amount of P141.450 million or 56.01 per cent pertains to receivables within the Region that were not reconciled for a long period of time despite the fact that the financial reports were prepared and consolidated monthly by the RO.

15.7 To further check the accuracy of the balances, we compared the Intra-agency balances in CO Books (FOA) and RO/PO Books (HOA) of the NFA offices with confirmation requests received from the RO/PO Audit Teams for the balances as of November 30 or December 31, 2016. The discrepancies for Intra-agency Receivables and Payables are shown in Table 50.



**Table 50 - Confirmation Results of Intra-agency Accounts**

Region	Office	Discrepancy	
		Intra-agency Receivables	Intra-agency Payables
NCR	RO	P 9,852,616,442	P 9,072,016,301
	CDO	3,082,312,405	3,666,010,991
	SDO	474,095,113	1,263,989,510
	NDO	3,692,542	349,595,469
	EDO	47,513,942	30,597,810
	CPO	295,254,066	48,600,296
	BPU	15,181,101	51,441,530
Region I	RO	8,501,150	2,872,285
	La Union PO	538,885,540	549,569,031
	Ilocos Norte PO	4,397,008	4,890,741
	Baguio City PO	272,476	15,648,443
Region II	Nueva Vizcaya PO	469,565	545,457
	Mt. Province PO	6,501,779	5,957,069
	Ifugao PO	102,518	11,151,554
	Cagayan PO	515,523	14,709,640
	Allacapan PO	52,424	321,308
Region IV	Palawan PO	15,481,635	14,396,636
	Lucena PO	59,968	8,771,991
	Infanta PO	89,927	1,447,216
	Batangas PO	155,448,567	223,904
Region VI	RO	370,027	2,847
	Iloilo PO	34,275,823	37,268,947
	Capiz PO	79,708	3,663,191
CARAGA	RO	11,421,326	22,373
<b>Total</b>		<b>P 14,547,590,575</b>	<b>P 15,153,714,540</b>

15.8 Results of the confirmation made by the Audit Teams in the ROs/POs with respect to the other concerned offices yielded as well significant amount of variances, which continually affect the accuracy and reliability of the accounts in the financial statements. In NCR alone, confirmation of balances of Intra-agency Receivables and Payables as of December 31, 2016 showed discrepancies of P7.504 billion and P11.954 billion, respectively.

15.9 It was noted that the non-elimination of old intra-agency accounts were attributed to the following:

- a. Delay in the receipt of the advices from the originating offices as well as delay in responding from said advices;
- b. The schedule of inter-branch transactions were not timely and regularly prepared and if prepared, reconciliation of variances was not performed; and
- c. Absence of records or documents of prior years' transactions.

15.10 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, as also observed in prior years' audit, the non-reconciliation of accounts 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 differences/variances on the existing balances of the accounts from the reciprocal accounts of the other offices.

15.11 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 of the reported balances of the accounts in the financial statements of the Agency.

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

**a. Require the concerned Accountants to prioritize the reconciliation of Intra-agency accounts in order to have 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.**

15.13 Overall, Managements of NFA-HO and the concerned FOs explained 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 prior years' 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.

15.14 As rejoinder, **we further recommended that Management consider the applicability of COA Circular No. 2016-005 dated December 19, 2016 on the Guidelines and Procedures on the Write-Off of Dormant Receivable Accounts, Unliquidated Cash Advances, and Funds Transfers of the NGA's, LGUs and GOCCs.**

### **Deferred Credits**

**16. The balance of Deferred Credits account of P598.940 million as at December 31, 2016 is unreliable as this still includes dormant balances of P16.827 million in HO and several FOs with stocks that remained unwithdrawn for five years and more, and overages of Stock Accountable Officers (SAOs) of P178.328 million whose final accountabilities have not been established.**

16.1 As of December 31, 2016, the Deferred Credits account had a total balance of P598.940 million. This account is composed of the balances shown in Table 51.

**Table 51- Breakdown of Deferred Credits**

<b>Sub-accounts</b>	<b>HO</b>	<b>FOs</b>	<b>Total</b>	<b>Advances 1993-2011</b>
Advance payments				
Government agencies	P 39,534,251	P 68,908,917	P 108,443,168	P 1,179,894
Legislators and Party List				
Representatives	12,212,768	219,742	12,432,510	12,339,827
Retailers	-	205,807,500	205,807,500	578,960
Millers, Contractors and Operators	-	23,009,266	23,009,266	36,346
Non-Governmental Organizations	998,400	2,565,326	3,563,726	2,631,407
Other Deferred Credits	41,869,733	25,485,866	67,355,599	60,398
Other Deferred-overages	-	178,328,179	178,328,179	-
	<b>P 94,615,152</b>	<b>P 504,324,796</b>	<b>P 598,939,948</b>	<b>P 16,826,832</b>

16.2 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.

16.3 The account also includes overages of P178.328 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.

16.4 In HO, the balance of 'Various Legislators' account decreased by a net amount of P238,850 due to additional funds received from a Legislator amounting to P299,000 and adjustment due to the issuance of rice amounting to P0.539 million. Also, the balance 'Party List Representative' still remained unwithdrawn as of December 31, 2016, despite prior year's recommendation to take utmost efforts to document, reconcile and effect necessary adjusting entries under the Deferred Credit-Advance Payment of Stocks. As to the account of Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. (FFCCI), the amount of P8 million was already returned thru Check No. 190121 dated March 14, 2016. Likewise, the account of Philippine Disaster Recovery Foundation, Inc. (PDRFI) decreased by P135,000 due to issuance of rice and Lockhead Detective and Watchman Agency, Inc. (LHDWAI) and National Commission for Muslim Filipinos (NCMF) have already withdrawn/issued rice stocks to their intended beneficiaries.

16.5 In CDO, of the balance of P29.787 million, the amount of P10.950 million or 37 per cent remained not moving/dormant for five years or more because of lacking/unaccounted supporting documents necessary in the analysis and review of the accounts. This included the advance payment/unwithdrawn stocks since CYs 2009 to 2011 of P374,312, advance payment for Tindahan Natin of P2.115 million, donated assets of P60,398 and overages of inventories of P8.400 million of a deceased warehouse accountable officer. The presence of dormant accounts rendered the validity of the account balance doubtful as at year-end. In March 2016, Management, however, requested from COA for the authority to write-off the overages of inventories of the deceased warehouse accountable officer.

16.6 In Cavite PO, the account balances in the amount of P2.142 million remained unresolved for several years notwithstanding efforts on reconciliation consistently performed, as reported by Management for several years. In addition, except for the overage in CY 2013, resolution of which is still pending with the RTAC, the CY 1995 overages remained in the books due to absence of policy on proper accounting treatment in the NFA SOPs.

16.7 In Batanes PU, the advance payment of P127,059 had been outstanding in the books for several years. Management is yet to follow up the proper disposition of this balance with the HO. As regards accumulated overages of P1.427 million or 91.83 per cent of the total balance, only the current data on overages incurred by warehouse accountable officer from January to October 2014 of P6,937 was accounted for. The overages recorded in prior years had not been accounted for despite reiteration of the observation for several years and repeated follow up on the submission of the schedule of overages during the current year audit. In CY 2015 audit, Management admitted that data had been gathered and analyzed pertaining to CYs 1997 to 2002 and 2014 to 2015; however, as at audit date the accumulated overages of warehouse accountable officers amounting to P1.420 million remained unaccounted for, which cast doubt on the validity of the year-end account balance.

16.8 In Oriental Mindoro PO, inquiry with ASD revealed that the payment of the Department of Social Work and Development (DSWD) which comprised 50.76 per cent of the Deferred Credit account was already outstanding even before CY 2010. It also informed that it lacks knowledge about the history and documentation of these dormant accounts. Verification or tracking down of supporting documents had not been made by Management; hence, these long outstanding dormant accounts have not been cleared in the books rendering the existence of the obligation doubtful and the year-end balances of these accounts unreliable.

16.9 In Palawan PO, out of the total balance of P620,839, the amount of P598,660 or 96.43 per cent pertains to the advance payment of various retailers, PNRC, DSWD and LGU-Palawan for the period August 1993 to December 2016. The existence of said accounts and the overages of accountable officer that remained unadjusted due to non-completion of stock examination and unavailability of supporting documents such as Warehouse Stock Issue (WSI) and Authority to Issue (AI) rendered the accuracy and existence of the Deferred Credit account balance doubtful as at year-end.

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

**16.11 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 HO departments/offices and 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 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 of those who retired or were separated from service; and**

**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 SAOs with or without final TOLA computation.**

16.12 Management's comments are:

a. HO- The GMOD sent a letter to the Philippine Charity Sweepstakes Office (PCSO) on June 9, 2017 inquiring on its plan/intent on the 5,250 bags rice amounting to P7.775 million purchased in CYs 2014 and 2015 which remained unwithdrawn as of this date. The remaining amount of P130,000 is still under verification/reconciliation. Moreover, wire messages were sent to ROs on the status/action taken on the outstanding balances of Party List Representative and PDRFI. Also, the 'Various Legislators' account balance is still for verification and reconciliation.

b. NCR-CDO- It is awaiting for the result of its request for write-off of the shortage and overage of deceased accountable officer amounting to P4.390 million and P8.400 million, respectively, which it filed with the COA.

c. Cavite PO- Analysis and reconciliation is still on-going with priority on the dormant accounts. The advance payment from retailers could not be fully reconciled due to lack of documents needed for CY 1997 and downward.

d. Batanes PU- Management had not completed the verification and analysis; preparation of SL per warehouse accountable officer is still on-going due to voluminous work and limited personnel.

e. Oriental Mindoro PO- The subject dormant accounts will be tackled in the next Accountants' meeting. It assured that the Accounting Section will exert extra efforts in looking for the pertinent documents of the identified dormant accounts and will do its best to expedite reconciliation.

f. Palawan PO- The stock examination was already done and stock overages of the accountable officers will be reclassified upon receipt of the final TOLA computation. It will coordinate with the HO regarding the transferred account of PSMS. Some advance payments of retailers and government agencies were already determined and will be adjusted in the books. In addition, it will prioritize the reconciliation and continue to work back the outstanding balances.

## Gain on Sale of Assets

17. The five per cent Final Withholding Value-Added Tax of P90.109 million was withheld by the Department of Transportation (DOTr) from the 70 per cent of purchase price on the sale of NFA's parcel of land contrary to the provisions of the National Internal Revenue Code of 1997, as amended, thereby understating the amount collected from DOTr. In addition, the amount of P540.651 million or 30 per cent of the purchase price plus legal interests remained uncollected by NFA even with the DOTr's delay in the transfer of title to its name, which deprived NFA the use of the same in its operations. Moreover, the amount of P198.239 million tax withheld by DOTr was not considered in the recognition of gain on sale of assets, thus, the Gain on Sale of Assets and Tax Expense accounts were understated by the same amount in the NFA NCR RO and HO books.

17.1 In December 2015, the NFA (Seller) sold a parcel of land with an area of 21,202 square meters (sq. m.), more or less, to the DOTr (Buyer), formerly DOTC, at a price of P85,000 per sq. m. or P1.802 billion. The parcel of land which was covered by Transfer Certificate of Title (TCT) No. 164-2012002199 and located at FTI Compound, Brgy. Bicutan, Taguig City, was recorded in the books of NFA-SDO.

17.2 The sale was covered by the original Deed of Sale and Amendatory Contract dated December 28, 2015 and September 20, 2016, respectively. The provisions of the Deed of Sale, as amended, pertaining to purchase price and the manner of payment under Paragraph Nos. 4 and 5, respectively, are summarized in Table 52.

**Table 52 - Summary of the Purchase Price and the Manner of Payment**

<b>Original Deed of Sale</b>	<b>Amendatory Contract</b>
<b>a. Purchase Price</b>	
P1,802,170,000	Same
<b>b. Manner of Payment</b>	
70% of the Purchase Price or P1,261,519,000 shall be due without interest upon execution of Deed of Sale. Upon receipt, the Seller shall deliver the original TCT and issue Permit to Enter to allow access to the Buyer and other entities authorized by the Buyer.	Same
30% or P540,651,000 shall be paid upon transfer of the TCT in the Buyer's name.	Same
The 5% Final Withholding Value-Added Tax (FWVAT) and the 6% Final Withholding Capital Gains Tax (FWCGT) shall be withheld by the Buyer.	The 6% FWCGT shall be withheld by the Buyer.
The Buyer shall file BIR Form Nos. 1600 and 1606 with any Authorized Agent Bank (AAB) of the Revenue District Office (RDO) having jurisdiction over the place where the property being transferred is located. The original of the BIR Form Nos. 1600 and 1606 shall be provided by the Buyer to the Seller.	The Buyer shall file BIR Form No. 1706 with any AAB of the RDO having jurisdiction over the place where the property being transferred is located.

17.3 As shown in Table 52, the payment by DOTr of the purchase price of P1.802 billion shall be made in two installments after compliance by the NFA and DOTr with

certain conditions. The first payment represents 70 per cent or P1.261 billion and the second payment is the remaining 30 per cent or P540.651 million.

17.4 Review of JEVs, particularly JEV3 No. 16-08-0152 and JEV6 No. 16-12-0172, dated August 31, 2016 and December 31, 2016, respectively, showed that the collection of the 70 per cent of the purchase price, accrual of the remaining 30 per cent of the purchase price and the de-recognition of the sold asset were taken up in the SDO's books, as presented in Table 53.

**Table 53- Journal Entries to Record the Sale of Land in SDO Books**

Accounts and Explanation	Account Code	Amount	
		Debit	Credit
JEV3 No. 16-08-0152 dated August 31, 2016			
Due from Central Office	141-13	P 1,063,280,300.00	
Accumulated Depreciation- Building	311-00	5,580,202.60	
Land	201-00		P 266,085,100.00
Building	211-00		25,110,552.00
Gain on Sale of Asset	682-02		777,664,850.60
To record partial payment (70%) of lot acquired by DOTC as site for South Integrated Transport System (ITS) Terminal Project paid at Head Office per JEV-2016-04-04608 per Official Receipt (OR) No. 727664 dated April 11, 2016.			
JEV6 No. 16-12-0172 dated December 31, 2016			
Accounts Receivable- DOTr	121-01DOTR	540,651,000.00	
Gain on Sale of Asset	682-02		540,651,000.00
To setup receivable from DOTr.			

17.5 JEV3 No. 16-08-0152 dated August 31, 2016 was prepared based on the collection of P1.063 billion by HO from DOTr representing the net amount of 70 per cent of purchase price. The amount collected was taken up in HO's books as an intra-agency account with SDO under JEV-2016-04-004608 dated April 11, 2016.

17.6 Verification of the documents supporting the collection of 70 per cent of the purchase price by NFA-HO showed that of the gross amount of P1.261 billion, the DOTr withheld six per cent FWCGT and five per cent FWVAT amounting to P108.130 million and P90.109 million, respectively, or a total of P198.239 million, thus the NFA collected a net amount of P1.063 billion.

17.7 Item A of Section 39, Chapter VII, Title I of the National Internal Revenue Code (NIRC) of 1997, as amended, provides that capital assets refer to property held by the taxpayer (whether or not connected with his trade or business), but does not include: (a) stock in trade of the taxpayer or other property of a kind which would properly be included in the inventory of the taxpayer if on hand at the close of the taxable year; or (b) property held by the taxpayer primarily for sale to customers in the ordinary course of his trade or business; or (c) property used in the trade or business of a character which is subject to the allowance for depreciation provided in subsection (F) of Section 34 of the Code; or (d) real property used in trade or business of the taxpayer.

17.8 The parcel of land, where the office building and Uniden warehouses of SDO were located, was sold by the NFA to the DOTr. These properties were recorded and depreciated (office building and warehouses) in the books of SDO; thus, the said properties are considered ordinary assets. Based on the documents gathered from SDO and HO pertaining to the sale of parcel of land, Bureau of Internal Revenue (BIR) Form

No. 1606 was used by DOTr in filing the return with the BIR for withholding the 6 per cent FWCGT on the sale of real property classified as ordinary assets. A copy of the machine validated BIR Tax Payment Deposit Slip supporting the payment, together with the said form were submitted to the Audit Team. However, in the Amendatory Contract, the parcel of land sold was classified as capital asset and BIR Form No. 1706 shall be used and not BIR Form No. 1606.

17.9 Likewise, under Section 109, Chapter I, Title IV of the NIRC of 1997, as amended, the sale of real properties not primarily held for sale to customers or held for lease in the ordinary course of trade or business are exempt from VAT. Thus, the sale by NFA of its parcel of land to the DOTr was exempt from VAT considering that the properties were not primarily for sale. Thus, the withholding by DOTr of five per cent FWVAT amounting to P90.109 million from the partial payment of 70 per cent of the purchase price was not proper. In Table 52, under the Amendatory Contract, FWVAT was no longer included as deduction from the purchase price. It should be noted, however, that the Amendatory Contract was executed by both parties after the payment by DOTr of the 70 per cent of purchase price to NFA.

17.10 It was also noted that the copy of BIR Form No. 2306 which pertained to the five per cent FWVAT submitted lacked the indication that it was received by BIR or any of the AABs and the supporting receipt signifying the validation of payment.

17.11 Moreover, Paragraph 4 (b) of the Deed of Sale, as shown in Table 52, provides that 30 per cent of the purchase price or P540.651 million shall be paid upon transfer of the TCT in the Buyer's name. Review of records showed that TCT No. 164-2012002199 was delivered and received by the Office of the Secretary of DOTr on April 11, 2016. The necessary Documentary Stamp amounting to P27.033 million was already paid by the NFA on October 5, 2016. As such, the reason for the delay in transferring the ownership to DOTr was not caused by NFA. Item 12.b of the Deed of Sale relative to the Buyer's delay states that:

***In case the SELLER is able to deliver possession on the Turnover Date but the BUYER is not able to pay the balance of the Purchase Price on said date, the BUYER shall be given a grace period of not less than sixty (60) calendar days from the Turnover Date to pay the balance of the Purchase Price. If the BUYER is still not able to pay the remaining balance of the Purchase Price after the sixty (60) calendar day grace period, legal interest shall be imposed on the remaining balance.*** [Emphasis supplied]

17.12 It is noteworthy to mention that the NFA Administrator, under his Letter dated April 10, 2017, followed up the status of the NFA's collectible of P540.651 million from DOTr and requested for the immediate settlement of the amount including the original copies of the ORs for the taxes withheld from the 70 per cent of purchase price. Another follow-up letter dated April 26, 2017 was sent by NFA to DOTr.

17.13 As shown in Table 53, the gain recognized in the books amounted to P1.318 billion [P777.665 million + P540.651 million]. It was noted, however, that while the gain was recorded under Gain on Sale of Assets, the account code used was "682-02" instead of "682-01." Account code "682-02" refers to "Loss on Disposed Assets" account. In addition, the NFA's receivable of P540.651 million was erroneously taken up



under Accounts Receivable-Trade instead of under Due from DOTr, as discussed in Paragraph 2.10 hereof.

17.14 Likewise, the recorded gain on the sale did not consider the tax withheld of P198.239 million, thereby understating the Gain on Sale of Assets and Taxes Expense accounts for the year by the same amount. The understatement of Gain on Sale of Assets account is presented in Table 54.

**Table 54- Gain on Sale of Assets per Books and Audit**

<b>Particulars</b>		<b>Amount</b>
Per books:		
JEV3 No. 16-08-0152 dated August 31, 2016		P 777,664,851
JEV6 No. 16-12-0172 dated December 31, 2016		540,651,000
		<b>1,318,315,851</b>
Per Audit:		
Purchase Price		1,802,170,000
Less: Net Assets		
Land	P 266,085,100	
Building	25,110,552	
Accumulated Depreciation - Building	(5,580,203)	285,615,449
		<b>1,516,554,551</b>
<b>Difference</b>		<b>P (198,238,700)</b>

17.15 Item 68 of PAS16 provides that the gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit and loss when the item is derecognized.

17.16 Furthermore, review of the SDO's Statement of Income and Expense (SIE) for the year ended December 31, 2016 revealed that it did not include the Gain on Sale of Assets amounting to P1.318 billion taken up in the JEVs as required by PAS 16, in the determination of Net Income. Thus, the SDO's reported Net Income of P92.641 million for the year was understated by the computed gain resulting in inaccurate presentation of the SIE. Verification with the NCR-RO and HO, however, showed that the Gain on Sale of Asset was taken up in their books and in the Consolidated SIE.

**17.17 We recommended that Management:**

- a. Require the DOTr to pay NFA the amount of P90.109 million representing five per cent FWVAT deducted from the 70 per cent of purchase price, and P540.651 million for the remaining 30 per cent of purchase price plus legal interest; and**
- b. Direct the Finance Section to undertake the following:**
  - b.1 Effect the necessary adjustments to correct the amount of recorded gain on sale of assets and tax expenses incurred;**
  - b.2 Coordinate with NCR RO and HO on the effect of changes in the Consolidated SIE due to the understated gain and tax expenses;**
  - b.3 Revise the SDO's SIE by including the gain on sale of assets in the computation of year-end Net Income; and**

**b.4 Henceforth, exercise due diligence in the use of account codes, recording of transactions and in the preparation of financial statements.**

17.18 SDO Management informed that it will coordinate with BIR, DOTr and HO in order to fast track the collection of the receivables. Also, it will effect any adjustments to correct the amount of gain and tax expenses recorded in the books in coordination with the RO and HO. The revised SIE was already submitted to the Audit Team.

17.19 As audit rejoinder, we acknowledge Management's submission of the revised SIE on June 15, 2017. However, review showed that the Gain on Disposed Assets was reported at net of cash withheld by DOTr; hence, the Gain on Sale on Disposed Assets, the Due from National Government Agencies (NGAs)-DOTr, and the Tax Expense accounts in the books of SDO were still understated by P198.239 million, P90.109 million and P108.130 million, respectively.

**Accrued Interest Expense**

**18. The accrued interest expense for domestic loans as at year-end was erroneously computed, which resulted in the overstatement of Interest Payable and related expense accounts by P11.003 million.**

18.1 In support to 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 private and government banks, Bureau of the Treasury (BTr) net lending program and other agencies (domestic and foreign). Substantial amount of these liabilities are interest-bearing.

18.2 PAS 23 refers to the interest and other expenses incurred by an entity in connection with the borrowing of funds as Borrowing Cost. Under the accrual basis of accounting, the amount of borrowing cost is recognized when they occur (and not only when cash or its equivalent is paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The accrued borrowing cost is recorded under the Interest Payable account.

18.3 As at December 31, 2016, the balance of Interest Payable account amounted to P2.270 billion. The interest-bearing payables and its corresponding interest payable as at year-end are shown in Table 55.

**Table 55- Interest Payable as at December 31, 2016**

Particulars	Amount	
	Principal	Interest Payable
Notes Payable	P 36,406,898,733	P 119,565,356
Loans Payable- Domestic	95,924,619,395	536,173,244
Loans Payable - Foreign	118,656,083	1,905,054
Due to BTr- Net Lending	25,179,117,759	1,612,275,038
	<b>P 157,629,291,970</b>	<b>P 2,269,918,692</b>

18.4 However, the Interest Payable account was misstated due to the erroneous computation of interest accrual pertaining to Loans Payable- Domestic as at year-end. Details are shown in Table 56.

**Table 56- Interest Payable Misstatement**

Particulars	Date of Last Interest Payment / Period Covered	Period of Accrual		Interest Payable as at year-end		Misstatement Over/(Under)
		Per Books	Should Be	Per Books	Should Be	
P8.000 billion 10-yr Republic Guaranteed Notes due on 2018 at 6.750 per cent per annum (p.a.)	Aug. 2, 2016/ Feb. 8, 2016 to Aug. 8, 2016 or 182 days	Jul. 31 to Dec. 31, 2016 or 153 days	Aug. 9, 2016 to Dec. 31, 2016 or 145 days	P 229,500,000	P 217,500,000	P 12,000,000
P9.000 billion 10-yr Syndicated Loans due on 2024 at 5.9895 per cent p.a. fixed for five years, for repricing on the 6 <sup>th</sup> year	Nov. 2, 2016/ Apr. 29, 2016 to Oct. 29, 2016 or 183 days	Oct. 30, 2016 to Dec. 31, 2016 or 62 days	Oct. 30, 2016 to Dec. 31, 2016 or 63 days	61,837,250	62,834,625	(997,375)
				<b>P 291,337,250</b>	<b>P 280,334,625</b>	<b>P 11,002,625</b>

18.5 The erroneous computation of accrued interest expense as at year-end resulted in the overstatement of liability and related expense accounts, and understatement of income by P11.003 million.

**18.6 We, therefore, recommended that Management require the ASD to effect the necessary adjustments in the books due to erroneous computation of accrued interest expense; and henceforth, see to it that the interest expense is correctly computed to avoid misstatement of the interest payable and related accounts in the financial statements.**

18.7 Management already made the corresponding adjustment to correct the deficiency noted which will be taken up in CY 2017 Trial Balance.

#### **Disbursement Acceleration Program (DAP)**

**19. DAP Funds which were unutilized/unobligated and obligated after July 1, 2014 in the amount of P1.918 million and P2.039 million, respectively, or a total of P3.957 million as of December 31, 2016 remained unremitted to the BTr despite prior years' audit recommendations, due to the reluctance of NFA Management to have these funds remitted contrary to Supreme Court (SC) Decision in G.R. No. 209287 dated February 3, 2015.**

19.1 In our CY 2015 audit of NFA, we have noted that DAP funds which were unutilized/unobligated in the amount of P1.899 million and obligated after July 1, 2014 of P2.039 million, or a total of P3.938 million remained unremitted to the BTr as of December 31, 2015 due to NFA Management's inaction to have these funds remitted, contrary to SC Decision in G.R. No. 209287 dated February 3, 2015, declaring the DAP unconstitutional.

19.2 On the DAP funds previously reported as unutilized/unobligated in the amount of P1.899 million, there was a reported savings from Region VI in the amount of P19,320 since from the obligated amount of P409,315 only P389,995 was actually utilized. Hence, the balance to date of funds obligated after July 1 remain unchanged in the amount of P2.039 million while total balance of unutilized/unobligated fund amounted to P1.918 million [P1.899 million + P19,320].

19.3 Based on the Audit Team's monitoring of remittance of DAP funds to the HO/BTr as of February 28, 2017, the amount of P1.379 million or 34.85 per cent of the total amount due was remitted to the HO while the amount of P2.578 million or 65.15 per cent remained unremitted. Details of remittances are shown in Table 57.

**Table 57- Remittance of DAP Funds by ROs/POs as of February 28, 2017**

NFA RO	Subject for Remittance		Remitted to NFA-HO			Unremitted Amount as of 12/31/16
	Unobligated/Unutilized DAP Funds	DAP Funds Obligated after July 1, 2014	Total	Date	Amount	
	(a)	(b)	(c = a+b)		(d)	(c-d)
I	P 78,362	P 124,274	P 202,636	-	P -	P 202,636
II	603,221	348,375	951,596	12/14/15	149,834	348,375
				3/02/16	36,700	
				3/3/16	346,405	
				3/11/16	70,282	
III	517,624	992,232	1,509,856	10/31/15	243,065	1,266,791
V	(176,998)	380,000	203,002		-	203,002
VI	409,763	78,482	488,245	4/8/15	249,826	78,482
				4/18/15	480	
				4/15/15	60,752	
				4/10/15	500	
				4/10/15	78,885	
				4/28/16	19,320	
VII	68,028	41,069	109,097	6/29/16	69,937	39,160
IX	51,359	-	51,359	10/9/15	20,854	-
				10/15/15	22,588	
				12/3/15	7,917	
X	63,389	-	63,389		-	63,389
XI	246,495	74,100	320,595		-	320,595
ARMM	1,703	-	1,703	2/16/17	1,703	-
HO	55,587	-	55,587		-	55,587
<b>Total</b>	<b>P 1,918,533</b>	<b>P 2,038,532</b>	<b>P 3,957,065</b>		<b>P 1,379,048</b>	<b>P 2,578,017</b>

19.4 Results of monitoring on the remittance of DAP funds conducted by the concerned Audit Teams in the ROs/POs disclosed that the reason for non-remittance of subject DAP funds by the RO/PO was due to lack of clear guidelines from HO on which account it would be wired as well as the authority from HO to charge those obligated after July 1, 2014 to the General Operating Fund (GOE) or Maintenance and Other Operating Expenses (MOOE) Account.

19.5 Based on NFA's AAPSI on the audit recommendations contained in the CY 2015 AAR, which was submitted to the Audit Team on September 23, 2016, the recommendation regarding the remittance to the BTr was not implemented due to Management's stand that it cannot remit back the amount recommended since disbursement/utilization was more than the amount released.

19.6 Under Section 46 of PD No. 1177, to wit:

*No funds shall be disbursed, and no expenditures or obligations chargeable against any authorized allotment shall be incurred or authorized in any department, office or agency without first securing the certification of its Chief Accountant or head of accounting unit as to the availability of funds and the allotment to which the expenditure or obligation may be properly charged.*

*Xxx Any certification for a non-existent or fictitious obligation and/or creditor shall be considered void. Xxx Any payment made under such certification shall be illegal and every official authorizing or making such payment, or taking part therein or receiving such payment, shall be jointly and severally liable to the government for the full amount so paid or received.*

19.7 The documents to support the disbursement of funds were submitted to the Audit Team. However, verification showed that the subject disbursements were made through re-aligned funds but with no valid authority for the realignment. It is also worth noting that the said comment/reason has already been submitted by Management to the Audit Team for the CY 2014 audit which was not considered due to the absence of valid authority for the realignment of funds.

19.8 In addition, it was stressed by Management that the excess disbursement/utilization was sourced from the Corporate Operating Budget (COB). Hence, it can be concluded that such fund was sourced from the budget for the projects that have been compromised to give way to the DAP projects. Moreover, such action is a clear violation of Section 46 of PD No. 1177, on the need of a Certification of the Chief Accountant or head of accounting unit as to the availability of funds before disbursements, expenditures or obligations are charged. Hence, such disbursements/obligations to the contrary are considered void.

19.9 In view of the SC Decision on the unconstitutionality of DAP, these funds should have been returned to the BTr. However, due to lack of instruction/guidelines on the part of NFA-HO on the remittance by the NFA-ROs/POs of the unobligated/unutilized DAP funds and funds obligated after July 1, 2014, not all of the said unobligated/unutilized DAP funds were remitted to Budget, Treasury and Fund Management Department (BTFMD) as of December 31, 2016, and that, no remittance has been made by the latter to the BTr.

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

- a. Provide instruction/guidelines on the remittance of unobligated/unutilized DAP funds, and oblige the ROs/POs to return the same to the HO; and**
- b. Require the BTFMD to remit to the BTr the unutilized DAP Fund of P1.918 million and the amount of P2.039 million which was obligated after July 1, 2014.**

19.11 Management's comments are as follows:

a. The NFA has disbursed the total amount of P65.108 million as of July 01, 2014 per NFA terminal report versus COA report, as follows:

Total Disbursement from Field Offices		P 65.108 M
Less: Actual Amount Received from DBM		
April 4, 2013	P 23.160 M	
December 12, 2013	10.780 M	33.940 M
Amount Sourced from NFA Corporate Funds		<u>P 31.168 M</u>

b. In view thereof, NFA reiterated its stand that it cannot remit back the amount of P3.957 million since its disbursement/utilization is more than the amount received. Also, NFA sent letter to DBM requesting not to remit back to BTr the said amount.

19.12 As a rejoinder, we are consistent in our stand that NFA should remit back to the BTr the amount of P3.957 million, consisting of P1.918 million for the unutilized/unobligated projects and P2.039 million for projects obligated after July 1, 2014. We are of the opinion that it is already beyond the ambit of DBM or any executive agency's jurisdiction to decide on the regularity/irregularity of the fund as the Supreme Court, had already ruled on the irregularity of the DAP fund as well as its corresponding disbursements after July 1, 2014.

19.13 Moreover, the terminal reports submitted by Management were already considered in the CY 2015 audit, and it was noted that the additional projects obligated were sourced from re-alignment made on October 8, 2014 which was already beyond the decision of the Supreme Court. Hence, only projects obligated before July 1, 2014 out of the P33.889 million DAP fund could be considered.

#### **Fidelity Bond of Accountable Officers**

**20. The NFA officers and employees in HO and some POs in NCR, Regions IV-B and IX designated as authorized signatories in the issuance of checks, approval of Disbursement Vouchers (DVs) and Stock Accountable Officers (SAO) were not bonded, while the fidelity bond of Collecting and Disbursing Officers in Cavite PO and CDO, and SAO in Zamboanga del Norte PO were inadequate to cover their accountabilities for collections and disbursements; thus, exposing NFA of not being indemnified in case of loss due to improper or unauthorized use or misapplication of public funds and property and for all losses attributable to negligence in the keeping thereof.**

20.1 Section 101 of PD No. 1445 on the bond requirement for accountable officers provides that:

- (1) *Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefore and for the safekeeping thereof in conformity with law.*

- (2) *Every accountable officer shall be properly bonded in accordance with law.*

20.2 In addition, Section 4.1 of the General Provisions of Treasury Circular No. 02-2009 dated August 6, 2009 states that:

*Public Officers Covered – Every officer, agent, and employee of the Government of the Philippines or of the companies or corporations of which the majority of the stock is held by the National Government (NG), regardless of the status of their appointment shall, **whenever the nature of the duties performed by such officer, agent or employee permits or requires the possession, custody or control of funds or properties for which he is accountable, be deemed a bondable officer and shall be bonded or bondable and his fidelity insured** (Section 314 & 318, PBL). [Emphasis supplied]*

20.3 Furthermore, Section 4.3 of the said General Provisions of the same Treasury Circular states the following:

*Others Covered:*

*Xxx.*

*4.3.3 Public officers designated as authorized signatories and counter signatories in the issuance of checks and approval of disbursement vouchers.*

*4.3.4 Heads of departments, bureaus, agencies and instrumentalities of the Government.*

20.4 On May 29, 2015, NFA General Memorandum Order (GMO) No. AO-2015-003, series of 2015, was issued prescribing the “Revised Specifications of Authority on Financial Matters.” It provides, among others, the specific designation of the officers and employees who were authorized to sign and approve disbursements.

20.5 Review of the DVs for Fidelity Bond Premiums in HO disclosed that in CY 2016, there were 16 accountable officers who were bonded in view of their custody of NFA’s funds and properties. These include the Special Disbursing Officers, Cashiers, Armorer and Supply Officer.

20.6 We noted, however, that the officers and employees whose positions/designations are indicated in GMO No. AO-2015-003, series of 2015 as authorized signatories and counter signatories in the issuance of checks as well as approval of DVs were not bonded. These positions/designations are shown in Table 58.

**Table 58 - NFA Officials and Employees Not Bonded in CY 2016**

<b>Position/Designation</b>	<b>Nature of Accountability</b>
Cashier IV/Chief, Cash Division	Counter signatory for checks amounting to P500,000 and below; Check signatory for checks above P500,000 to P1 million
Department Manager, Budget, Treasury and Fund Management Department (BTFMD)	Counter signatory for checks above P500,000 to P1 million; Check signatory for checks above P1 million to P5 million
Assistant Administrator, Finance and Administration (FA)	Counter signatory for checks above P1 million to P5 million; Check signatory for checks above P5 million to P10 million
Deputy Administrator, FA	Counter signatory for checks above P5 million to P10 million; Check signatory for checks above P10 million
Administrator	Counter signatory for checks above P10 million
Department Head concerned	Approves DVs for payments amounting to P100,000 and below
Assistant Administrator concerned	Approves DVs for payments above P100,000 to P1 million
Deputy Administrator concerned	Approves DVs for payments above P1 million to P3 million
Administrator	Approves DVs for payments above P3 million
For Office of the Administrator and Offices directly under the Administrator's Office i.e. Legal Affairs Department (LAD), Public Affairs Department (PAD), Corporate Planning and Management Services Department (CPMSD), Security Services and Investigation Department (SSID) and Internal Audit Services Department (IASD):	
Department Manager/ Administrator (for Administrator's Office employees)	Approves DVs for payments P100,000 and below
Deputy Administrator, FA	Approves DVs for payments above P100,000 to P3 million
Administrator	Approves for payment disbursements above P3 million
For Office of the Assistant Administrator:	
Assistant Administrator concerned	Approves for payment disbursements P1 million and below
Deputy Administrator concerned	Approves for payment disbursements above P1M to P3M
Administrator	Approves for payment disbursements above P3 million
For Office of the Deputy Administrator:	
Deputy Administrator concerned	Approves for payment disbursements P3 million and below
Administrator	Approves for payment disbursements above P3 million
For Regional and Field Offices:	
Asst. Regional Manager	Counter signatory for checks and approves DVs for payments P100,000 and below
Regional Manager	Counter signatory for checks and approves DVs for payments P100,000 and above
Asst. Provincial Manager	Counter signatory for checks and approves DVs for payments P50,000 and below
Provincial Manager	Counter signatory for checks and approves DVs for payments P50,000 and above

20.7 In Cavite PO, CDO, EDO and Zamboanga del Norte PO, the Provincial Manager and the Assistant Provincial Manager were designated as authorized signatory in the issuance of checks and approval of DVs for P50,000 and above and P50,000 and below, respectively.



20.8 Moreover, the Cavite PO's employee holding the position of Cashier II was designated both as Collecting and Disbursing Officer for collections and Payroll Fund, respectively. Her average monthly collections amounted to P64.380 million and average monthly disbursements through checks amounted to P2.769 million for CY 2016. However, we noted that the approved amount of her bond under Risk No. 421-16-1245N effective June 7, 2016 to June 6, 2017 was P750,000, which covered a minimum and maximum cash accountability of P1,000,001 to P2,500,000 only, resulting in undue risk to the Agency for non-indemnification on the unsecured funds.

20.9 Likewise, an employee of CDO, holding the position of Cashier II, was designated as both Collecting and Disbursing Officer. Her average monthly collections and check disbursements amounted to P172.961 million and P6.829 million per month, respectively, in CY 2016. However, it was noted that the approved amount of her bond under Risk No. D1A-15-7910R effective November 21, 2015 to November 21, 2016 and Risk No. D1A-16-1959R effective November 21, 2016 to November 21, 2017 was P500,000 each which covered a minimum and maximum cash accountability of P750,001 to P1,000,000 only, resulting in undue risk to the Agency for non-indemnification on the unsecured funds.

20.10 With the retirement of the Cashier III of NCR-RO, the above-mentioned Cashier II of CDO also performed as Acting Cashier of NCR-RO effective November 14, 2016 pursuant to Office Order No. NCR-RO-K-02 dated November 8, 2016 issued by the NCR-RO Regional Director. Her concurrent capacity of Acting Cashier at NCR-RO further increased her accountability. As at audit date, the CDO Cashier II continues to perform cashiering and disbursement functions at both CDO and NCR-RO with inadequate bond.

20.11 In Masbate PO, the Acting Warehouse Supervisor (WS) who is currently handling two warehouses of NFA-Masbate PO continues to perform his functions despite the fact that his fidelity bond already expired on March 2016, even until July 7, 2016 it was not renewed.

20.12 Also in Zamboanga del Norte PO, the WS was designated to handle two warehouses due to the retirement of former SGOO of GID I Warehouse. She was not properly bonded as her bond was insufficient to cover her accountability for two warehouses in the amount of P512,500.

20.13 The non-bonding and inadequate bonding of officers and employees who were designated as check signatories, approving officers for DVs, SAOs, Special Collecting and Disbursing Officers exposed the NFA to risk of not being indemnified in case of loss due to improper or unauthorized use or misapplication of public funds and property and for all losses attributable to negligence in the keeping thereof.

20.14 **We recommended that Management:**

- a. **Conduct immediate review of the fund accountability of concerned accountable officers including those designated/authorized to sign and approve the DVs per NFA GMO No. AO-2015-05-003 dated May 29, 2015 and post the corresponding fidelity bond corresponding to their accountabilities; and**

**b. Henceforth, conduct regular review of fund and property accountabilities of accountable officers, including those officers who are authorized signatories and counter signatories in the issuance of checks and approval of DVs, to determine the appropriate amount of their fidelity bonds, in consonance with the requirements of Section 101 of PD 1445, and Sections 4.1 and 4.3 of the General Provisions of Treasury Circular No. 02-2009, on the bonding of officers and employees.**

20.15 Management informed that:

a. HO- It requested that said NFA signatories and counter signatories of checks as well as approving officers of DV be exempted from the General Provisions of Treasury Circular No. 02-009, specifically Sections 4.1 and 4.3 thereof, as they do not have direct access or in possession of NFA's fund and property.

b. NCR-RO- Review and assessment of fund accountability of the Collecting and Disbursing Officers are being undertaken as bases for determining the appropriate accountabilities and premium for the fidelity bond for all officers authorized to sign/counter-sign checks and approved DVs.

c. Cavite PO- Verbal discussion with the Regional Accountant on the audit recommendation had been made and will be coordinated with the HO for comments, provision of fund requirements and further instructions as to its uniformity and nation-wide implementation. The minimal Fidelity Bond of the Cashier III was due to the following:

c.1 Most collections were deposited daily through pick-up deposit by Land Bank of the Philippines;

c.2 There is very rare instance that cash collections are left undeposited and if any, in minimal amount only; and

c.3 As to disbursements, no imprest fund was being maintained. Salaries, allowances and other benefits of employees were made through cash advances which were liquidated immediately on the day of encashment.

d. EDO- The matter was brought to the attention of the RO and HO for review and evaluation.

e. Masbate PO- It has set-up a monitoring system to remind the responsible persons/accountable officers to renew their respective fidelity bonds on time.

f. Zamboanga del Norte PO- It inadvertently overlooked the matter of applying the fidelity bond and committed to increase the fidelity bond of the WS when she assumed as such in other warehouse. Likewise, it is now in the process of collating required documents for the application of fidelity bond of the Provincial Manager.

20.16 Hereunder are our audit rejoinders to the above comments of Management:

- a. HO- We understand that NFA is experiencing financial challenges, however, we stand by our audit recommendation that all officials and employees designated as signatories and counter signatories of checks and DVs be bonded. The NFA may request exemption from the General Provisions of Treasury Circular No. 02-009 from the BTr.
- b. NFA-Cavite PO - The situation cited to justify the minimal fidelity bond coverage of the Cashier III should consider that risk of loss still exist considering the robbery incident in CY 2008 which resulted in loss of cash in the possession of previous accountable officer. Similar incident could occur even during office hours.

#### **Payment of GHIP, GAIP and ECHP**

**21. The NFA-HO and ROs/POs officials and employees hired before July 1, 1989 were granted Group Hospitalization Insurance Program (GHIP), Group Accident Insurance Program (GAIP) and Executive Health Care Program (EHCP) in the total amount of P10.097 million, without authority from the Department of Budget and Management (DBM), Office of the President (OP) or legislative issuances. Moreover, the GAIP is considered a duplication of the insurance provided by the Government Service Insurance System (GSIS) under life insurance and other insurance coverage of government employees, which is prohibited in Commonwealth Act No. 186, as amended by Republic Act (RA) Nos. 4968 and 8291. Hence, the payments made for these allowances/benefits are considered irregular.**

21.1 Section 12 of RA No. 6758, otherwise known as the "Compensation and Position Classification Act of 1989" states that:

*Section 12. Consolidation of Allowances and Compensation.- All allowances, except for representation and transportation allowances; clothing and laundry allowances; subsistence allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay; allowances of foreign service personnel stationed abroad; and such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates herein prescribed. Such other additional compensation, whether in cash or in kind, being received by incumbents only as of July 1, 1989 not integrated into the standardized salary rates shall continue to be authorized.*

21.2 The DBM Corporate Compensation Circular (CCC) No. 10 dated February 15, 1999 provides the Rules and Regulations for the Implementation of the Revised Compensation and Position Classification System Prescribed Under RA No. 6758 for Government-Owned and/or Controlled Corporations (GOCCs) and Financial Institutions (GFIs). Section 5.5 thereof states that:

5.5 The following allowances/fringe benefits authorized to GOCCs/GFIs pursuant to the aforementioned issuances are not likewise to be integrated into the basic salary and allowed to be continued only for incumbents of positions as of June 30, 1989 who are authorized and actually receiving said allowances/benefits as of said date at the same terms and conditions prescribed in said issuances.

- 5.5.1 Rice Subsidy
- 5.5.2 Sugar Subsidy
- 5.5.3 Death Benefits other than those granted by the GSIS
- 5.5.4 Medical/dental/optical allowances/benefits
- 5.5.5 Children's Allowance
- 5.5.6 Special Duty Pay/Allowance
- 5.5.7 Meal Subsidy
- 5.5.8 Longevity Pay
- 5.5.9 Teller's Allowance. [Underscoring supplied]

21.3 Also, COA Circular No. 2013-003 dated January 30, 2013 provides, among others, the list of allowances, incentives, and other benefits commonly granted to officials and employees covered by the Salary Standardization Law (SSL). The list did not include medical/health insurance allowances.

21.4 Moreover, COA Resolution No. 2005-001 dated February 3, 2005 provides that:

*Xxx the procurement of private health insurance by any agency or instrumentality of the government is an irregular expenditure and constitutes unnecessary use of public funds which cannot be countenanced by this Commission;*

*BE IT FURTHER RESOLVED that violation of this Resolution shall cause the disallowance of the corresponding disbursement of funds and the heads of the agencies or instrumentalities involved including government owned and/or controlled corporations and those officials participating therein shall be held personally liable therefore. [Underscoring supplied]*

21.5 In December 2015, the NFA entered into contract with two insurance companies for the provision of NFA Group Hospitalization Insurance Program (GHIP), Group Accident Insurance Program (GAIP) and Executive Health Care Program (ECHP) for NFA officials and employees who were hired before July 1, 1989. The GHIP and GAIP contract covered 2,250 NFA officials and employees while the ECHP contract covered 22 NFA officials/executives. The details are shown in Table 59.

**Table 59 - Contracts for the Grant of GHIP, GAIP and ECHP to NFA Officials and Employees**

Type of Insurance	Insurance Provider	Date of Contract	Amount
GHIP	Kaiser International Health Group, Inc.	12/28/15	P 9,980,541
GAIP	Asianlife and General Assurance Corporation	12/29/15	571,410
ECHP	Kaiser International Health Group, Inc.	12/18/15	979,000
<b>Total</b>			<b>P 11,530,951</b>

21.6 For HO alone, there were 315 officials and employees covered by GHIP with total premiums of P1.314 million. The premium per official/employee ranged from P2,028 to P4,998 which is fully shouldered by NFA. On the other hand, there were 316 officials and employees covered by GAIP with total premiums of P80,252. Based on NFA Memorandum HRMD-PBU-2K16-A-0136 dated January 19, 2016 prescribing the "Guidelines on 2016 Group Accident Insurance Program (GAIP) for NFA Field Office Employees" the annual NFA's share for GAIP was P80.00 per official/employee while the annual share of each official/employee was P173.96.

21.7 The ECHP covered 22 officials/executives from NFA-HO and regional/field offices with premium of P44,500 per official/executive. The NFA-HO paid the total premiums for the 22 officials/executives and was taken up in its books as intra-agency accounts for the premiums of the officials/executives in the regional/field offices. The details of payments made for the three insurance contracts are shown in Table 60.

**Table 60 - Payments of GHIP, GAIP and ECHP Premiums for CY 2016**

Payee	Check			Withholding Tax	Gross Amount
	No.	Date	Amount		
Kaiser International Health Group, Inc.	190378	4/5/16	P 1,231,902	P 82,127	P 1,314,029
Asianlife and General Assurance Corporation	190801	5/4/16	75,236	5,016	80,252
Kaiser International Health Group, Inc.	189862	2/19/16	917,813	61,187	979,000
<b>Total</b>			<b>P 2,224,951</b>	<b>P 148,330</b>	<b>P 2,373,281</b>

21.8 The Terms of Reference for the procurement of the CY 2016 Group Insurance Program and Executive Health Care Program describes the GHIP, GAIP and ECHP are as follows:

- *GHIP is one of the corporate benefits extended to qualified officials and employees and eligible dependents to provide them with an improved and substantial reimbursement of hospital, medical and surgical and/or maternity care expenses.*
- *GAIP is one of the corporate benefits extended to qualified officials and employees who died due to accident or whose earning capacity is reduced in case of dismemberment or disablement arising from the accident. This will provide additional financial assistance to both official/employee and his/her family.*
- *ECHP is one of the corporate benefits extended to qualified officials/executives to provide them with health care and health maintenance services.*

21.9 Hence, these are forms of medical allowance or benefit falling under Section 5.5.4 of RA No. 6758. There was also no document supporting the payments that the grant of GHIP, GAIP and ECHP has authorizations either from the DBM, OP or legislative issuances pursuant to Section 5.5 of DBM CCC No. 10. As such, the grant of the said corporate benefits was in violation of Section 12 of RA No. 6758, Section 5.5 of the DBM CCC No. 10, COA Circular No. 2013-003 and COA Resolution No. 2005-001.

21.10 Moreover, in HO the payments for GHIP and GAIP were taken up in the books as Insurance Expenses. Likewise, the payment of ECHP was recorded in the books under Insurance Expenses for the HO officials/executives in the amount of P489,500 and as Due from Regional Offices and Due from Operating Units amounting to P311,500 and P178,000, respectively, for the officials/executives in the regional/field offices as the expenses were taken up in the regional/field office books. As such, the budgets for these expenditures were sourced from MOOE and not from Personal Services. The GHIP, GAIP and ECHP as corporate benefits should have been categorized or treated as Other Personnel Benefit where the budget should have been sourced also from the fund allocated for Personal Services as prescribed in pertinent provisions of Section 49, General Provisions of the General Appropriations Act (GAA) of Fiscal Year (FY) 2016, which states that:

*Funding of Personnel Benefits. Notwithstanding any provision of law to the contrary, all personnel benefits costs of government personnel shall be chargeable against the funds from which their salaries are paid. Xxx.*

Xxx.

*Personnel benefits costs referred to in this section shall include salary increases, step increments, all kinds of allowances, benefits and incentives, monetized vacation and sick leave credits, government share in retirement and life insurance premiums, employees insurance premiums, health insurance premiums and HDMF contributions, and other authorized benefits. [Emphasis supplied]*

21.11 Based on NFA report of Schedule of Expenses per region as of December 31, 2016, the total GHIP, GAIP and ECHP expenses amounted to P7.647 million, P75,936, and P489,500, respectively, or a total of P8.213 million, as shown in Table 61.

**Table 61- Expenses for GHIP, GAIP and ECHP Premiums for CY 2016 in the ROs/POs**

Region	GHIP	GAIP (NFA Share @P80/ Employee)	ECHP*	Total
I	P 459,306	P 3,600	P -	P 462,906
II	674,674	2,000	-	676,674
III	964,955	-	89,000	1,053,955
IV	762,078	18,551	44,500	825,129
V	263,536	2,588	44,500	310,624
VI	438,804	2,400	-	441,204
VII	266,412	5,120	-	271,532
VIII	378,112	-	44,500	422,612
IX	261,414	5,040	-	266,454
X	345,371	20,317	44,500	410,188
XI	384,480	7,920	-	392,400
XII	345,582	-	-	345,582
XIII	1,648,973	-	89,000	1,737,973
XIV	268,373	5,040	44,500	317,913
XV	185,214	3,360	89,000	277,574
	<b>P 7,647,284</b>	<b>P 75,936</b>	<b>P 489,500</b>	<b>P 8,212,720</b>

\*Paid by NFA HO under Check No. 189862 dated February 19, 2016.

21.12 In NFA-NCR, there were 363 officials and employees covered by GHIP with the total premiums of P1.648 million which was fully shouldered by NFA. Likewise, same officials and employees were covered by GAIP with total premiums of P92,187. Based on NFA Memorandum HRMD-PBU-2K16-A-0136 dated January 19, 2016 prescribing the "Guidelines on 2016 Group Accident Insurance Program (GAIP) for NFA Field Office Employees" the annual NFA's share for GAIP was P80.00 per official/employee while the official/employee's share was P173.96 per employee. On the other hand, only the Regional Manager was covered by the ECHP with a premium of P44,500. This was paid at the NFA-HO, hence, should be taken up in the books as intra-agency accounts at the RO. However, to date, no entry was recorded in the books of NCR covering CY 2016 ECHP premium.

21.13 In Region I, the RO and its POs paid a total insurance premium of 102 regular members of the GHIP in the amount of P459,306, inclusive of taxes withheld, to Kaiser International Health Group Inc., a private health insurance company.

21.14 In Allacapan and Tuguegarao POs, the total insurance premiums of P230,196, net of withholding tax of P14,387 were paid to Kaiser International Health Group, Inc., a private health insurance company, covering 52 employees. The payment of premiums was taken up as inter-branch transactions between Allacapan and Cagayan POs and RO No. II under JEV No. 3-16-04-129 dated April 30, 2016 and JEV Nos. 16-03-0111 and 16-04-0155 dated March 30, 2016 and April 30 2016, respectively. RO No. II in turn paid said insurance premiums to Kaiser International Health Group, Inc. under Check No. 235393 dated March 28, 2016.

21.15 In Region VI, the total premium paid covering 108 employees amounting to P438,804 under DV No. 16-04-0037 with PNB Check No. 104952 dated April 26, 2016 for the procurement of GHIP from Kaiser International Group, Inc. Likewise, the RO, Antique and Iloilo POs also procured GAIP from Asianlife and General Assurance Corporation covering 63 regular employees in the total premium amounting to P15,999, the NFA's share to the accident insurance premium was P80 per employee while the employees share was P173.96 per employee.

21.16 It is also worthy to mention that COA Decision No. 2016-385 dated November 21, 2016 affirmed the Notice of Disallowance issued on the payment to Asianlife and General Assurance Corporation by the NFA RO No. IX- Zamboanga City for the GHIP premiums for CY 2011 covering 105 regional employees in the total amount of P551,893.

21.17 Furthermore, the grant of GAIP to NFA employees is a duplication of the insurance provided by the GSIS under life insurance and other insurance coverage of government employees. Commonwealth Act No. 186 issued on November 14, 1936, as amended by RA Nos. 4968 and 8291, created and established the GSIS to be the main insurance carrier of the government in order to promote the efficiency and welfare of the employees of the Government of the Philippines and to replace the present pension system. Since GSIS has abolished and consolidated existing insurance and retirement systems of the government, Section 28 (b) of Commonwealth Act No. 186 prohibits the creation of other insurance of government employees, quoted as follows:

*(b) Hereafter, no insurance or retirement plan for officers or employees shall be created by any employer. All supplementary retirement or*

*pension plans heretofore in force in any government office, agency or instrumentality or corporation owned or controlled by the government, are hereby declared in operative or abolished: Provided, that the rights of those who are already eligible to retire thereunder shall not be affected.*

21.18 The payments of GHIP, GAIP and ECHP in the total amount of P10.097 million [P2.373 million (Table 60) + P8.213 million (Table 61) – P489,500 (ECHP paid by HO)] without legal basis and which were charged to MOOE instead of Personal Services, and GAIP being a duplication of the insurance provided by the GSIS constitute irregular transactions.

**21.19 We recommended that Management:**

**a. Support the payments of GHIP, GAIP and ECHP granted to NFA officials and employees with authority from the DBM or OP or by any legislative issuances; otherwise, cause the refund of the amount of premiums paid; and**

**b. Henceforth, refrain from granting allowances or benefits without the required authority, appropriate funding and already included in the insurance provided by the GSIS.**

21.20 Management explained that:

a. HO- The grant of GHIP, GAIP and EHCP is with legal bases and does not contravene any law. The grant thereof is based on the various NFA Council Resolutions approving the programs, and authorizing appropriation therefore; and SC cases. LAO-Corporate Decision No. 2008-020 dated April 14, 2008 lifted the disallowance of health care insurance benefits granted to incumbent NFA personnel as of July 1, 1989 while affirmed for those hired after said date.

b. Region I- There is an outstanding appeal from the disallowance of the CY 2015 GHIP premium payment of its regular members; hence, the refund for the CY 2016 paid premiums cannot be enforced until the final decision or resolution for the case. It also claimed that it acted in good faith in paying GHIP premiums of concerned regular officials and employees based from the authorizations of HO and RO No. I as per BTFMD-BUD-C-055 and ROI-FIN-2K16-C-179, respectively. The procurement of insurance was conducted in HO; hence, the RO was only instructed to disburse said premiums to the winning bidder. Nevertheless, the matter was already elevated to HO. Notices of Disallowance (NDs) were already issued by RO No. I, La Union, Eastern and Western Pangasinan POs Audit Teams relative to the payment of GHIP.

c. Allacapan and Tuguegarao POs- The payment made by RO was based on Memorandum HRMD-PBU-2K16-A-0134 on the guidelines for CY 2016 GHIP for FOs.

d. Region VI- RA No.7875 does not preclude government agencies to procure health insurance provided that these benefits were given to employees who were incumbents as of July 1, 1989. The GHIP is not one of those allowances deemed



integrated into the standardized salary as per RA No. 6758 (An Act Prescribing a Revised Compensation and Position Classification System in the Government and for Other Purposes) as determined by DBM CCC No. 10 dated March 1, 1999, thus allowed to be continued for incumbents as of June 30, 1989. Moreover, the paid insurance premiums were not irregular expenditure in the form of additional compensation prescribed by the Constitution and COA Resolution No. 2005-001 dated February 3, 2005 as it was in the nature of a financial assistance.

21.21 Hereunder are our rejoinders to the above comments of Management:

a. HO - Management has placed too much reliance on the decision held in LAO-Corporate Decision No. 2008-020 in granting GHIP, GAIP and EHCP when there is a recent promulgation under COA Decision No. 2016-385 dated November 21, 2016 which provides that such allowances fall under medical allowance or benefit under sub-paragraph 5.5.4 of DBM CCC No. 10 which aimed to provide hospitalization program to NFA employees and their beneficiaries which evidently a form of medical allowance or health insurance benefit. Hence, the grant thereof must have appropriate authorization either from the DBM, OP or legislative issuances. In addition the grant was a clear violation of COA Resolution No. 2005-001 dated February 3, 2005, prohibiting a government agency from securing health care insurance from private insurance companies. Moreover, during the NFA Exit Conference held on June 27, 2017, the Deputy Administrator for Finance and Administration informed that the disallowance of said benefits will be contrary to the principle of non-diminution of benefits. In that premise, the Audit Team disagrees as there is no diminution of benefits when the recipients had neither vested right nor legal basis to receive such benefits as these are not authorized.

b. Region VI, we reiterate the case of *Conte vs. Commission on Audit*, G.R. No. 116422 dated November 4, 1996, where the Supreme Court categorically stated that Section 28 (b) of Commonwealth Act No. 186, as amended by RA No. 4968, in no uncertain terms bars the creation of any insurance or retirement plan- other than the GSIS- for government officers and employees, in order to prevent the undue and iniquitous proliferation of such plans.

c. In addition, COA Circular No. 2012-003 dated October 29, 2012 provides the updated guidelines on the prevention and disallowance of irregular, unnecessary, excessive, extravagant, and unconscionable expenditures. Paragraph 3.2, Annex B thereof specifically classifies "*Separation/disability/death plan benefits to retiring employees which constitute supplementary retirement plan prohibited under Section 28 (b) of Commonwealth Act No. 186, as amended by RA No. 4968 (COA Decision No. 2008-078 dated August 20, 2008)*" as illegal expenditure. It should be noted that Antique PO's payment for GAIP is of similar nature with the illegal expenditure, thus disallowable in audit.

### **Irregular Travelling Expenses**

**22. Travelling expenses of NFA Employees Association (NFAEA) officers/members amounting to P458,924 in CYs 2015 to 2016 were charged to NFA's funds contrary to Section 1(n), Rule III of the "Amended Rules and**

**Regulations Governing the Exercise of the Right of Government Employees to Organize” of EO No. 180 dated September 28, 2004; thus, unnecessarily increased the Agency’s expenses by the same amount.**

22.1 EO No. 180 dated June 1, 1987 provides for the guidelines for the exercise of the right of government employees to organize, and for the creation of Public Sector Labor-Management Council (PSLMC) referred to as Council, and for other purposes. Section 15 of the EO provides for the composition of the PSLMC, which shall promulgate the necessary rules and regulations for its implementation and administer its provisions.

22.2 On September 28, 2004, the “Amended Rules and Regulations Governing the Exercise of the Right of Government Employees to Organize” implementing EO No. 180 was promulgated. Section 1 (n), Rule III thereof provides the following:

*It shall be the duty of an employees’ organization and its officers to inform its members on the provisions of its constitution and by-laws, CNA, and all their rights and obligations under existing laws, rules and regulations. For this purpose, **registered employees’ organizations shall collect reasonable dues to finance seminars on public sector unionism and other relevant activities.*** [Emphasis supplied]

22.3 Under Section 1(i), Rule I of the Amended Rules and Regulations, Collective Negotiation Agreement or CNA is defined as the negotiated contract between an accredited employees’ organization representing a negotiating unit and the employer/management concerning terms and conditions of employment and improvements thereof that are not fixed by law.

22.4 Moreover, Sections 1 and 2, Rule XIII of the same Amended Rules and Regulations provide that within 30 calendar days from the execution of a CNA, the parties thereto shall submit to the Civil Service Commission-Personnel Relations Office (CSC-PRO) four signed original copies of the agreement accompanied with the documents enumerated in Section 2, certified under oath by the secretary of the employees’ organization and attested by its president. Section 5 further provides that simultaneous with the issuance of the certificate of registration, the CSC-PRO shall point out the provisions in the agreements which are non-negotiable, despite the registration of the agreement.

22.5 The Director, Human Resource Relations Office (HRRO) of the CSC, under his letter dated September 21, 2015 to the NFAEA President, informed the registration of the CNA which is effective for the period June 9, 2015 to June 9, 2018 as evidenced by Certificate of Registration No. 929 and HRRO-CSC’s comments on some of the provisions of the CNA. The CSC’s comments on the provisions of Article III of the CNA are presented in Table 62.

22.6 Review of disbursements under the Travelling Expense - Local account of the HO, disclosed, however, that travelling expenses incurred by the NFAEA officers/members in CYs 2015 and 2016 in the total amount of P458,924, as shown in Table 63, in connection with their attendance to Board conferences, National Federation in the Department and Agencies in Agriculture (NAFEDA) Joint Council of Leaders, Public Sector Unionism Seminar, and Management Union Consultative Council (MUCC)

Special Assessment, held in different parts of the Philippines were charged to the NFA General Fund instead of the NFAEA's funds.

**Table 62- CNA Provisions and CSC's Comments**

<b>Section No.</b>	<b>CNA Provisions</b>	<b>CSC's Comments</b>
5	<p>The NFA shall allow the holding of the following UNION meetings not exceeding the frequency below:</p> <ol style="list-style-type: none"> <li>Chapter Regular Meetings on official time- once a month;</li> <li>Regional Assembly on official time- annually;</li> <li>Central Office General Assembly on official time- two times a year (semestral);</li> <li>Regional Board Meetings of Provincial Chapter Presidents on official business- quarterly;</li> <li>National Board Meetings of members of the National Board on official business- quarterly;</li> <li>Special Emergency meeting on official time- as the need arises.</li> </ol>	<p>Sections 5 and 6. Conduct of union activities such as regular or emergency meetings should be done with prior notice to the Management to avoid controversy. It should be done in such a way that it shall not prejudice public service. Attendance thereto shall be on <b>official time</b> only.</p> <p>On the other hand, when any of the elected or legislative officers of the employees' association including committee chairpersons sits as employees' association representative in the different committees of the agency, the said employees' association representative is considered as <b>on official</b> business. It is understood that the primary purpose of their attendance is to promote public service.</p>
6	<p>The NFA shall allow the UNION Officers (45 positions) in Annex "A" as stated in Section 5 of Article III, Four Thousand Nine Hundred Ninety Five (4,995) UNION work days shall be allowed to elected/appointed Central Office officers/representatives (45) positions, Regional Council (6) positions, Provincial and District Chapter Officers and Board of Directors (9) positions, provided that it shall not exceed twenty per cent (20%) of their work days as provided for in the Amended Revised NFAEA Constitution.</p> <p>The UNION work days shall be non-cumulative and non-commutative.</p>	
7	<p>The NFA shall grant official business to UNION officers or members who shall attend workers' education programs, seminars, meetings, conventions, conferences, symposia and others, including leadership trainings in trade unionism, workers' congress and similar activities conducted by the government and non-government agencies.</p>	<p>Section 7. Attendance to general assemblies and meetings, activities and conferences called by any government agency or other organizations/ institutions, will be treated as employees' association time-off and may be granted to the employees' association' Board of Directors, other executive officers and members in recognition of their participation rights for the purpose of advancing the interest of the employees' association.</p> <p>We must stress that attendance to the abovementioned activities shall be on "<b>official time</b>" which should be construed as a variation of day-off as contradistinguished from official business or leave. Xxx. [Emphasis supplied]</p> <p>Worthy to stress also that expense for the Labor Education program shall be taken from the account of employees' association.</p>

**Table 63- NFAEA Travelling Expenses in CYs 2015 and 2016**

Conference/Seminar Attended	Date/Period	Place	No. of NFAEA Officers	Amount
1st NFAEA National Board Conference	Mar. 16-20, 2015	Cabanatuan City, N. Ecija	8	P 29,520
Conduct of Public Sector Unionism Seminar, Region XII	June 24-26, 2015	Region XII	1	9,387
86th NFAEA- National Board Conference	July 6-10, 2015	Caramoan	9	31,160
NFAEA Mid-Year Conference	Aug. 11-12, 2015	Quezon Province	12	14,660
87th NFAEA National Board Conference, Region VIII	Nov. 9-13, 2015	Region VIII- Tacloban	9	84,004
88th NFAEA National Board Conference, Region VIII	Mar. 14-18, 2016	Region IX- Dipolog	9	112,668
NAFEDA Joint Council of Leaders	Apr. 4-8, 2016	Region I- Baguio City	4	14,400
Participate in the conduct of MUCC Special Assessment	June 14-17, 2016	Region VII- Bohol	5	58,788
NFAEA Mid-Year Conference, Region IV	July 20-22, 2016	Lucena City	16	28,840
NFAEA 89 <sup>th</sup> National Board Conference	Aug. 1-5, 2016	Davao City	5	49,236
NFAEA 90 <sup>th</sup> National Board Conference, Region X	Nov. 14-18, 2016	Region X- Cagayan de Oro City	3	26,261
				<b>P 458,924</b>

22.7 Further review of the disbursements showed that the NFAEA officers/members were authorized by NFA to travel through issuance of Travel Authority, which also provided the authority to charge the travelling expenses to the funds of NFA. The use of NFA's funds to defray their travelling expenses was contrary to the provision of Rule III, Section 1 (n) of the Amended Rules and Regulations of EO No. 180 as supported by the HRRO-CSC's comments which stressed that expenses for the labor education program shall be taken from the account of the employees' association and that attendance in the conduct of union activities such as regular or emergency meetings shall be on official time only. Thus, such travelling expenses of NFAEA officers/members charged against the funds of NFA unnecessarily increased the Agency's expenses for CYs 2015 and 2016.

**22.8 We recommended that Management require the refund of travelling expenses incurred by the NFAEA officers in CYs 2015 to 2016 which were charged to NFA funds; otherwise, the transactions will be disallowed in audit. Henceforth, strictly observe the provisions of the Amended Rules and Regulations of EO No. 180 on the charging of travelling expenses of NFAEA officers and members.**

22.9 Management justified that the travels of the NFAEA officers is pursuant to Sections 5 and 7, Article III (Union Recognition and Security) of the 4<sup>th</sup> NFA CNA which provides, among others, as follows:

*Section 5. The NFA shall allow the holding of the following UNION meetings not exceeding the frequency indicated below:*

*Xxx.*

*d. Regional Board Meetings of Provincial Chapter Presidents on official business- quarterly;*

*e. National Board Meetings of members of the National Board of official business- quarterly;*

*Xxx.*

*Section 7. The NFA shall grant official business to UNION officers or members who shall attend workers' education programs, seminars, meetings, conventions, conferences, symposia and others, including trainings in trade union's workers' congress and similar activities conducted by the government and non-government agencies."*

22.10 The NFAEA also provided the following comments as forwarded by the Acting Department Manager, ASD:

- a. The 4<sup>th</sup> NFA-CNA was legally concluded by and between the NFA Management and the NFAEA in June 2015. After which, it was subjected to the ratification process as required resulting to 3,189 employees ratifying the 4<sup>th</sup> CNA or 78 per cent of the 4,092 rank- and-file employee-members nationwide.
- b. The NFAEA is of the firm position that the PERSONAL COMMENTS of a CSC Director in virtually overhauling the 4<sup>th</sup> NFA CNA is by law way beyond his "Salary Grade" (authority) and cannot change the decision of the Commission registering/approving the 4<sup>th</sup> CNA which were duly represented by the Commission's two (2) Commissioners. In fine, the opinion of a Director of CSC cannot override the decision of the Commission which approved the 4<sup>th</sup> NFA CNA.

22.11 As a rejoinder to HO's comments, we maintain our stand that the NFAEA officers/members travelling expenses are not chargeable to NFA's funds. It was explicit in the HRRO-CSC's comments that while the conduct of union activities such as regular or emergency meetings on official time is allowed, the expenses for those activities shall be taken from the account of the employees' association.

### **Insurance of Property and Equipment and other insurable properties with GSIS**

**23. The PE of CDO, NDO and SDO totalling P9.476 million were not covered by insurance with the GSIS during the year as required in RA No. 656, as amended by PD No. 245, thus, exposing the Agency to the risk of non-indemnification for the uninsured properties in case of damage or loss due to fire, earthquake, storm or other fortuitous event. In addition, the annual inventory report of physical assets, insurance and bonding of risks with the General Insurance Fund (GIF) as required under COA Circular No. 92-390 was not submitted to the COA Auditor for verification; thus, it could not be determined if all insurable properties/assets of CDO and NDO were adequately covered by insurance. Moreover, other properties of SDO costing P26.769 million were insured at amounts more than their costs that caused the NFA to incur unnecessary expense of P15.080 million.**

23.1 RA No. 656, otherwise known as the "Property Insurance Law," as amended by PD No. 245 dated July 13, 1973, requires every government entity to insure its properties with the GIF of the GSIS. The GIF was established in order to indemnify or compensate the Government for any damage to, or loss of, its properties due to fire, earthquake, storm or other casualty. Section 5 of the same RA states that:

*Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any*

*insurable risk herein provided and pay the premiums thereon, which however, that the System reserves the right to disapprove the whole or portion of the amount of insurance applied for: Provided, further, that such property or part thereof as may not be insurable or acceptable for below first class may upon application insure its properties in the Fund under such rules and regulations as the System may prescribed.*

23.2 The premiums paid by the CDO, NDO and SDO to the GSIS for their properties amounted to P4.360 million. However, insurable PE as shown in the books of accounts/financial statements of the CDO, NDO and SDO as of December 31, 2015 amounted to P996.222 million, P131.178 million and P43.167 million, respectively, showing a total variance of P9.476 million from the amount insured by the NCR, as shown in Table 64. Evaluation disclosed that the variance of P9.476 million occurred because the basis for the payment of premium was the inventory report of PE as of July 31, 2015, instead of the inventory report as of December 31, 2015.

**Table 64 - CY 2016 Insurable and Insured NFA PPE/Properties**

<b>NFA Office</b>	<b>Balance of PPE as of Dec. 31, 2015/ Cost of Insured Stocks as of Dec. 23, 2015/ March 2016 (a)</b>	<b>Cost of Insured Properties (b)</b>	<b>Balance of Uninsured Properties (a-b)</b>
CDO	P 996,221,745	P 994,377,589	P 1,844,156
NDO	131,178,294	128,496,126	2,682,168
SDO	43,166,667	38,217,171	4,949,496
	<b>P 1,170,566,706</b>	<b>P 1,161,090,886</b>	<b>P 9,475,820</b>

23.3 The non-insurance of PE in the total amount of P9.476 million exposed the Agency to the risk of non-indemnification or non-compensation in case these will suffer any damage or loss due to fire, earthquake, storm or other fortuitous event. The practice of using the inventory report of PE as of July 31 in a given year as basis for insuring PE the following year could expose the PE acquired from August to December in a given year to risk of non-indemnification in case of loss/damage due to fortuitous events.

23.4 In CDO, it was also noted that a motor vehicle bought by the NCR at P279,000 in CY 2008 was transferred to CDO. Although the vehicle was already recorded in the books, the registration has not been transferred yet in the name of CDO. Hence, this was not included in the PE insured with the GSIS, but was insured with a private insurance company with insurance premium of P960 paid during the year.

23.5 Moreover, in SDO, pieces of properties classified under Office Building, Technical, Scientific Equipment and Other Property, Plant and Equipment accounts with total cost of P26.769 million were insured at P41.849 million resulting in an overstatement of P15.080 million; thus, the Agency incurred unnecessary expense.

23.6 Inventory report of physical assets, insurance and bonding of risks with the GIF of the GSIS were also not submitted by Management to the COA Auditor contrary to COA Circular No. 92-390 dated November 17, 1992. The said Circular provides for the inventory of physical assets, insurance and bonding of risks with the GIF. It covers all insurable physical assets as well as contracts, rights of action, and other insurable risks of government agencies, government-owned and/or controlled corporations and their

subsidiaries/affiliates and acquired asset corporations, including all those in which these agencies or offices have an insurable risk and all those in which they have an insurable interest.

23.7 The said Circular, which first required the submission of the latest inventory report as of December 31, 1991 not later than October 31, 1992, also provides that the inventory be undertaken every year thereafter and submitted not later than October 31 of the ensuing year and that the COA Auditor shall verify the correctness of the said inventory report. Thus, it could not be determined if all insurable assets and properties of CDO and NDO are adequately covered/insured with the GIF in view of the non-submission of said inventory report.

**23.8 We recommended that Management:**

- a. Insure all insurable PE/properties with the GSIS pursuant to Section 5 of RA No. 656, as amended by PD No. 245 dated July 13, 1973;**
- b. Discontinue the practice of using the Inventory Report of PE/properties as of July 31 of any given year as basis for insuring PE/properties the following year, instead utilize as basis the Inventory Report as of December 31 of any given year or the inventory nearest to the date/s of insurance/re-insurance of the PE/properties;**
- c. Exert efforts to immediately transfer the registration of the motor vehicle in the name of CDO and insure the same with the GSIS; and**
- d. Submit to the Audit Team an inventory report of physical assets (with details), insurance and bonding of risks with the GIF of the GSIS not later than October 31 every year pursuant to COA Circular No. 92-390 dated November 17, 1992.**

**23.9 The comments of the following NFA- NCR District Offices are as follows:**

- a. CDO-** It is the Property Inventory System (PIS) used by the CDO Supply Officer that determines which would be insured with GSIS. The system selected only those PE which were P10,000 and above in amount, thus, PE which were less than P10,000 were the uninsured PE. The registration of the motor vehicle (VBH-597) was not transferred in the name of CDO because most of the requirements required by the Land Transportation Office (LTO) can only be produced and accomplished by the original owner. It would submit to the Audit Team the inventory report on physical assets (with details), insurance and bonding risks with the GIF of the GSIS not later than October 31 of the ensuing year pursuant to COA Circular No. 92-390 dated November 17, 1992.
- b. NDO-** The existing NFA guidelines provides that fixed assets/property, plant and equipment to be insured with GSIS should cost at least P10,000 and above. There were no received/acquired pieces of PE which exceeded said threshold from August 1 to December 31, 2015. The uninsured PE totalling P2.682 million represent PE with acquisition cost of less than P10,000. Meanwhile, the deadline of submission for the List of Insurable Properties for the ensuing year at NCR is

first week of November. As such, the list of insurable properties generated and submitted to NCR is as of October 31 of any given year and not July 31. In compliance with COA Circular No. 92-390, NDO commits to submit the required PE inventory report as of December 31 and the list of insurable properties effective CY 2017.

c. SDO- It will coordinate with RO on different steps to be taken and appropriate adjustments to be made to ensure that properties are covered with adequate insurance in accordance with RA No. 656, as amended by PD No. 245 dated July 13, 1973.

23.10 As rejoinder, Management's commitment to coordinate with RO on the different steps to be taken/made and to comply with COA Circular No. 92-390 on the submission of the required PE inventory report starting CY 2017 is appreciated. However, **we further recommended that NDO and CDO submit a list of the uninsured PE amounting to P2.682 million which the Administrative Section claimed as PE with acquisition cost of less than P10,000 that were not included in the list of insurable PE, for verification of the Audit Team.**

#### **Implementation of e-IFOMIS Project**

**24. The completion of the e-IFOMIS Project amounting to P14.448 million contracted by NFA with COMFAC Corporation on April 16, 2009 was considerably delayed by 1,280 days as of December 31, 2016 from the latest time extension up to June 30, 2013, with computed liquidated damages of P1.445 million. Thus, the NFA was deprived of the benefits to be derived therefrom. In addition, the three requests for time extension were granted even if most of the reasons/justifications could not be considered as caused by force majeure or fortuitous event, thereby unnecessarily prolonging the Project implementation period; while contract for time extension after June 30, 2013 could not be provided by NFA despite verbal and written requests which casts doubt on the validity of the continuous implementation thereof.**

24.1 From October 2006 to March 2007, a Review of NFA Operational Efficiency and Effectiveness was undertaken under the sponsorship of the Philippines-Australia Partnership for Economic Governance Reform (PAEGR). This Project was undertaken by the PDP Australia Pty Ltd., a consulting firm contracted by the Department of Finance (DOF) to review the NFA operations. One of the PDP's priority recommendations that require immediate action by the NFA was the development and implementation of new Electronic Integrated Financial and Operations Management Information Systems (e-IFOMIS) and strengthening of the NFA's finance and accounting functions.

24.2 In compliance with the PDP's recommendation, the NFA published on October 23, 2008 an Invitation to Apply for Eligibility and to Bid intended for the Design, Development, and Establishment of e-IFOMIS with an Approved Budget for the Contract (ABC) of P15 million. A public bidding was conducted on January 27, 2009, then after the stringent and comprehensive two-step bid and evaluation process, the contract was awarded to COMFAC Corporation (COMFAC for brevity), referred to as the Consultant, on February 23, 2009 for the amount of P14.448 million. Upon compliance with the Performance Security requirement, a Notice to Proceed was issued to COMFAC on March 9, 2009. Subsequently, the contract was signed on April 16, 2009.



24.3 The objectives of the e-IFOMIS are the following:

- a. To institutionalize into the operations of the NFA acceptable systems and standards to promote transparency, strengthen integrity and accountability in all its government-business transactions in support of the National Government's efforts against corruption through good governance.
- b. To build-up an up-to-date database that would aid NFA Management to implement internal decision-making and effective control system to cut/control NFA's operational losses while simplifying and speeding up agency processes.

24.4 The e-IFOMIS is divided into three (3) Project stages, namely: Phase I- System Analysis and Design Development; Phase II- Training and Pilot Testing; and Phase III- Systems Maintenance. The deliverables and amounts per phase of the project are shown in Table 65.

**Table 65 - Summary of the Cost of Contract**

<b>Phase</b>	<b>Deliverables</b>	<b>Amount</b>
I. Application Development	1. Project Management Plan	P 498,400
	2. "AS-IS" Process Documentation, "TO-BE" Process Documentation, and Technical Specification of Computing Architecture	996,800
	3. Module Specifications Documentation	996,800
	4. E-IFOMIS Application System	1,993,600
	5. Users' Acceptance Testing Documentation	498,400
	6. POAT Documentation	498,400
	7. Technical Documentation, System Control and Security, Communication Plan/Change Management Plan, Risk Management Plan, Disaster Recovery and Back-up Plan, and Users' Manual	498,400
	8. Final Payment	3,987,200
		<b>9,968,000</b>
II. Training	1. Training Certificate, Materials and Manuals for Database Administration Training for three (3) participants	204,400
	2. Training Certificate, Materials and Manuals for Security Administration Training for five (5) participants	252,280
	3. Training Certificate, Materials and Manuals for Executive Training for 10 participants	200,000
	4. Training Certificate, Materials and Manuals for System Installation and Maintenance Training for 15 participants	231,660
	5. Training Certificate, Materials and Manuals for End-User Training for 15 participants	231,660
		<b>1,120,000</b>
III. System Maintenance	Maintenance and Support Program (P0.840 million/month for four (4) months)	3,360,000
		<b>3,360,000</b>
<b>Total</b>		<b>P 14,448,000</b>

24.5 On September 9, 2009, NFA issued a Certificate of Acceptance for the Project Management Plan, which is the first activity in Phase I, to COMFAC. Subsequently, the first progress was billed by COMFAC and paid by NFA. However, on December 2009, when Phase I of the Project was 53 per cent completed, COMFAC had identified that the original estimated effort to complete the design and development of the e-IFOMIS was not feasible (six months for Phase I) due to the following reasons:

- a. Detailed requirements of the Project;
- b. Collection of forms and reports, which were supposed to be used as basis for design, took longer than expected;
- c. Conflict in schedule of both parties due to internal activities; and
- d. Occurrence of unanticipated official non-working holidays/natural calamities, namely: Ondoy and Pepeng.

24.6 Thus, the contract completion was extended from April 16, 2010 to November 19, 2010. It is worthy to note that the amendment for the extension was approved by the Agency on January 13, 2010, but the contract amendment was only notarized on the 28th of May 2010.

24.7 On July 15, 2010, a subsequent extension was requested by e-IFOMIS Technical Working Group (TWG) and Steering Committee (SC). The contract, extending the contract time from November 20, 2010 to December 31, 2011, was executed by the two parties on May 30, 2011, or six months after the expiration of the preceding contract. The reasons cited for the extension are the following:

- a. Testing of automatic generation of JEV will require more time to examine due to various types of transactions;
- b. Testing of approximately 260 various reports;
- c. The need to incorporate procedures and processes that were not earlier mentioned by NFA Business Expert Team, but which NFA Management deemed necessary to be included in their design;
- d. Two (2) months pilot testing instead of one (1) month due to voluminous preparation of data; and
- e. One (1) month to allow TWG and NFA Business Expert Team to prepare the input document for system integration testing.

24.8 During the Process Documentation and Technical Specification Architecture, another extension of the contract was signed on December 4, 2012 which extended the completion period up to June 30, 2013. While the request for extension was made on December 15, 2011 which was prior to the validity of the contract which was December 31, 2011, the contract for extension was executed by the two parties only on December 4, 2012 which is almost a year after the validity of the preceding contract for extension. The reasons for the extension cited by COMFAC are as follows:

- a. There were processes that were not mentioned during the systems investigation but were identified and requested to be added by the NFA-TWG and process owners during the presentations of the e-IFOMIS Project Modules. The incorporation of these processes entails additional man-hours on the part of COMFAC and requires more presentations with the NFA-TWG.

b. There were instances where changes to the reports and new reports were identified by the NFA-TWG and the process owners during report presentations. COMFAC needs to incorporate these new reports in the modules which require additional time.

c. Error logs identified during previous presentations were not yet incorporated, thereby requiring more time to complete.

24.9 Section 24 on Force Majeure of the Contract provides the following, among others:

*For purposes of this contract, the terms “force majeure” and “fortuitous event” may be used interchangeably. In this regard, a force majeure” or “fortuitous event” shall be interpreted to mean an event which the Consultant could not have foreseen, or which though foreseen, was inevitable. It shall not include ordinary unfavorable weather conditions; and any other cause the effects of which could have been avoided with the exercise of reasonable diligence by the Consultant. [Section 24.1]*

*A Party affected by an event of force majeure shall notify the other party of such event as soon as possible, and in any event not later than fifteen (15) days following the occurrence of such event, providing evidence of the nature and cause of such event, and shall similarly give notice of the restoration of normal conditions as soon as possible. [Section 24.5]*

*Any period within which a Party shall complete any action or task, shall be extended for a period equal to the time during which such party was unable to perform such action as a direct and proximate result of an event of force majeure. [Section 24.7]*

24.10 It was noted that most of the reasons/justifications provided in the requests for time extension could not be contemplated as within the ambit of force majeure or fortuitous event. Except for the occurrence of unanticipated official non-working holidays/natural calamities which were “Ondoy” and “Pepeng” in the first contract time extension, the rest of reasons/justifications should have been foreseen by COMFAC, or might be considered to have been caused by the negligence or intentional inaction by both parties.

24.11 Based on the Report of the Corporate Planning and Management Services Department (CPMSD) - Information System Development Division (ISDD), the e-IFOMIS Project was 96.21 per cent completed as of December 31, 2016. However, this percentage of completion cannot be validated due to lack of pertinent documents. In view thereof, the Audit Team requested for documents to support the reported percentage of completion, including the contract for time extension after June 30, 2013. However, CPMSD-ISDD which provided the said Report could not readily provide the requested documents. Hence, there is a substantial doubt in the Project's actual percentage of accomplishment as at year-end of CY 2016.

24.12 For CYs 2009 to 2016, four (4) progress billings for a total of P1.931 million were issued by COMFAC to NFA. As shown in Table 66, payments made for reported accomplishments amounted to P1.617 million (net of tax) as of December 31, 2016.

**Table 66 - Progress Billings and Payments to COMFAC**

<b>Date</b>	<b>Check</b>		<b>Gross Amount</b>	<b>Particulars</b>
	<b>No.</b>	<b>Amount</b>		
10/21/09	30716	P 417,410	P 498,400	1 <sup>st</sup> Progress Billing for the Project Management Plan for the Design, Development and Establishment of e-IFOMIS.
12/10/12	158768	834,820	996,800	2 <sup>nd</sup> Progress Billing for "As Is" process documentation, "To Be" process documentation and Technical Specification of computing architecture.
5/31/16	195417	171,185	204,400	3 <sup>rd</sup> Progress Billing for the Database Administration Trainings conducted by COMFAC on September 1-3, October 18-22, 26-28, and December 1-3, 2010.
10/17/16	197430	194,015	231,660	4 <sup>th</sup> Progress Billing for the Systems Installation and Maintenance Training conducted on May 31-June 1, 2012.
<b>Total</b>		<b>P 1,617,430</b>	<b>P 1,931,260</b>	

24.13 From the latest and last amendment of the contract on extension of period/duration of the Project, the last day of completion should have been on June 30, 2013. Hence, there was already an undue delay in the completion of the Project that is way beyond the agreed period/date. The summary of the dates or period/duration of the original contract as well as the series of extensions are presented in Table 67.

**Table 67 - Original and Extensions of Contract Period**

<b>Particulars</b>	<b>Requesting Party</b>	<b>Date of Request</b>	<b>Contract Period/Duration</b>	<b>Date of Contract</b>
Original Contract			4/16/09 - 4/15/10	4/16/09
First Extension	COMFAC	12/14/09	4/16/10 - 11/19/10	1/13/10
Second Extension	e-IFOMIS TWG and SC	7/15/10	11/20/10 - 12/31/11	5/30/11
Third and Last Extension	COMFAC	12/15/11	1/1/12 - 6/30/13	12/4/12

24.14 The Contract for the Design, Development and Establishment of e-IFOMIS provides:

**41. Performance Security**

*To guarantee the faithful performance by the winning bidder of its obligations under this Contract proposed in accordance with the bidding, it shall post a performance security upon the signing of this Contract. The proceeds of the performance security shall be payable to the NFA as compensation for any loss resulting from the Consultant's failure to complete its obligations under this Contract.*

**55. Liquidated damages for Delay**

*If the Consultant fails to deliver any or all of the Services within the period(s) specified in this Contract, the NFA shall, without prejudice to its other remedies under this Contract and under the Applicable Law, deduct from the contract price, as liquidated damages, a sum equivalent to one-tenth of one per cent of the price of the unperformed portion of the Services for each day of delay based on the approved contract schedule*

*up to a maximum deduction of ten percent (10%). Once the maximum is reached, the NFA may consider termination of this Contract pursuant to Clause 26.*

24.15 Under Article 1159 of the Civil Code, “*obligations arising from contracts have the force of law between the contracting parties and each party is bound to comply in good faith.*” Contractual ties give rise to obligations on the part of the contracting parties. Thus, the terms and conditions expressed in the contract becomes the law between the parties and a source of right to demand performance of the obligation from the other party. The undue delay in the completion of the Contract gave NFA basis to forfeit the performance security as well as collect liquidated damages for the delay.

24.16 Based on the third and last approved extension of Project duration, it should have been completed on June 30, 2013, or has a delay of 1,280 days as of December 31, 2016. In the absence of documents to support the actual accomplishments as at said date, the liquidated damages due from the supplier for such delay amounted to P1.445 million, as shown in Table 68.

**Table 68 - Computation of Liquidated Damages as of December 31, 2016**

Contract Price	P 14,448,000
Less: Performed Services based on available Progress Billings:	
1st	498,400
2nd	996,800
3rd	204,400
4th	231,660
Total Progress Billings	1,931,260
<b>Unperformed Portion of Contracted Services (UPCS)</b>	<b>P 12,516,740</b>
UPCS- Base Amount (BA)	P 12,516,740
Rate of liquidated damages (1/10 of 1%)	0.001
No. of Days Delay (7/1/2013 - 12/31/2016)	1,280
Liquidated Damages (BA x Rate x No. of Days Delay)	P 16,021,427
Maximum Amount of Liquidated Damages:	
10% of Contract Price	P 1,444,800
<b>Liquidated Damages Due from COMFAC</b>	<b>P 1,444,800</b>

24.17 Despite the significant delay in Project implementation and the absence of amendment to the Contract for the extension of contract time, NFA still paid the third and fourth progress billings amounting to P436,060 without due regard to the stipulations in the Contract. The NFA could have deducted the liquidated damages for the delay from the subsequent payments. As a result of such inaction, the NFA was not compensated for the delayed implementation of the Project.

24.18 As to the purpose of the Project which aims to aid NFA Management to implement internal decision-making and effective control system while simplifying and speeding up agency processes, the NFA was deprived of the benefits to be derived therefrom.

**24.19 We recommended that Management:**

- a. Deduct the amount of liquidated damages due from the subsequent payments to be made to COMFAC;**
- b. Submit to the Audit Team certified copies of the contract for time extension after June 30, 2013, and the documents supporting/showing the percentage of Project accomplishment as of June 30, 2013 and the 96.21 per cent accomplishment as of December 31, 2016; and**
- c. Henceforth, rigorously monitor the implementation of contracts entered into to ensure that contract stipulations are strictly performed/enforced to avoid wastage of public funds.**

**24.20 Management provided the following comments:**

- a. The submitted performance/security bond posted from private insurance had prescribed. NFA will apply applicable compensation for any NFA losses from contractor's existing claims.
- b. The NFA will deduct the amount of liquidated damages due from the subsequent payments to COMFAC.
- c. It was stated in Item No. 2, page 2 of the extension contract for the design, development and establishment of e-IFOMIS, to wit:

*That the Consultant will definitely finish the project on 30 June 2013, inclusive of four (4) months systems maintenance, without further extension. Should the consultant fail to complete the project within the period stated, they shall be bound to complete the same at their own expense. This is without prejudice to the applicable penalties and other remedies provided under paragraph 55 of the original contract.*

- d. The e-IFOMIS Steering Committee will convene as soon as possible to prepare future plans and programs in order to monitor the implementation of the Project.

24.21 As a rejoinder, we appreciate Management's willingness to comply with the audit recommendations. However, we will monitor the strict implementation thereof in CY 2017.

**Cash Shortage Noted in the Cash Examination**

**25. Accumulated cash shortage in the total amount of P2.061 million was established on the cash and accounts of the designated Collecting Officer of NFA Abra PO for undeposited collections; thus, resulting in the loss of government funds.**

25.1 Section 111 of GAAM, Volume I, provides for the frequency of depositing national collections. It states that, *“If the distance of the Office to the Bureau of the Treasury and Depository Bank is less than 15 kilometers and the travel time is less than 1 day, whenever the accumulated collection is P500.00 or more, the deposit must be daily.”*

25.2 Moreover, Item B(1) of NFA SOP No. FS-CS07.B dated December 29, 2006, otherwise known as Amendment/Addendum to the SOP on Cash Collection and Deposits, provides that:

***Daily check and cash collections from various sources shall be deposited on or before 3:00 o'clock on the day the collection has been made. All Provincial Managers/C.O.-Cash Division shall institute a cut-off time for their daily collection which shall be before the close of the banking hours to give enough time for the Regular Collecting Officers (RCO) to deposit their collections for the day. Likewise, all Provincial Managers/C.O.- Cash Division shall ensure that there must be no undeposited collection at the end of the day.*** [Emphasis supplied]

25.3 Examination conducted on the cash and accounts of the Cashier III, designated Collecting Officer of NFA Abra PO covering the period from November 12, 2012 to September 17, 2014, disclosed the following observations:

- a. Recordings in the cashbooks for collections were unreliable because of numerous incorrect totals of daily entries, most of which represent deposits. Several erroneous monthly footings were also noted.
- b. Based from the daily Report of Collections and Deposits (RCD), various amounts reported thereon as deposits were supported with bank validated deposit slips bearing different validation dates. The Audit Team also observed that the dates of validation of several deposit slips were seemingly altered making it appear that collections had been deposited intact during the day; others were erased making it unreadable to conceal the true dates of deposits. Specific examples of daily RCDs supported with bank validated deposit slips bearing different validation dates are presented in Table 69.

**Table 69 - Sample of Entries in the RCD**

	Date of Deposit per RCD	Fund	Reported Amount of Deposit Per RCD	Particulars of the Attached Deposit Slips of the RCD on May 4, 2014	
				Validation Date	Amount
1.	May 4, 2014	IRC	P 426,350	May 5, 2014	P 12,500
				May 6, 2014	302,600
				May 7, 2014	111,250
	<b>Total</b>		<b>P 426,350</b>		<b>P 426,350</b>
2.	May 28, 2014	RCA	P 250,250	Unreadable*	P 237,750
				May 29, 2014	12,500
	<b>Total</b>		<b>P 250,250</b>		<b>P 250,250</b>

\* The deposit slip with unreadable validation date appeared to have been erased. The amount of P237,750 was confirmed or verified from the bank statement as a cash deposit made on May 30, 2014.

25.4 Moreover, the amount of P0.645 million reported as a deposit on December 28, 2012 in the daily RCD under the Cereal Procurement Fund (CPF) was supported with validated deposit slip found to be not authentic as such amount was not credited both in the bank statements of the PO and HO which had also been confirmed by Abra PO through the NFA Regional Investigator from Philippine National Bank, Bangued Branch, Bangued, Abra.

25.5 Analysis of collections and deposits disclosed that daily collections were not deposited intact to Abra PO's depository bank ranging from P45.00 to P3.835 million as verified in the daily RCD, contrary to Section 111 of GAAM, Volume I and Item B(1) of NFA SOP No. FS-CS07.B. Lapping scheme was employed to cover up undeposited collections of the previous day/s.

25.6 After thorough review and analysis of the accountabilities of the designated Collecting Officer, a cash shortage of P3.195 million as of September 17, 2014 reduced by settlements and/or restitutions made during the period from September 18, 2014 to October 21, 2014 totaling to P1.134 million thus, the net total cash shortage of P2.061 million was established on May 23, 2016, computed as follows:

Total Debits to Accountability	P 102,544,558.73
Less: Total Credits to Accountability	99,349,575.41
Balance of Accountability as of September 17, 2014	P 3,194,983.32
Less: Credits to Accountability representing settlements and/or restitutions made for the period September 18, 2014 to October 21, 2014	1,134,250.00*
<b>Shortage</b>	<b>P 2,060,733.32</b>

\* Please see Table 70

25.7 The breakdown of settlements and/or restitutions made in the amount of P1.134 million is presented in Table 70.

**Table 70 - Breakdown of Settlements and/or Restitutions**

Date	RCA	IRC 15%	Total	Remarks
9/18/14	P 81,250	P 484,500	P 565,750	Verified to have been deposited by the Collecting Officer to NFA Abra's PNB RCA and IRC 15 per cent bank accounts.
9/19/14	82,500	124,000	206,500	
9/22/14	-	60,000	60,000	
9/25/14	-	130,000	130,000	
10/21/14	-	172,000	172,000	Paid to the Acting Cashier per OR No. 0554984.
<b>Total</b>	<b>P 163,750</b>	<b>P 970,500</b>	<b>P 1,134,250*</b>	

25.8 Meanwhile, on September 17, 2014 at around 4:25 p.m., the NFA Provincial Evaluation Team conducted cash count/cash examination on the designated Collecting Officer's cash accountabilities for the period September 1-17, 2014 pursuant to Office Order '2014 No. ABR-I-004. The Evaluation Team discovered a shortage on the cash and accounts of the designated Collecting Officer which resulted in her immediate relief from her duties and responsibilities on September 18, 2014 per Office Order 2014 No. ABR-I-001A. Simultaneously, on that same day, the Accounts Analyst was designated as the Acting Cashier by virtue of Office Order '2014 No. ABR-I-001 dated September 18, 2014.



25.9 The concerned Audit Team also noted that the Accounting Section had set up in the books a receivable from the former designated Collecting Officer amounting to P0.848 million on September 30, 2014 under JEV No. 14-09-109, reclassifying the erroneous entries made on collections previously recorded in the books to have been deposited on April 23, 2012 and December 28, 2012 in the amounts of P202,500 and P0.645 million, respectively. Subsequently, these were also erroneously recorded as remitted to HO bank accounts. The setting up of receivable from the former Collecting Officer was the result of initial investigation through confirmation made by NFA Abra PO from PNB Bangued Branch that no deposit transactions were made on said dates and that the deposit slips were fake or not genuine. The restitution/restoration of her cash shortage as a result of the initial investigation conducted by Management amounting to P0.848 million was demanded by the Provincial Manager, Abra PO in a letter dated February 11, 2015.

25.10 Subsequently, on July 23, 2015, an Order of Preventive Suspension for a period of 90 days signed by the Administrator coded as AO-OPS-No. 07-003 was served to the Collecting Officer in view of Administrative Case No. 15-07-013 for Serious Dishonesty; Grave Misconduct Prejudicial to the Best Interest of the Service that was filed by the NFA against her. The Collecting Officer had served her preventive suspension order for the period July 23, 2015 to October 21, 2015.

25.11 A Demand Letter dated May 23, 2016 was served at 4:30 p.m. to the former Collecting Officer on June 10, 2016 for the immediate production of the missing funds. However, the amount of shortage was not restituted up to the present.

25.12 On June 14, 2016, a Withholding Order of even date was served to the Officer in Charge, NFA Abra PO, directing her to withhold payment of the salary and other emoluments of the defaulting officer.

25.13 A belated response to the Demand Letter was received by the Audit Team on June 22, 2016, wherein the former Collecting Officer stated that she tried to collate all the documents she had in her custody, but she experienced difficulty reconciling the amount being demanded. She also informed that when she was initially demanded by NFA Management the amount of P0.848 million, she honestly admitted that she used it to assist in the financial expenses of her mother and sister-in-law who are suffering from cancer and undergoing medical treatment. She also said that she does not intend to “renege” her obligation to pay, but she was just appealing for humane consideration that to restitute the amount, she offered her retirement benefits and the full monetization of her leave credits to cover the shortage.

25.14 Under the circumstances, a prima facie case of malversation of public funds is found against the Cashier III. Article 217 of the Revised Penal Code of the Philippines, on the malversation of public funds or property; presumption of malversation states that:

*Any public officer who, by reason of the duties of his office, is accountable for public funds or property, shall appropriate the same, shall take or misappropriate or shall consent, or through abandonment or negligence, shall permit any other person to take such public funds or property, wholly or partially, or shall otherwise be guilty of the misappropriation or malversation of such funds or property, shall suffer:*

Xxxx

*4. The penalty of reclusion temporal in its medium and maximum periods, if the amount involved is more than twelve thousand pesos but is less than twenty-two thousand pesos. If the amount exceeds the latter, the penalty shall be reclusion temporal in its maximum period to reclusion perpetua.*

*In all cases, persons guilty of malversation shall also suffer the penalty of perpetual special disqualification and a fine equal to the amount of the funds malversed or equal to the total value of the property embezzled.*

**25.15 We recommended that Management require the Provincial Manager of Abra PO to:**

- a. File appropriate charges against the defaulting Accountable Officer; and**
- b. Exercise closer supervision over accountable officers to prevent misuse or misapplication of funds.**

**25.16 Management gave the following comments:**

- a. The preparation of criminal case by LAD is still underway because one of the requirements to formally charge the Cashier III is the cash examination report of COA. The audit findings and recommendations of COA were forwarded to the LAD on June 15, 2016.
- b. During the exit conference, Management informed that the Cashier made a compromise agreement with NFA relative to the settlement of her shortage which the Audit Team requested to be furnished with a copy for review.

**25.17 As an audit rejoinder, we further recommended that HO Management constantly follow-up the filing of appropriate charges against the erring accountable officer.**

## **B. PERFORMANCE/OPERATIONS**

### **Rice Importation**

**26. The absence of Certification issued by the Vessel Master attesting that the vessel is already in Philippine Waters as the basis of the actual date of arrival of carrying vessel at designated port of discharge precluded the determination of the correct amount of penalty based on the schedule of Grain and Feed Trade Association (GAFTA) 122, on delayed delivery/arrival of contracted imported rice imposed and deducted from the payments by NFA to the Department of Foreign Trade (DFT), Ministry of Commerce, Kingdom of Thailand.**

26.1 To stabilize the price and supply of basic commodities particularly rice, the NFA resorted to importation in CY 2016 to augment the domestic production. On July 27, 2016, the NFA Council through Resolution No. 832-2016-G approved the importation of maximum 500,000 metric tons (MT) on a Government-to-Government (G to G) procurement, with the provision to contract 250,000 MT as soon as possible to ensure its arrival within the lean months. On August 8, 2016, Council Resolution No. 833-2016-H was issued through which the Terms of Reference for the importation of 250,000 MT rice supply was approved.

26.2 On September 16, 2016, the NFA entered into contracts with the Department of Foreign Trade (DFT), Ministry of Commerce, Thailand and Vietnam Southern Food Corporation (Vinafood II) for the importation of 250,000 MT of rice amounting to US\$106.213 million. The contracts were on Cost, Insurance and Freight- Delivery at Place- Free on Warehouse (CIF-DAP-FOW) terms wherein the seller is responsible for making safe delivery of goods to the buyer's appointed/assigned discharge ports up to the buyer's designated warehouse/s, paying all the expenses except the customs duty. The breakdown is shown in Table 71.

**Table 71- Rice Importation of 250,000 MT**

Supplier	Commodity Specification	Contract Date	Quantity (in MT)	Unit Price (in US\$)	Amount (in US\$)
Thailand	25% broken, well-milled long grain white rice	9/16/16	100,000	424.85	42,485,000
Vinafood II	25% broken, well-milled long grain white rice	9/14/16	150,000	424.85	63,727,500
<b>Total</b>					<b>106,212,500</b>

26.3 Articles III and IV of the two contracts provide for the quantity, price and delivery/arrival period of the imported rice wherein the first tranche of delivery would be not later than September 30, 2016. However due to the request of the two suppliers for extension of delivery period for 14 days, the NFA Council upon recommendation of Management, approved the amendment to the contract specifically on the delivery period as presented in Table 72.

**Table 72- Delivery Schedule of the Rice Importation of 250,000 MT as Amended**

Supplier	Delivery Schedule	Quantity (in MT)
Thailand	Not later than October 14, 2016	40,000
	Not later than October 31, 2016	60,000
<b>Sub-total</b>		<b>100,000</b>
Vinafood II	Not later than October 14, 2016	60,000
	Not later than October 31, 2016	90,000
<b>Sub-total</b>		<b>150,000</b>
<b>Total</b>		<b>250,000</b>

26.4 Among the provisions of the contract pertaining to the imposition of penalty for arrival of shipments beyond the delivery schedule are the following:

#### Article IV- Delivery/Arrival Period

*Xxx. Otherwise, penalty on shipments beyond the arrival period shall be imposed as per Grain and Feed Trade Association (GAFTA) 122's schedule of penalty on shipment extension to apply on undelivered volume.*

#### Article XIX- GAFTA Provisions

*For all other terms and conditions which are not in contravention with the above terms and conditions, GAFTA 122 shall prevail and shall form an integral part of the contract.*

#### Article XX – Default and Penalties

##### 2. Delayed/Late Deliveries

*a. If the shipments are not delivered in accordance with the delivery schedule stipulated herein and/or agreed upon by both the Buyer and the Seller, the SELLER shall be liable for penalty on shipments beyond the period as per GAFTA 122's schedule of penalty on shipment extension, except if the reasons and/or if the reasons for delay is/are due to force majeure, not due to the fault of the SELLER, and/or if the reasons for the delay is/are acceptable to the NFA Council. Any request by the SELLER for extension of delivery of stocks shall be in writing and shall be submitted to the BUYER not later than five (5) working days before the due date(s) of delivery as provided in the Terms of Reference.*

*b. For purposes of determining delay in delivery, the basis of the actual date of arrival of carrying vessel at designated port of discharge shall be a Certification issued by the Vessel Master attesting that the vessel is already in Philippine Waters.*

*c. GAFTA penalties imposed on resolved deliveries shall be deducted from BUYER's payable to SELLER.*

26.5 Moreover, Article 10 of the GAFTA 122 stipulates the imposition of penalties for delayed/late deliveries, quoted as follows:

##### 10. EXTENSION OF SHIPMENT

*The contract period for shipment, if such be 31 days or less, shall be extended by an additional period of not more than 15 days, provided that Sellers serve notice claiming extension not later than the next business day following the last day of the originally stipulated period. The notice need not state the number of additional days claimed.*

*Sellers shall make an allowance to Buyers, to be deducted in the invoice from the contract price, based on the number of days by which the originally stipulated period is exceeded, in accordance with the following scale:*

1 to 7	additional days	no allowance;
8 to 11	additional days	0.50%;
12 or 13	additional days	1.00%;
14 or 15	additional days	1.50% of the gross contract price

*If, however, after having served notice to Buyers as above, Sellers fail to make shipment within such 15 days, then the contract shall be deemed to have called for shipment during the originally stipulated period plus 15 days, at contract price less 1.50%, and any settlement for default shall be calculated on that basis. If any allowance becomes due under this clause, the contract price shall be deemed to be the original contract price less the allowance and any other contractual differences shall be settled on the basis of such reduced price.*

26.6 For the NFA's contract with DFT-Thailand, there were three shipments that arrived for the scheduled arrival of 40,000 MT of rice on October 14, 2016 while, as of November 5, 2016, the contracted quantity of 100,000 MT of rice fully arrived. As such, there was a delay of 55 days for the 40,000 MT for which only 42 days are subject to GAFTA penalty which amounted to US\$29,739.50 or P1.429 million (based on exchange rate at actual time of arrival) for the extension of shipment per GAFTA 122 schedule. The details of shipments and the computation of penalty are summarized in Table 73.

**Table 73- Actual Arrival of 100,000 MT of Rice and Penalty Computation**

Date of Arrival	Vessel	Quantity (in MT)	Quantity Subject to GAFTA (in MT)	No. of Days Delayed	GAFTA Penalty (US\$)	Date of Payment/ Negotiation	Amount Paid	
							US\$	PhP
<b>For Not Later Than October 14, 2016- 40,000 MT</b>								
10/2/16	MV PHC Maritime	8,300	8,300	0	No penalty	11/16/16	3,521,516.48	173,188,180.49
10/6/16	MV Vinh An	6,000	6,000	0	No penalty	11/16/16	2,541,361.46	124,984,156.60
10/6/16	MV Bangsakao	7,200	7,200	0	No penalty	12/2/16	3,048,424.28	151,598,139.44
10/18/16	MV Phuong Nam 68	5,000	5,000	4	No penalty	12/2/16	2,118,207.62	105,338,464.94
10/23/16	MV Pasco 86	4,900	4,900	9	10,408.83	12/15/16	2,074,256.57	103,567,630.54
10/24/16	MV Star 126	3,750	3,750	10	7,965.94	12/2/16	1,587,369.07	78,939,863.85
10/25/16	MV Thruong Minh 99	4,350	4,350	11	9,240.49	1/23/17	1,841,314.76	91,844,780.23
10/26/16	MV My An	7,500	500	12	2,124.25	12/15/16	3,169,327.98	158,244,546.04
<b>Sub-total</b>		<b>47,000</b>	<b>40,000</b>		<b>29,739.51</b>		<b>19,901,778.22</b>	<b>987,705,762.13</b>
<b>For Not Later Than October 31, 2016- 60,000 MT</b>								
10/26/16	MV May An	-	7,000	-	No penalty	12/15/16	-	-
10/26/16	MV Shipmarin Victory	6,300	6,300	-	No penalty	12/15/16	2,645,935.93	132,111,580.98
10/26/16	MV Pasco 98	4,900	4,900	-	No penalty	1/10/17	2,080,001.26	103,147,262.48
10/30/16	MV Vinaship Diamond	22,800	22,800	-	No penalty	5/5/17	9,547,768.52	476,242,693.78
11/4/16	MV Dai Duong Sunrise	6,000	6,000	4	No penalty	12/15/16	2,446,510.15	122,154,251.79
11/5/16	MV My Vuong	13,000	13,000	5	No penalty	1/23/17	5,495,889.15	274,134,950.80
<b>Sub-total</b>		<b>53,000</b>	<b>60,000</b>		<b>-</b>		<b>22,216,105.01</b>	<b>1,107,790,739.83</b>
<b>Total</b>		<b>100,000</b>	<b>100,000</b>		<b>29,739.51</b>		<b>42,117,883.23</b>	<b>2,095,496,501.96</b>

26.7 As of May 5, 2017, DFT-Thailand was paid for all the deliveries made as shown in Table 73. Review of the payments made by NFA disclosed that the penalties for the noted delays in arrival were already deducted from the payments made in January and May 2017. However, the GAFTA penalties deducted amounted to US\$7,010 from the payment to MV Truong Minh 99 and US\$50,344.75 from the payment to MV Vinaship Diamond, or a total of US\$57,354.75. The Audit Team's computation amounted to only US\$29,739.50, or a difference of US\$27,615.25.

26.8 The difference was due to the actual dates of arrival of the vessels used in the computation of penalties which affected the percentage of penalty. Management used the actual dates of arrival in the Vessel Status Report as of January 3, 2017 while the Audit Team used the actual dates indicated in the Summary of Accounts per Disport duly noted, reviewed and recommended, for the period September 2016 to October 2016, by the Directors of the GMOD and the Budget, Treasury and Fund Management Department (BTFMD) and the OIC Administrator. Comparison of the dates of arrival between the two reports disclosed discrepancies in the actual dates of arrival of the vessels from one to six days.

26.9 In response to the Audit Team's request for documents which included amendments on the schedule of arrival/delivery of imported rice, if any, under its letter dated January 23, 2017, the NFA submitted on January 30, 2017 an unsigned copy of Amended Contract with Kingdom of Thailand for the supply of maximum 100,000 MT of imported rice. It was stated therein that DFT, Thailand through its letter dated September 9, 2016, requested for consideration to extend the delivery period of the 1st tranche of 40,000 MT of rice for 14 days from "not later than September 30, 2016" to "not later than October 14, 2016" due to the following reasons:

- a. Acknowledgement of Notice of Award and Notice to Proceed;
- b. Submission of Performance Bond;
- c. Contract signing;
- d. Guidelines for the unloading and delivery operations briefing including the approval of vessel's flag waiver; and
- e. Heavy rain due to monsoon season.

26.10 It was further stated in the unsigned Amended Contract that on the basis of the above-cited reasons/justifications and due to natural and operational problems encountered beyond the control of the Supplier, the NFA Council thru Referendum dated February 24, 2017 approved the request of DFT, Thailand to extend the delivery period until October 14, 2016.

26.11 On June 15, 2017, Management thru its letter dated June 7, 2017 submitted to the Audit Team the signed copy of the amended contract with Kingdom of Thailand; signed copy of the NFA Council Resolution approving the extension of delivery/arrival period together with the signed JEV and its supporting documents to where GAFTA penalty for late delivery was deducted from the payment of rice shipment of MV Vinaship Diamond. However, the copy of the certification issued by the Vessel Master as requested in the Audit Team's letter dated January 23, 2017 attesting to the veracity of actual arrival of the carrying vessel in Philippine Waters as required in Article XX.2.b of the contract was not furnished to the Audit Team, thus the actual dates of arrival of the vessels, which would be the basis in ascertaining the delay in delivery, could not be easily determined.

**26.12 We recommended that Management furnish the Audit Team with copy of certification issued by the Vessel Master attesting to the arrival of the vessels of DFT, Thailand in Philippine Waters to be used as basis in the determination of the**

**actual date of arrival of the carrying vessels at designated port of discharge, and check the computation of penalty deducted from the payments made to the suppliers. Henceforth, ensure that payments of imported rice are supported with such certification from the Vessel Master.**

#### **Maintenance of Buffer Stock**

**27. The rice inventory levels in NFA-NCR and other ROs/POs from January to December 2016 were not consistently maintained resulting in way above or below the mandated buffer stock requirements of 15 days in each month and 30 days in June resulting in excess stocks ranging from 421 to 1,513,305 bags that could expose a larger quantity of undistributed stocks stored longer than necessary to risk of deterioration/decline in quality and value. On the other hand, the inventory level below the mandated buffer stock could compromise the NFA's capability to effectively and immediately respond in times of disaster and emergency situations. Moreover, the rice inventory level of NCR which was way above the required level of buffer stocks in almost all months of CY 2016 resulted in loss of P360.368 million due to price reduction in auction.**

27.1 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.

27.2 Under the Marketing Plan of the NFA, the Daily Consumption Requirement (DCR) of NFA Offices per Regions was determined as basis in computing the number of rice bags for the required 15-day and 30-day buffer stocks.

27.3 However, given that the national average of stock requirement is good for 15 days, the buffer stock requirements vary by province according to their classification: (a) very critical (provinces with negligible production that are almost fully dependent on other provinces for rice supply); (b) less critical (provinces with minimal production that are partly dependent for rice supply); (c) self-sufficient (production meets the consumption requirements); and (d) surplus areas (provinces with sufficient production to be able to export to other provinces). The very critical and less critical provinces are required to maintain buffer stocks of at least equivalent to 30 days and 15 days, respectively. On the other hand, the self-sufficient and surplus areas are only required to maintain buffer stocks of at least equivalent to 5 days and 2 days, respectively.

27.4 The NFA-NCR and its component offices, i.e., EDO, NDO, SDO, CDO including Cavite PO and Batanes PU are the depots 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.

27.5 Verification of the Summary of Weekly Stock Receipts, Issues and Balances submitted by the Warehouse Supervisors (WSs) in the NFA-NCR and other POs showed that the required buffer stock levels based on each office's Daily Consumption Requirement (DCR) were not consistently maintained. The summary of stock levels is shown in Table 74; the details are presented in Annex A, Part IV of this Report.

**Table 74 - Summary of Buffer Stock Levels in NFA-NCR and Other POs**

Regions	DCR	No. of Months with Excess Stock Levels	Excess Stocks (in Bags)	No. of Months Below Stock Levels	Deficit Stocks (in Bags)
<b>National Capital Region (NCR)</b>					
Central District Office (CDO)*	28,440	11	87,610 – 1,513,305	1	8,751
North District Office (NDO)*	16,720	12	301,457 – 1,320,702	0	
South District Office (SDO)*	22,320	12	70,514 – 1,298,668	0	
East District Office (EDO)*	22,440	10	1,658 – 289,010	2	52,428 – 262,395
Cavite Provincial Office (PO)*	19,360	11	48,479 – 405,994	1	39,927
<b>Region III</b>					
Bataan PO*	4,220	11	421 – 86,557	1	13,180
Bulacan PO	21,200	6	404,032 – 482,455	6	14,565 – 92,511
Pampanga PO	17,340	6	87,293 – 140,026	6	70,123 – 334,291
Zambales PO	5,880	7	8,798 – 62,322	5	5,545 – 34,689
<b>Region IV-A</b>					
Romblon PO	2,100	2	4,181 – 8,187	10	68 – 44,442
Quezon PO	13,560	3	27,986 – 69,986	9	1251 – 187,150
<b>Region IV-B</b>					
Palawan PO*	7,900	12	5,098 – 117,741	0	
<b>Region V</b>					
Camarines Norte PO	3,680	0		12	13,997 – 82,042
<b>Region VI</b>					
Antique PO*	4,800	11	45,745 – 68,953	1	78,748
Aklan PO	4,340	8	9,845 – 16,587	4	3,893 – 9,227
Negros Occidental PO	22,580	6	12,174 – 105,442	6	8,216 – 403,126
<b>Region VII</b>					
Negros Oriental PO	6,320	0		12	37,296 – 140,457
Siquijor PO*	500	11	3,360 – 14,884	1	333
<b>Region VIII</b>					
Samar PO*	5,080	10	2,202 – 41,217	2	3,005 – 8,506
<b>Region IX</b>					
Zamboanga City PO*	5,760	10	81,316 – 430,318	2	1,937 – 39,880
<b>Region XII</b>					
North Cotabato PO	9,140	4	16,526 – 50,121	8	33,672 – 60,571
Sultan Kudarat PO*	6,280	9	15,870 – 151,093	3	7,108 – 33,213
<b>Region XV - CARAGA</b>					
Agusan del Sur PO*	4,580	12	36,128 – 81,779	0	
Surigao del Norte PO	4,080	5	22,545 – 106,673	7	13,454 – 72,810

*\*Showed substantial excess of stocks almost at every month-end*

27.6 As shown in Table 74, the five offices of NFA-NCR and eight POs showed that almost at every month-end, there was a substantial excess of stock levels over the required buffer stocks that were computed based on their respective DCRs. Analysis and verification of the rice stock levels revealed that excessive stocks could be attributed to several factors, as discussed in Table 75.



**Table 75 – Factors/Reasons for Excessive Stocks**

<b>RO/POs</b>	<b>Factors/Reasons for Excessive Stocks</b>
CDO	The allocation for the year totaled 1,487,690 bags only but imported rice received totaled 1,701,024 bags or an excess of 213,334 bags. CDO's rice inventory levels escalated even at the start of the year because of the simultaneous unloading of stocks from Vietnam and the unavailability of warehouse spaces at other District Offices which caused CDO to accommodate at its warehouses those other District's allocations of imported rice.
NDO	The receipt of stocks from importation of 508,066 bags and transfers from CPO and SDO of 56,480 bags during the months of January to April 2016 despite having excess stocks of 925,559 bags of the required 22-day buffer of 246,735 bags as at end of December 2015, increased further the stocks on hand as at month-end of April to 1,571,502 bags. Moreover, the excess stocks of 338,268 bags over the buffer requirement in December 2016 could be partly attributable to the receipt of 97,000 bags allocated for other District Offices, consisting of 37,000 bags for EDO and 60,000 bags for SDO, for temporary storage due to non-availability of storage spaces in their respective warehouses.
SDO/EDO	Despite the excess stocks over the required 22-day buffer stocks as at end of December 2015, they continued to receive stocks from importation during the months of January to April 2016 for a total of 915,139 bags and 86,897 bags, respectively, which augmented further the stocks on hand during the year.
CPO	The overstocking during the first semester of the year was due to the distribution rate in CY 2015 which was considered as its lowest, i.e., only 47.91 per cent or 301,855 bags out of the 630,000 bags distribution target. In addition, the then on-going receipt of imported rice allocation during the first quarter of CY 2016 further increased the level of stocks in the warehouses.
Bataan	In the six warehouses maintained by the PO, it only showed deficit in the requirements for the month of December 2016 which was caused by reduced allocation of imported rice and transfers of stocks to other provinces.
Palawan	Excess in stock level over the 15-day buffer stock requirement is partly attributable to the non-compliance to the Administrative Order No. 2013-L-048 dated December 3, 2013 which provides that palay should not be stored more than nine months, rice should not be stored more than six months and brown rice and corn should not be stored more than three months (9-6-3 policy).
Antique	Stock Reports from the three warehouses maintained by the PO showed substantial excess of stocks level over buffer stock requirements for the whole year, except for the month of June. Despite the scenario, there were still deliveries of good quality rice totaling 24,070 bags from January-August 2016.
Siquor	The schedule of the rice inflow per CY 2016 Marketing Plan was not followed because Cebu PO maximized the use of chartered vessel with the minimum capacity of 22,000 bags, thus, leaving a substantial excess of stocks over the required monthly buffer stocks.
Samar	The low distribution rate of 90,257 bags or 28.42 per cent of the target of 317,600 bags resulted in over-stocking during the first three quarters of CY 2016. Furthermore, the dispersal operations consisted of 154,497 bags inflow from January to July and December of 2016, plus the receipt of imported rice allocation during the first semester further increased the level of stocks in the warehouse.

RO/POs	Factors/Reasons for Excessive Stocks
Zamboanga City	Excess in stocks could be attributed to the simultaneous receipt of 188,800 bags (CY 2015 importation) from the NCR and 88,804 bags (CY 2016 importation) from Cebu from August to December and the receipt of allocation from CY 2016 rice importation of 701,959 bags adding to the 287,798 bags of CY 2015 year-end rice stocks inventory; incomplete transfer of the authorized volume of 250,000 bags to the Provinces of Zamboanga del Sur, Zamboanga del Norte and Zamboanga Sibugay of which only 125,450 bags were transferred as at year-end due to the proximity of time from the simultaneous receipts of rice thru importation and transfers from other regions; and incomplete transfer of stock allocation of 186,200 bags of the Autonomous Region in Muslim Mindanao (ARMM) of which only 95,700 bags were actually transferred due to its insufficient warehouse space that could not accommodate their stock allocation for the year also contributed to the excessive stocks on hand as of December 31, 2016 leaving a total of 215,050 bags for transfer.
Sultan Kudarat and Agusan del Sur	These Provinces, which were required to maintain DCR for CY 2016 equivalent to two-day consumption only since they are classified as "Surplus" areas, except Sultan Kudarat PO which was allowed to set its buffer stock requirement much higher than the two-day buffer stock requirement due to trading practices in the region, showed substantial excess of stocks during the year due to the inflow of good quality of commercial rice coming from other provinces.

27.7 Excess stocks in the above-mentioned NFA offices resulted in stock piles higher than what is considered to be ideally safe, exposing the rice inventories to unnecessary risks.

27.8 In addition, there were still 549,292 bags received in CY 2015 at the NCR alone with age 12 to 19 months as at December 31, 2016, as shown in Table 76, which would deteriorate when not immediately sold or dispersed.

**Table 76 - NFA NCR's Ageing Stocks as at December 31, 2016**

NCR Office	Date of Receipt	No. of Bags	Age of Stocks as at 12/31/16
Central District Office (CDO)	May – November 2015	160,515	13 – 19
North District Office (NDO)	June – December 2015	294,472	12 – 18
EDO (East District Office)	May – December 2015	94,305	13 – 19
		549,292	

27.9 In view of the significant excess, aging and declining buffer stocks in the NCR, Management, through NFA Memorandum Nos. AO-2K16-01-001 dated January 5, 2016, AO-2K16-06-020 dated May 10, 2016 and AO-2K16-12-028 dated December 1, 2016, authorized the CPO, CDO, NDO, SDO and EDO to dispose their aging stocks through auction and price reduction. The total of 2,204,786 bags when completely sold could result in loss of P360.368 million, details are shown in Table 77.

27.10 Stocks which were not disposed/sold and had to be kept longer than the normal storage time could be exposed to risks, such as infestation, pilferage and spillage, among others, and eventually could result in damage and deterioration of the stocks and consequent losses to NFA. Excess stocks could have been allocated to other districts/provincial offices with lesser inventories/allocation so that a wider consumer base could have been served while further losses due to extended storage would be curtailed/lessened, if not totally avoided.

**Table 77- Opportunity Loss due to Aging Stocks Disposition**

	Disposition					Regular Selling Price per Kg (B)	Opportunity Loss (A-B) x Nkgs.
District/ Variety	Date	Mode	Quantity (In Bags)	Nkgs.	Selling Price Per Kg (A)		
CPO-							
VCCW42	1/29/16	Auction	88,576*	4,428,800	P24.01	P30.00	P (26,528,512)
TFCW51	5/10/16	Price Reduction	52,109	2,605,450	27.00	30.00	(7,816,350)
VCCW51	5/10/16	Price Reduction	109,668	5,483,400	27.00	30.00	(16,450,200)
VCEW52	12/1/16	Price Reduction	110,284	5,514,200	22.50	25.00	(13,785,500)
			360,637	18,031,850			(64,580,562)
CDO-							
TFCW51	5/10/16	Price Reduction	237,344**	11,867,200	27.00	30.00	(35,601,600)
VCCW51	5/10/16	Price Reduction	184,423***	9,221,150	27.00	30.00	(27,663,450)
VCEW52	12/1/16	Price Reduction	131,646****	6,582,300	22.50	25.00	(16,455,750)
			553,413	27,670,650			(79,720,800)
NDO-							
TFCW51	5/10/16	Price Reduction	438,854	21,942,700	27.00	30.00	(65,828,100)
VCCW51	5/10/16	Price Reduction	367,101	18,355,050	27.00	30.00	(55,065,150)
VCEW52	12/1/16	Price Reduction	63,872	3,193,600	22.50	25.00	(7,984,000)
			869,827	43,491,350			(128,877,250)
SDO-							
VCCW42	1/29/16	Auction	1,000	50,000	24.00	30.00	(300,000)
VCCW42	4/11/16	Auction	54,933	2,746,650	22.40	30.00	(20,874,540)
VCCW42	4/11/16	Auction	50,000	2,500,000	22.00	30.00	(20,000,000)
TFCW51	5/10/16	Price Reduction	51,169	2,558,450	27.00	30.00	(7,675,350)
VCCW51	5/10/16	Price Reduction	12,895	644,750	27.00	30.00	(1,934,250)
VCCW52	12/1/16	Price Reduction	51,691	2,584,550	22.50	25.00	(6,461,375)
			221,688	11,084,400			(57,245,515)
EDO-							
TFCW51	5/10/16	Price Reduction	48,890	2,444,500	27.00	30.00	(7,333,500)
VCCW51	5/10/16	Price Reduction	150,331	7,516,550	27.00	30.00	(22,549,650)
			199,221	9,961,050			(29,883,150)
			2,204,786	110,239,300			P (360,307,277)

\* 965 bags sold as of 12/31/2016

\*\* 221,346 bags sold as of 12/31/2016

\*\*\* 171,564 bags sold as of 12/31/2016

\*\*\*\* 570 bags sold as of 12/31/2016

27.11 On the other hand, some provinces in Regions III, IV-A, VII, XII and XV showed deficit stock levels from 7 to 12 months during the year over the required buffer stock due to several factors, as discussed in Table 78.

**Table 78 – Factors/Reasons for Stock Deficiency**

RO/POs	Factors/Reasons for Stock Deficiency
Region III Bulacan, Pampanga and Zambales	Decrease in stock level was caused by reduced allocation of imported rice. In addition, the transfer of stocks to other provinces made in October and November 2016 and the sale of old imported rice stocks reduced further the stocks level during the last quarter of CY 2016.

<b>RO/POs</b>	<b>Factors/Reasons for Stock Deficiency</b>
Region IV-A Romblon and Quezon	Deficit could be attributed partly to the delay in the receipt of rice dispersal targeted in the months of January, August and September and the non-receipt of the 90,000 bags in the months of June, July and December. Stock deficits, particularly in Romblon PO, were due to low procurement operations, minimal rice receipts from Mindoro provinces and the non-arrival of the remaining 250,000 MT of rice from importation.
Region VII Negros Oriental	Low buffer stocks could be attributed to lack of warehouses. The PO has only two NFA owned warehouses available for storage with full capacity below the required 183,600 bags buffer.
Region XII North Cotabato	Deficits were attributed to the increased sales to LGUs and DSWD and delayed delivery of the rice allocation from the supplier or other Province(s).
Region XV Surigao del Norte	The PO's palay production is only 90 per cent or less, therefore from June to December 2016, the Agency fell short of either the 15- day or 30- day buffer requirement.

27.12 The inability of these offices to maintain the level of buffer stock requirements as provided under the approved Annual Marketing Plan 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 their capability to immediately address the rice supply and demand situation specially during times of emergencies and calamities.

**27.13 In view of the above observations, we reiterated our previous years' audit recommendations that the Management:**

- a. Devise a more realistic and relevant plan of rice procurement and allocation by revisiting the allocation of stocks based on classification and determined DCRs and/or conducting a detailed evaluation and analysis of rice demand and supply at each province, including significant environmental factors as basis for mapping a more realistic volume of rice importation and marketing plan for the NFA Provincial Offices; and**
- b. Allocate excess stocks to other Districts/Provincial Offices with lesser inventories/allocation so that a wider consumer base could be served while further losses due to extended storage could be lessened, if not totally avoided.**

**27.14 We also recommended to Management of NFA-NCR to: (a) cause the immediate sale or dispersal of the 549,292 bags of rice received in CY 2015 to avoid losses to NFA; (b) expedite the accreditation of more/new retailers pursuant to Fax Message No. AO-2K15-J-006 dated October 13, 2015 of the NFA Administrator to increase the existing number of NFA accredited rice retail outlets to at least 20 per cent; and (c) implement distribution strategies such as sale of rice at adjusted/reduced prices, following the Memoranda on the ages of stocks to be sold at adjusted/reduced prices.**

27.15 Management of the concerned NFA offices provided the following comments/information pertaining to the maintenance of their buffer stocks:

- a. CDO- 1.2 million bags from the CY 2015 importation were received during the 1<sup>st</sup> Quarter of 2016 and around 500,000 bags towards the last quarter resulting in the escalation of the inventory. Issuances to IFAD gradually decreased warehouse inventory, and the massive volume of transfers to other regions affected by the El Niño phenomenon brought CDO's marketable ending inventory to 522,431 bags enough to last 18 days. Accreditation and validation were continuously adopted to be able to increase the number of accredited retailers and at the same time, check and revalidate existence of outlets. Relative to the P16.456 million opportunity loss for the stocks aging 13 to 19 months old, VCEW52 stocks, the stocks were sold at a reduced price but above break-even cost.
- b. NDO- The occurrence of excess stocks over buffer requirements was due to huge carry-over stocks in January 2016 from the previous year. The unprogrammed receipt of other District Offices' importation allocations due to problems on warehouse space availability, coupled with the prevailing market situation, both beyond the control of NDO, took its toll on the District's stock maintenance resulting in monthly inventory levels way beyond the mandated requirements and stocks which have declined in quality because of age and long storage.
- c. SDO- For CY 2016, a total of 937,689 bags of imported rice was received by the District during the first and second Quarters of the year and 110,354 bags covering the last Quarter of 2016. As to the aging stocks of 375,848 bags received in CY 2015, to date, 195,800 bags were already transferred to other regions and 60,391 bags were disposed. Of the 110,885 bags of VCEW52 on hand, 60,000 bags are scheduled for transfer to CDO. As regards the disposal of the remaining stocks the soonest time and to avoid further deterioration and additional expenses arising from prolonged storage, it strategized to distribute these stocks thru volume sales at a regular price of P25 per kg. to licensed grains businessmen.
- d. EDO- Due to the hardship in leasing/renting warehouse for every District Office and at the same time the arrival of the rice importation, the HO encouraged every District Head to maximize their warehouses (lease and GID warehouse) in order not to hamper the operations in the unloading of imported rice. It added that the low sale during the peak month period was the reason for the accumulated excessive stock level in the warehouse.
- e. Cavite PO- The NCR regularly conducts quarterly planning conference in order to come up with more realistic and doable sales target/strategy, including the level of rice inventory to be maintained in the warehouses. It had exerted its best effort to meet the set distribution target; however, external factors/market forces affecting the rice sales such as influx of commercial rice in the market, presence of low priced good quality rice resulted in low demand for NFA rice.

f. Bataan PO- Although the inventory of the Branch was below the required 15-day level, it did not encounter any problem in meeting the rice requirements of the different sectors, primarily the LGUs and relief institutions. Accredited retailers, likewise, maintain their display of NFA rice in different public markets and barangays.

g. Antique PO- It maintained that for CY 2016, the Province was able to accomplish 91 per cent on palay procurement or a total of 45,278 bags out of its target of 50,000 bags. Excess stocks in the Province are being channeled to other deficit provinces/regions, thus avoiding further losses due to extended storage.

h. Siquijor PO- The SOP does not limit the PO to maintain excess rice stocks in the warehouses provided good warehouse keeping practices is strictly observed to ensure good quality of stocks. Moreover, record shows that the PO has no damaged stocks for the past years. The Office adopted the “No Sweepings Policy” and the “First-In-First-Out Warehousing Policy” to ensure that disposition of old stocks is prioritized.

i. Samar PO- It agreed to the observation and accepted the recommendations of the COA Audit Team.

j. Zamboanga City PO- The PO is a disport province of stocks from importation and other domestic source-region/province. It also serves as the terminal area of the region where stocks are temporarily stored prior to distribution or transfer to the receiving provinces of the region, hence, the tendency that the PO will surpass the required inventory level of the 30-day FSS. Pest control measures are being administered regularly on all stocks in warehouses to avoid occurrence of losses.

k. Sultan Kudarat PO- The recommendation to refrain from excessive maintenance of rice stock level is well-taken. However, as much as the PO would like to strictly comply with the approved buffer stock requirements, it is a fact that managing the Southern Phils. Grains Complex (SPGC) is a major part of its operational activities with, among other post-harvest facilities therein, an approximate 800T bags aggregate effective capacity for grains storage which is a strategic terminal point to serve the requirements of other provinces. The PO has the biggest storage capacity among the other NFA POs in the region with a total storage capacity of almost 1M bags to serve as the trans-shipment of rice stocks to the other POs. As recently recommended by the RO to HO, the Province’s number of days required for buffer stocking is 15 days in view of its sufficiency level classification as “less critical” with food security stocks (FSS) requirement of 95,700 bags.

l. Agusan del Sur PO- The classification of the PO by the Philippine Statistics Authority (PSA) from self-sufficient to surplus in October 2016 was then way behind at a time where the actual stock positioning was already in place for self-sufficient category. For the last quarter of the audit period, the PO did not receive any stocks for the purpose of distribution or positioning as food security requirement of the province and stock receipts were made not as a usual

provincial requirement, but as a ready buffer for nearby locations since warehouses of the PO are strategically located.

m. Zambales PO- It fell short on the required 15 days buffer stocks of 88,200 bags particularly during the second semester until end of December 2016 due to unserved balance of the last tranche of programmed rice importation totaling 250,000 MT or five million bags on national level.

n. Romblon PO- Due to non-availability of warehouses for rent in the Province, it cannot comply with the provisions stated in Memorandum No. AO-2K13-02-037. With the rice stocks stored in the warehouse, the PO managed to serve the accredited NFA rice retailers of the Province to help stabilize rice prices in the market and to augment rice requirement. It was able to maintain the buffer stocks effectively and serve the requirements of LGUs during calamities and emergencies.

o. Quezon PO- Several factors contributed to the decrease in rice inventory of the said PO in CY 2016 such as low procurement operations, minimal rice receipts from Mindoro provinces and the non-arrival of the remaining 250,000 MT of rice through G to G scheme which resulted in a nationwide decrease in rice inventory.

p. Negros Oriental PO- It continued to search for possible private warehouses to lease, but to no avail. The bulk of Region VII inventory of stocks is stored in Cebu City which caters the rice requirements of Region VII provinces including Negros Oriental, the provinces of Region VIII and some provinces of Regions IX and XI. NFA Cebu's stocks is more than the 30-day Food Security requirement of the region; thus, it is safe to say that region-wide there is enough buffer stock for NFA-Negros Oriental PO.

q. North Cotabato PO- Being a surplus province, the stocks are closely monitored so as not to fall short of the two-day buffer stock requirements at all times. Palay stocks, if converted into rice form would definitely increase the rice inventory maintained in the warehouses.

r. Surigao del Norte PO- It failed to meet the 30-day stock requirement but assured that if calamities occur, rice allocation of the province is sufficient enough to cater to the needs of the constituents due to the presence of commercial rice in the market.

27.16 As a rejoinder, we would like to emphasize that NFA POs enhance their monitoring activities to avoid excessive buffer stocks and to closely monitor the prevailing condition with regard to the supply and demand and immediately inform higher NFA authorities on the proper disposition of the excessive stocks so that the allocation could be diverted to other regions needing the same.

27.17 Likewise, the Audit Team maintains its observation that loss resulted from the reduction of prices of aging CY 2015 varieties of rice. Said stocks were not sold above break-even cost or with realized profit as the unit costs per kg of the CY 2015 varieties

which were used as basis in the computation by Management of realized profit did not include yet the customs duties as part of inventory cost.

**27.18 We further recommended that measures be adopted to address problems causing excessive stocks such as: (a) carry-over stocks from previous year importation, (b) unprogrammed receipt of other provinces/districts' allocations due to problems of warehouse space availability, (c) influx of commercial rice in the market and presence of low price good quality rice resulting in low demand for NFA rice, and (d) those causing stock deficit levels such as low procurement operations, minimal rice receipts from other provinces, non-arrival of complete allocation of imported rice and non-availability of warehouses to be leased, among others.**

### **First-In First-Out Policy**

**28. The First-in, First-out (FIFO) policy on the issuance of stocks from the warehouses required in NFA SOP No. GM-WH07 dated January 10, 1995 was not strictly enforced resulting in aging, deterioration and higher carrying/maintenance costs of the stocks on hand.**

28.1 The NFA SOP No. GM-WH07 dated January 10, 1995, or the Warehousing Policies and Procedures, provides that the FIFO principle shall always be applied. Stocks earlier received shall be piled in such a way that it will be convenient to issue such stocks first. Positioning of aisles in between piles in relation to entrances and exits shall be properly laid out. Straight lines providing maximum clear view should be used to support the FIFO plan.

28.2 Likewise, NFA SOP No. GM-WH11 dated January 29, 2001 which is the "Revised SOP on Warehouse Stock and MTS Documentation and Reporting System" describes the Authority to Issue (AI) as a warehouse form prepared by the Provincial Operations Officer (POO)/Sr. Grains Operation Officer (SGOO) and serves as the written order from the Provincial Manager/Officer-in-Charge to the Warehouse Supervisor (WS) II for all issuances and in-warehouse movement of stocks. Based on the Official Receipt, the AI shall always be prepared prior to the issuance of the stocks. It includes, among others, the name of customer, quantity and quality of stocks, warehouse and pile layout where the stocks are to be withdrawn. In the absence of the Provincial Manager and Assistant Provincial Manager/POO, the Marketing Head and the Economist signed in their behalf, in the "Prepared by" and "Approved by" portions of the AI.

28.3 In Cavite PO, analysis disclosed that as of December 31, 2016, the age of stocks on hand at the PO's warehouses ranged from 1 to 17 months, including the 91,508 bags from CY 2015 rice importation which have not been distributed for a period of 15 to 17 months due to non-implementation of the FIFO by the Operations Section.

28.4 Based on pile layout from Management, there were stocks received earlier, but stocks issued were from much later receipts. The warehouses still have stocks received as early as July 2015 and still on hand as of December 31, 2016, while stocks which came later in February, March and October 2016 were already disposed. The one



month-old stocks received in November were likewise disposed starting December 2016.

28.5 In CDO, the non-adherence to the FIFO policy also contributed to the aging and declining quality of stocks at year-end. Management informed that the FIFO method was not adopted or there was no issuance of 131,646 bags of VCEW52 stocks which arrived at the CDO warehouses from July 5 to August 22, 2015 and which the District requested for price adjustment/reduction because these were already aging stocks.

28.6 It was only on December 1, 2016 through Memorandum No. AO-2K16-12-028 of the NFA OIC-Administrator that the adjusted selling price of the 131,646 bags of aging/old stocks of CDO was set at P22.50/kg, which was originally at P25.00/kg. The CDO has since been selling said stocks at the adjusted selling price. Not all the VCEW52 stocks were dispersed because these were not the variety requested by the regions to be transferred to them. The remaining CY 2015 stocks were also requested for price adjustment/reduction, but no authority from NFA-HO was received. CDO is presently selling these stocks at the original price of P1,250.00/bag or P25.00/kg.

28.7 In Region I, FIFO policy was not strictly implemented in Abra and Benguet POs as newly received rice stocks were disposed of first even if older rice stocks are still available for distribution, thus, incurrence of additional losses could not be avoided due to the deterioration of the quality of rice stocks by reason of long period of storage.

28.8 Verification of stock reports of the Acting WS in Abra PO disclosed that it had received a total of 2,000 bags of TFEW61 rice variety from La Union PO in August 2016, of which 1,500 bags were received on August 4, 2016, while the other 500 bags are subsequently received on August 12, 2016.

28.9 Further verification of rice sales transactions or issuances revealed that the PO had disregarded NFA's FIFO policy in August 2016 until the first week of September 2016. It was noted that upon receipt of TFEW61 stocks on August 4, 2016, 100 bags of rice were immediately distributed or allocated to four retailers when older rice variety, the VCEW52, still has a large quantity of 32,072 bags for distribution. Based on data gathered, total TFEW61 rice variety sold to various retailers reached to 1,505 bags for the month of August 2016 until the 1<sup>st</sup> week of September 2016.

28.10 Likewise in Benguet PO, verification of receipts and issuances of rice stocks disclosed the following:

- a. The beginning balances on January 1, 2016 of VCCW51(15%), VCEW51(25%) and TFCW51(15%) were received by the Agency during the period June to December 2015;
- b. In CY 2016, stock variety of VCCW51 had no sales in January and February while TFCW51 were slow moving stocks for the 1st semester; and
- c. Stock varieties VCEW61 and TFEW61 which were stock allocations of the Agency for the 1st semester of CY 2016 were received in the latter months, but were immediately issued to retailers, while the stock allocation for 1st and 2nd

semesters of CY 2015 (VCEW51 and VCEW52) with significant monthly balances during the period remained unissued.

28.11 In NFA-Iloilo and Antique POs, during the inventory of stocks in November 2016 in the warehouses, it was observed that imported rice aged between 7 to 19 months totalling 209,724 bags and 9,895 bags, respectively, remained undisposed/unsold.

28.12 Further evaluation and verification showed that out of 352,010 bags of imported rice disposed/sold in NFA Iloilo PO during CY 2016, only 34 per cent or 120,113 bags pertained to CY 2015 deliveries, thus, the FIFO warehousing policy was not implemented to ensure the disposition of old stocks is prioritized.

28.13 The practice of issuing new stocks when older stocks are still available is contrary to FIFO policy and other NFA issuances and resulted in the prolonged period of storage and further deterioration of the quality of rice, and additional carrying/maintenance costs for the NFA. This could likewise be an indication of preferential accommodations to selected accredited retailers and/or grains businessmen. Proper inventory management must be regularly employed in order to maximize operational efficiency.

**28.14 We recommended that Management ensure that the FIFO policy is strictly observed to avoid overstocking, stock deterioration, additional carrying/maintenance costs and opportunity loss to NFA, and require:**

- a. The POO to thoroughly review and evaluate the warehouses' Pile Layout, Grains Situationer Reports and other data as basis in the identification of specific pile for withdrawal of stocks prior to recommending approval to the Provincial Manager of the AI;**
- b. The Provincial Manager to closely monitor the age of stocks on hand based on data reports from the POO prior to approval of the AI; and**
- c. The Provincial Managers/Officers-in-Charge of the Warehouses to submit written justification on non-adherence to the NFA FIFO policy, for evaluation and appropriate actions.**

**28.15 We also recommended that Management formulate a scheme/strategy on disposal of imported rice so that stocks inventory will not stay longer than six months.**

28.16 Management provided the following explanations:

- a. Cavite PO- The FIFO flow of stocks was applied in the warehouses. Provisions of warehouses lay-out plan and detailed inventory plan on the stocks to be stored and piling arrangement depending on the type of warehouse was agreed by the WSs and the PSQAO. Truckways are provided in every pile in order to conveniently issue the rice stocks earlier received. However, flexibility on FIFO policy can be allowed due to some constraints enumerated in the

implementing guidelines in SOP No. GM-WH-7-A dated December 2011, to quote:

- A. *When there is fast deterioration of stocks;*
- B. *When there is high demand for a certain variety;*
- C. *When there is a necessity of transferring/disposing stocks under the accountability of a retiring Warehouse Supervisor;*
- D. *When the contract of lease of a warehouse is near termination and the need to dispose the stocks of a later batch is necessary;*
- E. *When there is a need to create a warehouse space for incoming rice importation;*
- F. *When there is a necessity of issuing new stocks for the Government Feeding Program assisted by DSWD;*
- G. *When there is a cross infestation from a leased warehouse to a non-NFA warehouse within the vicinity wherein infestation can no longer be controlled despite application of all necessary pest control measures. The new stocks therefore need to be disposed even if it is of a later batch.*

From the enumerated exemptions, Cavite PO referred to letters A, B, E and F, as justifications for non-implementation of FIFO policy. Likewise, there was high demand for NFA rice 25% broken at P1,250 over the 15% broken, thus the slow turnover of 15% broken resulting in aging stocks at hand.

b. Abra PO- It explained that the flexibility in FIFO policy is applied in certain situations when there is high demand for certain variety as provided in Item H(5.1) of SOP No. GM-WH07.A dated December 1, 2011. The receipt of the new variety during the month of August 2016 provided the PO the opportunity to increase its sales considering the low distribution accomplishments for the previous months. Distribution accomplishment increased from 49 to 79 per cent with the issuance of the 1,505 bags TFEW61 in the month of August 2016. Nonetheless, FIFO policy is generally followed and that the recommendation will be given much consideration.

c. Iloilo PO- It explained that the existence of undisposed/unsold imported rice aged between 7 to 19 months were attributed to very low distribution of NFA Rice due to market-driven factors, thus consequently increased rice inventory. Moreover, as depository warehouse for Region VI and other Visayan provinces, some of the stocks intended to other provinces were also not withdrawn. Proper coordination with GMOD shall be accordingly done. Currently, it is in the process of disposing the remaining stocks thru auction sale.

d. Antique PO- As a surplus province, the PO is required to maintain a food security stock of 9,440 bags which is good for two days. The inventory balance of 9,895 bags formed part of said food security stock requirement. These efforts had been done in order to fast track distribution of imported rice. At present, said old stocks are being distributed in tie-up with newly milled local rice. It is also recommending that these old stocks be included in the dispersal to other regions. It also assured the Audit Team that in order to prevent deterioration of stocks,

regular monitoring of infestation and conduct of pest control measures are undertaken.

28.17 The following are the audit rejoinders of the concerned Audit Teams:

a. With regard to Cavite PO's explanation that there was a high demand for NFA rice 25% broken at P1,250 over the 15% broken, thus, a slow turn-over of 15% broken resulting in aging stocks on hand - based on evaluation at General Trias warehouse, all of its stocks were 25% broken but imported rice received on November 24, 2016 had already been issued, more or less 3,535 bags in December 2016, while there were available 19,830 bags received from October 4 to 30, 2016 with the same variety. Further, on exemption "E" - when there is a need to create a warehouse space for incoming rice importation, this is applicable only at General Trias warehouse, since there were available spaces at Omni and JY and Sons II.

b. In Abra PO - it is not surprising that retailers are more likely to prefer new variety over old variety, consequently, demand would be high. The justification citing flexibility in the application of FIFO in situations due to high demand for a certain variety is without merit. On the other hand, based on previous years' distribution accomplishment reports, it was noted that in the month of August, a lean month, rice sales rise tremendously as compared to previous months which is contrary to the claim that the sales of new stocks provided opportunity to increase its sales. If retailers were not informed of the arrival of TFEW61 and VCEW61, the demand of said new stocks might have been shifted to the available old stocks. The Audit Team upholds the recommendation that FIFO shall always be followed as prescribed in Item H(5) of NFA SOP No. GM-WH07 and other existing Administrative Orders.

### Utilization of Warehouses

**29. The utilization of the warehouses of the NCR-Cavite PO and SDO were not maximized due to improper planning of stock inventory level and non-implementation of the FIFO policy on the issuance of stocks, resulting in contract extension at Cavite PO Omni warehouse for the 2<sup>nd</sup> semester of CY 2016 and additional expenses in Cavite PO and SDO on lease and security services of P9.434 million and other maintenance/operating expenses.**

29.1 Item II of NFA SOP No. GM-WH05 dated August 15, 1992 provides the implementing guidelines on lease of private warehouses/drying and/or milling spaces. Some of the relevant provisions are quoted below:

*A. Programming of Provincial Space Requirements*

*1. Based on the following variables, the provincial office shall program the warehouse, drying, and milling space requirements of the province:*

- a. Marketing Plans on procurement, dispersal and distribution*
- b. Existing inventory level*

- c. *Available NFA warehouse space*
  - d. *Historical figures on procurement, distribution and stock inventory.*
- 2. *Utilization of the NFA owned warehouses shall be maximized;*
- 3. *The lease of private spaces/structures shall be resorted to only under the following circumstances:*
  - a. *when there is a need to set up buying stations in procurement areas with no NFA owned warehouse or which is not sufficient to meet the space requirement;*
  - b. *when there is a need to position stocks in a certain locality/place to save on time and cost in the transfer and other stock movements;*
  - c. *when the anticipated volume of operations and/or percent utilization justify the lease.*
- 4. *The provincial office shall identify areas where additional space requirements are necessary. It shall indicate the capacity, type (e.g. for storage, with drying yard etc.), and other specifications of the structure needed which should be consistent with the defined additional space requirement xxx.*

Xxx.

#### *E. Renewal of Old Contracts*

- 1. *For renewal of old contracts with the same terms and conditions or with proposed amendments, the policies and procedures stipulated above shall be followed. Facility inspection shall again be conducted to ascertain that the structure is still safe to use considering ordinary wear and tear/natural calamities.*
- 2. *The prevailing operational conditions shall be evaluated if such justify the renewal of the contract based on the parameters set forth in Item II.A.3 of these guidelines. Moreover, MOM Bulletin No. 58 on the SOP on Phasing-Out of NFA Leased Warehouses effective 15 July 1981 shall be considered.*

29.2 Verification from the Warehouse Utilization Report as of December 31, 2016 of the Cavite PO and SDO showed that the level of utilization of the warehouses it maintained in CY 2016 were at 59.98 per cent and 39.60 per cent respectively, as shown in Table 79.

**Table 79 - Warehouse Utilization as of December 31, 2016**

Warehouse/Location	Area (sqm)	Monthly Rental	Effective Capacity (Bags)	Stock Inventory as of	% of Utilization
				Dec. 31, 2016 (Bags)	
CPO					
Gen. Trias (Old & New),Pasong Kawayan, Gen. Trias, Cavite	2,207.00	P -	90,000	95,495	106.11
JY & Sons 2/FCIE, Dasmarinas, Cavite	6,793.66	964,699.72	377,402	281,412	74.57
Omni/ NCIC, Bgy. Manggahan, Gen. Trias, Cavite	3,702.50	435,414.00	230,452	41,642	18.07
	12,703.16	P 1,400,113.72	697,854	418,549	59.98
SDO					
JY & Sons Cupang 1, Km 23 Brgy. Cupang, Alabang	5,481.76	P 904,490.40	318,000	217,559	68.41
JY & Sons FCIE-A, Dasmariñas, Cavite	10,142.61	1,369,252.35	550,000	263,755	47.96
Y & Sons FCIE-3, Dasmariñas, Cavite	9,569.08	1,435,362.00	550,000	80,240	14.59
	25,193.45	P 3,709,104.75	1,418,000	561,554	39.60

29.3 In Cavite PO, the Omni warehouse had the lowest utilization rate of 18.07 per cent only, attributed to a net outflow of only 88,884 bags in the 2<sup>nd</sup> semester of CY 2016. Further analysis of stock inventory level disclosed that the warehouse utilization rate from July to December 2016 ranged from 48.56 to 65.05 per cent. The average utilization rate for the year was only 73.57 per cent. Omni 3, 4 and 5 warehouses with a total floor area of 2,752.50 square meters (sqm) were originally contracted for four months on September 17, 2014 at a monthly rate of P117.60 per sqm. or for a total of P323,694.00 per month. On February 20, 2015 another warehouse lease agreement was entered into for the same warehouse and on June 10, 2015 the Omni 7 with an area of 952.50 sqm. was annexed to the contract with the same rate, with a total leased area of 3,702.50 sqm. and monthly rental of P435,414. There were two subsequent six-month contract extensions from January 1 to June 30, 2016 and July 1 to December 31, 2016 for the said warehouse.

29.4 The Omni warehouse bays 3, 4 and 7 were located adjacent to one another while at the back was the bay 5. Two guards were assigned to secure the area, one for bays 3, 4 and 7 and one for bay 5. The Omni 3 and 4 with a total capacity of 117,952 bags accommodated the highest level of inventory in July 2016 of 111,069 bags. As of December 31, 2016, the bays 3 and 7 were already empty, as shown in Table 80. Only 41,642 bags were stored in the 3,702.50 leased area with unused capacity of 188,810 bags as at end of year.

**Table 80 - Omni Warehouse Bays Inventory Level as of December 31, 2016**

Bay	Area (sqm)	Monthly Rent	Capacity (bags)	Inventory (bags)
Omni No. 3	900.00	P 105,840.00	117,952	-
Omni No. 4	900.00	105,840.00		22,366
Omni No. 5	952.50	112,014.00	56,000	19,276
Omni No. 7	950.00	111,720.00	56,500	-
	<b>3,702.50</b>	<b>P 435,414.00</b>	<b>230,452</b>	<b>41,642</b>

29.5 On the other hand, the SDO maintained four warehouses, namely: Uniden Warehouse, JY & Sons Cupang, JY and Sons First Cavite Industrial Estate (FCIE)-A, and JY & Sons FCIE-3. Uniden Warehouse is NFA-owned while the remaining three warehouses, as shown in Table 79, were leased from private entity. SDO started to lease/occupy JY & Sons FCIE-3 Warehouse in February 2016 and by April of the same

year; it terminated the operations of its own “Uniden” warehouse with a capacity of 460,000 bags due to the acquisition of the lot by DOTr as site for the South Transport System Terminal Project.

29.6 JY & Sons Cupang warehouse was originally leased in CY 2014 with an area of 4,000.00 sqm. This contract was extended on a monthly basis until May 31, 2015. Thereafter, a seven-month contract extension was entered into for the same warehouse. There were two subsequent six-month contract extensions from January 1 to June 30, 2016 and July 1 to December 31, 2016 for the same warehouse. Attached to this contract extension was an addendum to cover an additional space of 1,481.76 sqm. On the other hand, the area leased in JY & Sons FCIE-A warehouse was originally 6,095.07 sqm. on August 12, 2015, but due to additional volume of rice importation that arrived in November 2015, it contracted an additional space with an area of 4,047.54 sqm. This additional space was also intended for the storage of SDO’s rice stocks requirements.

29.7 Analysis of stock inventory level showed that the warehouse utilization rate decreased from July to December 2016 ranged from 84.70 to 39.60 per cent with an average utilization rate for the year of 75.24 per cent.

29.8 JY & Sons Cupang and JY & Sons FCIE-A, exceeded their capacity in February and March including April in JY & Sons FCIE-A. Thus, JY & Sons FCIE-3 warehouse was leased to accommodate rice stocks from Uniden and in-coming rice importation. Operations in the said warehouse started on February 13, 2016 per Certificate of Occupancy. SDO initially occupied Bays 1 and 2 with an area of 2,373.797 sqm. and 2,359.35 sqm., respectively. Subsequently, it leased four bays from March 1, 2016 to December 31, 2016.

29.9 The JY & Sons FCIE-3 with a total capacity of 550,000 bags accommodated the highest level of inventory in July 2016 of 565,077 bags, as shown in Table 81, but as of December 2016, only 80,240 bags were stored in the 9,569.08 sqm leased area with unused capacity of 469,760 bags. This warehouse has a monthly rate of P150 per sqm. or for a total of P1,435,362 per month. Despite the low utilization rate in JY & Sons FCIE-3 for the month of December, SDO paid the total amount of P1.435 million in December. Moreover, six guards were assigned in different shift to secure the area of the warehouse.

**Table 81- Storage Capacity and Inventory Level at NFA-SDO Warehouses  
from July to December 2016 (In Bags)**

Month	JY & Sons Cupang and FCIE-A			JY & Sons FCIE-3	
	Total Capacity	Total Inventory	Available Capacity	Inventory	Available Capacity
July	868,000	635,946	232,054	565,077	-
August	868,000	594,878	273,122	433,854	116,146
September	868,000	520,504	347,496	314,024	235,976
October	868,000	414,964	453,036	234,851	315,149
November	868,000	492,344	375,656	157,653	392,347
December	868,000	481,314	386,686	80,240	469,760

29.10 It can be gleaned from the foregoing that the Cavite PO and SDO had not properly planned the stock inventory level for each of the warehouses, as shown by the continued receipt of imported rice and dispersal to Cavite PO's OMNI warehouse of 111,519 bags from January to May 2016. The availability of the other warehouses to accommodate the receipt of imported rice and dispersal and utilization rate may not have been considered among the salient factors and circumstances prior to the extension of contract at Omni warehouse. On the other hand, the continued receipt of imported rice and non-movement of stocks from February to April in SDO resulted in the leasing of another warehouse.

29.11 As such, the Cavite PO and SDO could have had saved expenses on lease of warehouses and security services of P3.163 million and P6.272 million, respectively, as shown in Table 82, and other maintenance expenses had it maximized the utilization of the warehouses

**Table 82 - Costs of Monthly Rental and Security from July to December 2016**

<b>Month</b>	<b>Monthly Rental</b>	<b>Security</b>	<b>Total</b>
<b>Cavite PO</b>			
July	P 435,414	P 91,670	P 527,084
August	435,414	91,670	527,084
September	435,414	91,670	527,084
October	435,414	91,670	527,084
November	435,414	91,670	527,084
December	435,414	91,670	527,084
	<b>P 2,612,484</b>	<b>P 550,020</b>	<b>P 3,162,504</b>
<b>SDO</b>			
September	P 1, 435,362	P 132,522	P 1,567,884
October	1, 435,362	132,522	1,567,884
November	1, 435,362	132,522	1,567,884
December	1, 435,362	132,522	1,567,884
	<b>P 5,741,448</b>	<b>P 530,088</b>	<b>P 6,271,536</b>

**29.12 We recommended that Management:**

- a. Conduct regular in-depth review and assessment of the level of stocks of each warehouse to ensure maximum utilization of available warehouse spaces;**
- b. Prioritize the issuance of stocks from leased warehouses with the lowest level of stock inventory so that the lease contracts could be terminated, as necessary, to save on lease expenses;**
- c. Conduct regular cost analysis of leasing of warehouses vis-à-vis maintenance expenses considering the results of review and assessment conducted in Item (a), and thereafter, render report with corresponding recommendation to avoid the incurrence of unnecessary expenses in warehouse rental and security services; and**
- d. Henceforth, strictly observe the guidelines set forth in the NFA SOP No. GM-WH05, on leasing of private warehouses and NFA SOP No. GM-WH07, on FIFO policy.**



29.13 Management gave the following comments:

a. Cavite PO-

a.1 Payment of warehouse rentals of Omni and JY & Sons II was on a per bay basis. Three bays of JY & Sons II were being occupied for year 2016. Omni warehouse maintained four bays from January to October 2016 while terminating warehouse numbers 3 and 7 in November and December 2016. Aside from three bays of JY & Sons II, NFA will only lease/maintain two warehouses of Omni (Warehouse numbers 4 and 5) starting January 1, 2017. Due to limited warehouse space and problems encountered in leasing new warehouses, two subsequent six-month contract extension of Omni was adopted with the same rental rate at P117.60/sqm., VAT inclusive.

a.2 Cavite PO resorted to leasing Omni warehouse number 5 due to non-availability of vacant warehouse adjacent to the existing three bays. Further, the prospective adjacent bay of JY & Sons II was not made available since the tenant opted to renew the lease warehouse contract with the management of JY & Sons. Prioritization of rice issuances from leased warehouses over NFA owned warehouse has been always taken into account. However, there were cases when rice stocks programmed for distribution were stored in the leased warehouses. To avoid clogging in the warehouse during receipts of importation, separate warehouse was being utilized/programmed in the issuance of rice for PO's stakeholders. As of December 31, 2016, the inventory levels of Omni warehouse numbers 3 and 7 were already empty and terminated/vacated effective October 2016 and December 31, 2016, respectively. Of the three Cavite PO warehouses, Omni had the lowest warehouse utilization rate. This was due to the plan to terminate the lease contract on the said warehouses once vacated in view of the liquidation of the accountabilities of the present Warehouse Supervisor due for retirement in December 2017.

b. SDO-

b.1 It maintains monthly rice inventory in consonance with approved marketing plan. However, for CY 2016, a total of 937,689 bags of imported rice were received during the first and second quarters of the year and 110,354 bags covering the last quarter of CY 2016. The total receipts for the first half of the year includes other NCR Districts allocation equivalent to 323,689 bags of rice which were accommodated by SDO due to simultaneous unloading of stocks from disports and the unavailability of warehouse space from other Districts. This was also the main reason that SDO started to occupy/lease JY & Sons FCIE-3 in February 2016.

b.2 The termination of contract on Uniden Warehouse with a capacity of 460,000 bags due to acquisition by DOTr of SDO's land, as site for the South Transport System Terminal Project, hindered the disposition of stocks from leased warehouses. The JY & Sons FCIE-3 warehouse was formally terminated on January 31, 2017 while Bays 1, 2 and 3 of FCIE-A took effect on May 31, 2017. SDO plans to vacate FCIE-A by the end of

June 2017. While FIFO policy will always be applied in the issuance of stocks, flexibility on this rule can be allowed due to some constraints per SOP No. GMS-WH07-A dated December 1, 2011, reference GMOD-IMD-2K15-G-31 dated July 23, 2015.

29.14 As a rejoinder, the Cavite PO Omni Warehouse No. 7 with remaining 12,350 bags as of June 30, 2016, was renewed from July to December 2016. Management could have considered transferring the stocks to adjacent Warehouse Nos. 3 and 4 which still had available capacity of 33,276 bags instead of renewing the lease term. The estimated cost of transferring the stocks computed by Management at P247,000 (12,350 bags x 4 moves x P5) was lower by P423,320 than the six-month rental of P670,320 [950 sqm. x P117.60/sqm x 6 months]. Management feared that the stocks might be cross-infected if transfer will be carried out; however, based on pile layouts both warehouses stored almost the same arrival of imported rice.

### **Warehouse Structure**

**30. Some provisions of the NFA's warehousing policies and procedures on warehouse custody, piling system, storage structure and specification, and good warehouse-keeping were not strictly observed at NFA warehouses which could result in environmental and health hazards and losses due to grain damage/deterioration in quality and value as well as theft/pilferage of stocks.**

30.1 NFA SOP No. GM-WH07 dated January 10, 1995 prescribes the warehousing policies and procedures, and covers, among others, the basic and accountability procedures, warehouse layout, warehouse maintenance, and standards and safety practices, as follows:

a. On Custody of Warehouse:

- All laborers working and assigned in the warehouse shall be required to wear identification cards. The identification card shall be controlled by each Provincial Offices. At the close of office hours, all doors, windows, sliding and other outlets of the warehouse shall be inspected daily by the Sr. Grains Operations Officer - Warehouse Supervisor (Sr. GOO-WS) together with assigned security guard to see to it that they are locked and secured. Moreover, a logbook wherein the detailed security guard shall receive the warehouse stating that there is no tampering of any door, window, sidings, roofing and other outlets, shall be maintained and updated at the start of every duty.
- The SGOO-WS shall be accountable for stocks in process at rice mill/dryers/silo wherein such facilities located within the issuing/receiving warehouse without any partition. There shall be one SGOO-WS assigned for every warehouse. However, duplex or triplex type warehouses shall be considered as one warehouse. There shall also be one regular GOO II-PCO and calibrator for every provincial office to effect immediate pest control administration and timely/regular calibration of all utilized platform scales. SGOO-WS shall refrain from delegating sensitive matters and

responsibilities like accountable document completion/filling out to the utility worker and/or laborers.

b. On Piling System:

- The Sr. GOO-WS shall decide on the height of piles in terms of bags of 50 kilogram 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
- For 100 kilogram net weight capacity- 15 to 18 per height pile

- The maximum allowable safe height of the pile of sacks must be determined so that the sack at the bottom of the pile should not be destroyed within a reasonable length of time. From warehouse experiences, 18 to 25 sacks of palay can be adequately supported by bottom bags without damage for at least six months or more.

- Stocks earlier received shall be piled in such a way that it will be convenient to issue such stock first. The FIFO principle shall always be applied.

- An updated bin card shall be attached to every pile.

c. On Storage Structure and Specifications:

- 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 the 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. On Good Warehouse-keeping:

- Warehouse Maintenance

- Inspection of roofing for any holes, leakages, or damages must be regularly made.

- Any sign of leak or damage shall be immediately reported in writing by the accountable officer for the necessary repair.

- Structural defects like gutters/downspouts shall be properly and immediately repaired.
- Cracks and crevices shall be properly filled up with cement plaster to remove places where dust, dirt, residue, etc. can accumulate and where insects can breed.
- Warehouse Hygiene and Sanitation
  - In warehouses where commodities are being moved daily, the entire work area should be swept daily. Sweepings should be reconditioned immediately, and the unrecoverable portions isolated for proper disposal.
  - A weekly cleaning of the top and sides of piles should be done to remove dust and webs and to eliminate possible breeding place of rats, birds and insects.
  - After cleaning the sides and top of the pile, the pile must be covered with mended unserviceable MTS on top and at least half of the sides to protect the pile from direct attack of birds and insect.
  - Unused pallets should be removed from the warehouse and kept in a separate storehouse together with other unused items.
  - Empty sacks should be stored in a separate storehouse if not required for immediate use.
  - If a separate building cannot be provided, sacks, pallets, pesticides, and unused machineries should be stored in a separate portion of the warehouse, grouped together and stocked neatly and orderly.
- Warehouse Safety
  - All personnel directly exposed to warehouse operations, including job orders must be required to use dust masks for health protection.
  - Fire extinguishers must be furnished and all necessary steps for fire prevention should be posted and taken up.
- Stock Locator System
  - All personnel directly exposed to warehouse operations, including job orders must be required to use dust masks for health protection.
- Warehouse Lay-out – The FIFO principle shall always be applied. Stocks earlier received shall be piled in such a way that it will be convenient to issue such stocks first.

30.2 Ocular inspection of some NFA warehouses revealed, however, that certain provisions and requirements were not strictly observed by some NFA POs, as presented in Table 83.

**Table 83 - Results of Ocular Inspection of Some Warehouses**

<b>ROs/POs</b>	<b>Deficiencies</b>
<b><i>On Custody of Warehouse</i></b>	
NCR-NDO, Cavite, Abra, Quirino, Nueva Vizcaya, Allacapan, Bulacan, Pampanga, Romblon, Palawan, Camarines Sur, Albay, Aklan, Capiz, Leyte, Southern Leyte, Zamboanga City, Agusan del Norte, Surigao del Norte, Butuan City	The wearing of identification cards for regular employees and workers provided by the labor contractor are not being required, which makes it difficult to determine whether all contract workers who are allowed access to the warehouse premises are legitimate.
Cavite, Abra, Bulacan, Pampanga, Palawan, Albay, Leyte, Southern Leyte, Zamboanga City, Zamboanga del Norte	Personnel and laborers do not wear masks during warehouse operations which is hazardous to their health.
Albay, Agusan del Norte, Butuan City	The Agency security guards do not maintain a separate logbook to record the documents for the incoming and outgoing stocks such as AI, WSI, WSR nor sign the "inspected by" portion in the WSI.
<b><i>On Piling System</i></b>	
NCR-NDO, Cavite, Ilocos Sur, Abra, Bulacan, Pampanga, Romblon, Palawan, Camarines Sur, Aklan, Capiz, Tacloban, Agusan del Norte, Butuan City	There are also piles that are too high and more than the standard height of piles, ranging from 32 to 38 bags per pile. These practices may cause the collapse of stock piles and damage to rice, at the same time the top layers are exposed to the heat coming from the roof.
Ilocos Sur, Abra	The sides and tops of piles were full of dirt and were not 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.
CR-NDO, Ilocos Sur, Abra, Bulacan, Pampanga, Romblon, Surigao del Norte	The required one-meter space was not consistently provided between piles, between pile and walls, between piles and posts.
NCR-NDO and Cavite	Some stock piles were not squarely levelled off on top. It was observed on the top piles that only the sides were squarely piled while the inner part was unevenly piled. This could result in inaccurate volumetric count and undetected theft/pilferages.
Cavite, Abra, Bulacan, Pampanga, Romblon, Palawan, Zamboanga City, Agusan del Norte, Surigao del Norte, Butuan City	Some sides and tops of piles were not covered by mended MTS exposing the stocks to birds' direct attack and wastes and spillages were not swept immediately that could result in losses due to non-recoverability of the stocks/sweepings.
NCR-NDO, Abra, Quirino, Nueva Vizcaya, Allacapan, Bulacan, Pampanga, Zambales, Romblon, Camarines Sur, Bukidnon	There are piles with no bin cards and those with bin cards attached, only the receipts of stocks were recorded or they were not updated as some information such as age, variety, moisture content, condition were not indicated.
<b><i>On Storage Structure and Specifications</i></b>	
NCR-NDO, Cavite, Ilocos Sur, Abra, Quirino, Nueva Vizcaya, Allacapan, Romblon, Palawan, Camarines Sur, Leyte, Southern Leyte, Tacloban, Zamboanga City, Zamboanga del Norte, Bukidnon, Agusan del Norte, Surigao del Norte, Butuan City	Cracks on the floor of all warehouses have remained unrepaired exposing the stored rice to ground moisture. Doors and openings/vents of the warehouses were either not screened or have deteriorated screen wires and do not have secondary screen doors allowing rats and birds to freely enter the warehouses causing spillage, infestation and contamination.

ROs/POs	Deficiencies
NCR-NDO, Cavite, Quirino, Nueva Vizcaya, Allacapan, Romblon, Camarines Sur, Aklan, Capiz, Oriental Mindoro, Oriental Mindoro	There were leaks and holes in the roofs of several warehouses. There were nearly broken doors, gutters/downspout and canopy that need immediate repair.
Ilocos Sur	The erected side wall at the front was a combination of concrete and galvanized iron. In CY 2009, a case of alleged robbery of security guards occurred due to forcible entry to the walls made of galvanized iron.
<b><i>On Good Warehouse-keeping</i></b>	
NCR-NDO, Albay, Davao del Sur, Davao City	Advance technology such as closed-circuit televisions (CCTVs) and other structures, such as, watch towers, bridges and safety nets/screens were not utilized to monitor activities/protect stocks inside the warehouses.
NCR-NDO	There were still warehouses with kitchen/pantry located inside the warehouse and cooking is allowed, particularly MFC 2, MFC 3 and MFC 7 warehouses. This unsound practice has an adverse effect to warehouse temperature/humidity which could lead to faster deterioration of rice stocks and cooking inside the warehouse exposes the warehouse facility, including the stored rice to fire.
NCR-NDO, Cavite, Bulacan, Pampanga, Camarines Sur	Unused pallets and empty sacks as well as unserviceable machineries are located near the piles of rice and not properly stored wherein this might be the hiding and breeding place of pests which could affect the warehouse atmosphere and lead to further deterioration of the warehouses and undue damage to rice stocks and warehouse supplies.
Cavite, Zambales	There were "No Smoking" signs inside the warehouses. One of the 171 laborers at Omni warehouse was smoking during ocular inspection/visit. Smoking is an environmental hazard as this could cause fire, pulmonary and other diseases due to unclean surroundings.
Ilocos Sur, Zamboanga del Norte	Expired fire extinguishers since CY 2014.
Quirino, Nueva Vizcaya & Allacapan	Warning signs and color codes were not adapted to caution or bring the personnel's attention to hazardous situations which might cause danger.
Isabela, Quirino, Nueva Vizcaya, Palawan, Zamboanga City, Zamboanga del Norte	There are WSs assigned with more than one warehouse located in different stations thus, the performance of their duties and responsibilities may be affected.

30.3 Non-adherence to warehousing policies and procedures could result in environmental and health hazards and losses due to damage/deterioration in quality and value as well as theft/pilferage of stocks. Likewise, the low stock level could not be readily determined at any given time if the stock/bin cards are not updated.

#### 30.4 We recommended that Management:

- a. Address the deficiencies noted on warehouse custody, piling system, storage structure and specifications, and good warehouse-keeping and; henceforth, strictly comply with the provisions of NFA SOP No. GM-WH07;
- b. Ensure that the Agency engineering team be regularly fielded to conduct inspection of all facilities for early detection of defects on their physical conditions so that necessary action can be immediately undertaken;

- c. Facilitate the immediate repair of the warehouse defects to prevent further warehouse deterioration and damage to the stocks, which could result in losses to NFA;**
- d. Remove the machineries that are no longer functioning inside the warehouses to provide more spaces for storage stocks;**
- e. Ensure that the WS be assigned to one warehouse only to enable him to fully exercise his duties and responsibilities with the diligence of a good father of a family; and**
- f. Consider the utilization of advance technologies such as CCTVs in all NFA warehouses to monitor activities inside the warehouse and discourage unscrupulous activities.**

30.5 Management provided the following comments/justifications:

- a. The WSs have been instructed to adhere to the SOP on warehouse policies and procedures, and good warehouse-keeping and reminded that their respective laborers wear IDs for proper identification. (Ilocos Sur, Abra, Region II, Bulacan, Romblon, Palawan, Region V, Capiz, Zamboanga City and Agusan del Norte POs)
- b. On cracks on floors, walls and roof leaks in warehouses, repairs of damaged roofs in some warehouses were already completed, others have already initiated partial repairs while other POs are awaiting the start of repair because of weather conditions and funding. The repair of typhoon-damaged structures will be starting soon since Notice to Proceed has been served to the Contractor. (Regions I, II, III, IV-A, IV-B, V, VI, IX and XV POs)
- c. WSs having multiple warehouse assignments arise when there is influx of rice stocks that cannot be accommodated in one warehouse, but on scheduled operation. Management informed POs that they have to be flexible to adjust with limited plantilla position but not sacrificing responsibility, accountability and internal control. A proposed training and re-orientation of all WSs will be scheduled this year. (Region II, XV, Palawan and Zamboanga POs)
- d. Piling in some warehouses reached up to 30 bags height because maximum capacity piling/warehouse space utilization was ordered during the CY 2016 incoming of stocks. (Abra, Bulacan, Romblon, Palawan, Region V, VI and Agusan del Norte POs)
- e. Since there were no separate buildings for empty sacks and pallets provided, one Job Order employee has been assigned to maintain cleanliness in the warehouse, and wooden pallets were already cleaned. In addition, a Memorandum for the provision of separate portion of the warehouse where the pallets and empty sacks will be stored will be disseminated to all WSs for compliance. (Abra, Region III, Palawan, Region V and Agusan del Norte POs)

f. Pest control measures were conducted as scheduled to preserve the quality of all stocks stored and Pest Control Officers were advised to provide tarpaulin/sacoline to all warehouses to cover and protect the top layer of all piles from direct attack of birds and insects. (Pampanga PO)

g. The use of dust mask for health protection by all warehousing personnel will be implemented and fire extinguishers shall be installed this year. (Region I, Palawan, Albay and Zamboanga City POs)

h. Based on inspection/evaluation conducted on the warehouses without flooring, the Provincial Evaluation Committee decided to lease said warehouse due to insufficient warehouse space. Likewise, they committed that in the next procurement season, they will look for a warehouse that meets NFA's warehouse structure specifications. (Romblon and Occidental Mindoro POs)

i. The WSs were instructed to maintain a logbook during the opening and closing of their respective warehouses, which will be countersigned by the guard on duty for security reasons and determination of accountability. (Regions V and VI POs)

j. There will be coordination with the Operation Supervisor/Economist to adhere to the recommendation to comply with NFA SOP No. GM-WH07 on warehousing policies and procedures. Ocular inspections will be conducted to ensure compliance with policies and procedures by the SGOOs. (Bulacan PO)

30.6 As a rejoinder, the Audit Teams appreciated the actions taken/commitments made by Management to implement the audit recommendations. However, regular monitoring will be conducted as those are reiterated observations that were not completely addressed by Management. The Audit Teams also stressed that proper maintenance of warehouses should always be prioritized especially those involving major repairs on structures of warehouses so as not to affect the operations of NFA. Any delays could adversely result in unnecessary loss and additional cost to the government.

### **Filler Transactions**

**31. The actual net kilograms (nkgs) of stocks sold with filler transactions and the balances of stocks at any given month cannot be accurately determined due to: a) the emptied bags from issued filler stocks that were not documented by a separate Authority to Issue (AI) and Warehouse Stock Issue (WSI) required in NFA SOP No. GM-DN10.A in NDO and five POs; b) the discrepancy between the total number of bags issued as fillers in the Stock Reports and its total equivalent to net kilograms (nkgs) based on the WSIs in NDO, CDO and four POs; c) the unaccounted receipt of excess kgs from withdrawals of stocks in NDO and Eastern Pangasinan PO; and d) WSIs with erasures/alterations and incomplete information that resulted in erroneous stock reports.**



31.1 The NFA established specific policies, procedures, documentation and reporting system of warehouse operations in SOP Nos. GM-WH07 dated January 10, 1995, GM-WH11 dated February 15, 2001, GM-DN10 dated April 28, 1995 and GM-DN10.A dated September 4, 2006, among others.

31.2 NFA SOP No. GM-DN10.A entitled, "*Amendment to the Implementing Guidelines on Filler Transactions*" put in place the warehouse documentation and reporting system of Filler transactions. The filler stocks are issued when the authorized quantity of stocks for issuance per AI as to the number of bags was fully served but the nkg still has a balance for issuance. On the other hand, there are cases wherein the nkgs have been served, but the number of bags still has a balance per issuance, in which case filler sacks are issued.

31.3 Item II.A.1.3 of the NFA SOP No. GM-DN10.A, states that:

*II. Implementing Guidelines*

*A.1.3 The quantity of emptied containers from filler stocks for a certain month shall be documented by a separate WSI and a corresponding ESR as receipt of MTS from fillers.*

*At the end of every month, the Warehouse Supervisor (WS) shall request for the preparation of an AI (Authority to Issue) for the emptied containers from filler stocks issued for that particular month. The request shall be supported by a statement of filler stocks issued indicating the following:*

- a. WSI number covering the stocks issued to the buyer/customer*
- b. Date of WSI*
- c. Volume of stocks issued as fillers*
- d. Number of emptied containers; and*
- e. Type of sack*

*The number of bags to be requested for the AI shall be the **actual number of bags emptied from filler stocks** for the month.*

*The WSI and the ESR covering the emptied containers of filler stocks shall be issued simultaneously. The quantity of emptied containers from filler stocks for the month and the ESR number shall be indicated in the WSI while the WSI number shall be indicated in the ESR.*

*Non-documentation of Issued Stocks as Fillers*

31.4 Review of warehouse documents and reports in the issuance of stocks such as the Summary of Weekly Stock Receipts, Issues and Balances, Authority to Issue (AI) and Warehouse Stock Issue (WSIs) in CY 2016 showed that filler transactions in NDO, Eastern Pangasinan, Biliran, Southern and Northern Leyte and Northern Samar POs were not completely supported by the required documentation, as discussed in Table 84.

**Table 84 - Deficiencies in the Documentation of Filler Transactions**

<b>District/PO</b>	<b>Deficiencies</b>
NDO	Based on Stock Reports and Issuances, a total of 2,486 bags were reported as fillers for stocks issued at less than 50 kgs./bag. Verification of the WSIs revealed that these filler bags reported as issued to various retailers were not documented by a separate AI and WSI. Inquiry from the WSs revealed that they are not preparing a separate AI and WSI for the number of bags issued as fillers at the end of each month as they already have the Empty Sack Receipts (ESRs) form for emptied containers from filler stocks indicated in the WSI together with the number of bags issued as filler on the bottom right portion of the WSI. Likewise, the number of bags issued as fillers were also included in the Statement of Weekly Issues-Grains as part of the Stock Reports being submitted.
Eastern Pangasinan	Als were issued despite the absence of request by the Stock Accountable Officers (SAOs). Inquiry from the Operations Section revealed that some SAOs did not submit a request but Als were issued.
Biliran	The Request for Preparation of AI for the emptied containers from filler stocks issued was not regularly done by the WS and no Statement of Filler Stocks Issued was attached to support the Request for Preparation of AI; hence, the weight of reported authorized fillers cannot be determined. As per audit inquiry, the WS overlooked the documentation of filler stocks for reasons that he need to comply with the deadlines in submitting warehouse reports. Also, the Stock Book was used to support Request for Preparation of AI for filler stocks issued instead of the Statement of Fillers Stock Issued.
Southern Leyte	Verification of the Request for Preparation of AI, WSIs and ESRs for filler transactions disclosed that only 85 bags or 4,161.21 nkgs of imported rice were authorized/documented by the Provincial Manager. Thus, out of 95 bags or 4,703.54 nkgs of imported rice, 10 bags or 542.33 nkgs were undocumented/unauthorized.
Northern Leyte	Emptied sacks from filler stocks issued for the period January to June 2016 at the Port Area Warehouse were not supported with separate WSI and ESR, such that the WS did not request for the preparation of AI for the emptied containers from filler stocks for the said period.
Northern Samar	Verification of stock reports disclosed that the preparation of Request for Preparation of AI for the emptied containers from filler stocks issued was not regularly done by the WSs in Bobon Warehouse and Catubig Warehouse. There was no Statement of Filler Stocks Issued attached to support the Request for Preparation of AI in Catubig Warehouse and in some period in Bobon Warehouse, Rawis Warehouse and NFA-owned Warehouse. Hence, the total weight of documented/authorized fillers cannot be determined. Also, the Statement of Filler Stocks Issued in Bobon Warehouse was understated by 412.27 kgs due to error in computation resulting in erroneous documentation of filler stocks issued.

31.5 The non-issuance of the required documents for the filler stocks, particularly the WSIs, resulted in discrepancies in the number of bags issued per WSI and per Stock Report. Also, this is an indication of weak internal control, which if not timely corrected opens the floodgate of abuse since there is a possibility that AI for filler stocks is obtained without accounting of the actual fillers issued.

*Discrepancy between the total number of bags issued as fillers in the Stock Reports and its total equivalent to nkgs based on the WSIs*

31.6 In NDO, analysis of the Summary of Weekly Stock Receipts, Issues and Balances (Stock Reports) submitted by the WSs revealed that for the period January 1,

to June 30, 2016, the NDO had total receipts of 564,546 bags and total issuances of 488,008 bags, as shown in Table 85.

**Table 85 - Stock Inventory as of June 30, 2016 - NDO**

	No. of Bags	Nkgs	Ave. Nkgs
Beginning Inventory, 1/1/16	1,230,396	61,405,119.82	49.9068
Stocks Receipt, January- June 2016 (based on WSRs)	564,546	28,187,821.27	49.9300
<b>Total Goods Available</b>	<b>1,794,942</b>	<b>89,592,941.09</b>	<b>49.9141</b>
Sales/Issuances, January- June 2016 (based on WSIs)	485,522	24,196,947.45	49.8370
Fillers Issued	2,486	88,401.40	35.5597
<b>Total Issuances</b>	<b>488,008</b>	<b>24,285,348.85</b>	<b>49.7642</b>
Ending Inventory, 6/30/16	1,306,934	65,307,592.24	49.9700

31.7 The 488,008 bags total issuances, consisted of 51,028 bags at 50 kgs/bag (which were presumed to have been weighed at the warehouses' platform scale as these were issued with pertinent WSIs), 367,623 bags at an average weight of 49.7469 kgs/bag, 66,871 bags at an average weight of 50.2077 kgs/bag and 2,486 bags for filler transactions at an average weight of 35.5597 kgs/bag.

31.8 Analysis revealed that based on WSIs issued from January 1 to June 30, 2016, the total kgs of rice issued as fillers to various retailers to complete the 50 nkgs/bag of the stocks they withdrew from NDO warehouses was 88,401.40 kgs. When compared against the reported number of bags in the Stock Reports (totaling 2,486 bags), it would only result in an average of 35.5597 nkgs/bag [88,401.40 kgs/2,486 bags] of filler stocks.

31.9 The average nkgs per bag of issued stock is at 49.8370, which is way above the average nkgs/bag of the filler stocks issued which is at 35.5597. This should not be the case as the bags for filler issuances came also from the same pile of stocks at the warehouses. Details of the issued fillers in the nine NDO warehouses based on Stock Reports and WSIs are shown in Table 86.

**Table 86- Issued Fillers Based on Stock Reports and WSIs for the Period January- June 2016**

Particulars	Fillers per Stock Reports (In Bags)	Fillers Issued per WSIs (In Kgs)
<b>Total Issued Fillers</b>	<b>2,486</b>	<b>88,401.40</b>
Average nkgs/bag of fillers (88,401.40/2,486)	35.5597	
Average nkgs/bag of all issued stocks	49.8370	
<b>Should be fillers using the Average nkgs/bag of issued stocks (88,401.40 kgs/49.8370 nkgs)</b>	<b>1,774</b>	<b>88,401.40</b>
<b>Variance in the number of bags issued as fillers (2,486 bags – 1,774 bags)</b>	<b>712</b>	
<b>Variance in the number of kgs issued as fillers (712 bags x 49.8370 nkgs)</b>		<b>35,483.87</b>

31.10 As shown in Table 86, there is an overstatement in the recorded number of bags of fillers of approximately 712 bags in the Stock Reports and in the accounting records/books for the sales of rice through fillers during the 1st semester of CY 2016. The number of bags of fillers should only equal to around 1,774 bags as the total actual issued fillers in kgs indicated in the WSIs was 88,401.40 kgs only.

31.11 In CDO, as in prior year's audit, there were discrepancies in the number of bags and/or nkg of fillers recorded in the Stock Reports and those issued based on the WSIs for January to June 2016, as presented in Table 87.

**Table 87- Fillers per Stock Reports and WSIs - CDO**

Month CY 2016	No. of Warehouses	Fillers per Stock Reports (In Bags)	Equivalent Nkgs	Fillers per WSIs (In Nkgs)	Under (Over) statement (In Nkgs)	Remarks
January	4	99	4,950.00	4,857.77	(92.23)	Net overstatement
February	5	52	2,600.00	1,325.44	(1,274.56)	Net overstatement
March	4	88	4,400.00	3,522.95	(877.05)	Net overstatement
April	4	64	3,200.00	2,952.94	(247.06)	Net overstatement
May	4	104	5,200.00	5,494.41	294.41	Net understatement
June	7	256	12,800.00	13,403.42	603.42	Net understatement
<b>Total</b>	<b>28</b>	<b>663</b>	<b>33,150.00</b>	<b>31,556.93</b>	<b>(1,593.07)</b>	<b>Net overstatement</b>

31.12 As shown in Table 87, a total net overstatement of 1,593.07 nkgs from January to June 2016 was recorded in the Stock Reports and eventually in the accounting records/books for the sales of rice through fillers during said months. The overstatement occurred when the 50 nkgs equivalent of each bag of filler per Stock Reports exceeded the accumulated nkgs of fillers issued per WSIs in a warehouse, wherein said accumulated fillers should have been 50 nkgs to be able to record the one bag of filler in the Stock Report. The data were gathered based on the fillers indicated in the WSIs and also the fillers contained in the WSIs for emptied sacks which were the bases for the recording in the Stock Reports of fillers at one bag each. It was noted, however, that some fillers were not indicated as such in the WSIs while other fillers indicated were deemed to be the weights of the empty sacks or MTS used to contain the rice stocks.

31.13 In Northern Leyte PO, analysis of filler transactions from January to August 2016 disclosed that only 114 bags or 5,862.6713 nkgs were for filler stocks. However, verification of Stock Reports showed a total authorized/reported filler of 517 bags or 25,999.4100 nkgs issued and 46 bags or 2,278.3130 nkgs unauthorized/unreported filler stocks issued, thereby showing a total of 449 bags or 22,415.0517 nkgs over issued filler stocks, of which 72.72 per cent were incurred at Ormoc Warehouse in Ormoc City, as tabulated in Table 88.

**Table 88- Analysis of Filler Transactions for the Period January to August 2016 – Northern Leyte PO**

Particulars	No. of Bags	Average Nkg/Bag	Total Nkgs
Total sales based on ave. nkg of sold stocks	106,217	49.9963	5,310,456.4900
Total sales based on ave. nkg of goods available on hand	106,217	49.9411	5,304,593.8187
Should be fillers	****114	00.0552	5,862.6713
Less: Authorized/Reported Fillers*	517	50.3072	25,999.4100
Over-issued fillers	*** (403)	49.9411	(20,136.7387)
Unauthorized/Unreported Fillers**	(46)	49.9411	(2,278.3130)
<b>Total Over Issued Filler Stocks</b>	<b>**** (449)</b>	<b>49.9411</b>	<b>(22,415.0517)</b>

\* Authorized/Reported Fillers- Filler stocks issued with Request for Issuance of AI, AI, WSI and ESR

\*\* Unauthorized/Unreported Fillers- Filler stocks issued without Request for Issuance of AI, WSI and ESR and/or were not included in the Statement of Fillers Stocks Issued. (2,278.3130/49.9411)

\*\*\* Over issued filler stocks was computed by dividing the difference in nkg by the ave. nkg of goods available on hand [(5,862.6713-25,999.4100)/49.9411]

\*\*\*\* Should be fillers were computed by adding the no. of bags of over issued fillers and authorized fillers. [(403) + 517]

\*\*\*\*\* Total Over Issued Fillers was computed by dividing the sum between over issued fillers and unauthorized/unreported fillers by the average nkg of goods available on hand. [(20,136.7387+2,278.3130)/49.9411]

31.14 Verification of the WSIs and AIs for the period January to August 2016 disclosed that total filler stocks of 28,277.723 nkgs were issued at the three (3) warehouses of Northern Leyte PO, out of which, only 25,999.410 nkgs was authorized by the Provincial Manager.

31.15 A survey/inspection of 13 retailers in Ormoc City and in the Municipalities of Kananga and Merida was conducted. Of the 13 retailers interviewed, two were not aware/familiar with the warehouse transactions since they did not personally withdraw the stocks at the warehouse. The respondents said that they receive fillers when loose/busted bags are issued to them. Likewise, nine (9) retailers admitted that the fillers they received were not sacked separately but rather included in one or more bags originally issued. Two respondents said that they provide sacks for the filler stocks. Further, two respondents said that the maximum weight of fillers they received approximates 15 to 20 nkgs if they purchase 30 to 100 bags of rice. However, upon verification of the corresponding WSIs issued to the latter, the maximum weight of fillers were 251.50 nkgs and 49.10 nkgs, respectively. Verification of WSIs issued at Ormoc Warehouse showed that the maximum weight of fillers issued to retailers within the period January to August 2016 was 324 nkgs.

31.16 In Biliran, Southern Leyte, and Northern Samar POs, analysis of the filler transactions for CY 2016 disclosed unaccounted fillers of 110 bags, 165 bags and 661 bags, respectively, as shown in Table 89.

**Table 89 - Analysis of Filler Transactions of Biliran, Southern Leyte and Northern Samar POs**

Particulars	No. of Bags		Average Nkg/Bag		Total Nkgs	
	Imported Rice	Local Rice	Imported Rice	Local Rice	Imported Rice	Local Rice
<b>BILIRAN</b>						
Total sales based on ave. nkg of stocks sold	41,647	1,612	49.9999	49.9993	2,082,348.0000	80,599.0000
Total sales based on ave. nkg of goods available for sale	41,647	1,612	49.6200	49.6454	2,066,524.1400	79,987.4400
Should be fillers*	319	12	0.3799	0.3539	15,823.8600	611.5600
Less: Accounted/Issued Fillers **	213	8	49.6200	49.6454	10,580.4910	417.5600
<b>Unaccounted Fillers</b>	<b>106</b>	<b>4</b>	<b>49.6200</b>	<b>49.6454</b>	<b>5,243.1090</b>	<b>194.0000</b>
<b>SOUTHERN LEYTE</b>						
Total sales based on ave.nkg of stocks sold	48,385		50.0000		2,419,252.0000	
Total sales based on ave. nkg of goods available for sale	48,385		49.7330		2,406,334.2630	
Should be fillers *	260		49.7330		12,917.7370	
Less: Accounted/Issued Fillers **	95		49.7330		4,703.5400	
<b>Unaccounted Fillers</b>	<b>165</b>		<b>49.7330</b>		<b>8,214.1970</b>	
<b>NORTHERN SAMAR</b>						
Total sales based on ave. nkg of stocks sold	192,433		49.9984		9,621,342.0000	
Total sales based on ave. nkg of goods available for sale	192,433		49.5099		9,527,342.5692	
Should be fillers *	1,898		0.4855		93,999.4308	
Less: Accounted/Issued Fillers **	1,237		49.5099		61,265.6320	
<b>Unaccounted Fillers</b>	<b>661</b>		<b>49.5099</b>		<b>32,733.7988</b>	

\* No. of bags of should be fillers were computed by dividing the total nkg of should be fillers by the ave. nkg of goods available on hand.

\*\*No. of bags of issued/accounted fillers were computed by dividing the total nkg issued by the ave. nkg of goods available on hand.

31.17 In Biliran PO, analysis of filler transactions for CY 2016 disclosed that 319 bags or 15,823.86 nkgs of imported rice and 12 bags or 611.56 nkgs of local rice were for filler stocks as shown in Table 89. Further verification of Stock Reports and WSIs showed a total of accounted/issued filler stocks of 213 bags or 10,580.4910 nkgs of imported rice and eight (8) bags or 417.56 nkgs of local rice, thereby showing total unaccounted filler stocks of 106 bags or 5,243.1090 nkgs of imported rice and four (4) bags or 194 nkgs of local rice.

31.18 In Southern Leyte PO, review of transactions for the period January to September 2016 revealed that 260 bags or 12,917.7370 nkgs of imported rice were for filler stocks as shown in Table 89. Further verification of Stock Reports and WSIs showed a total of accounted/issued filler stocks of 4,703.5400 nkgs, thereby showing total unaccounted filler stocks of 8,214.1970 nkgs of imported rice.

31.19 In Northern Samar PO, filler transactions for CY 2016 disclosed that 1,898 bags or 93,999.4308 nkgs of imported rice were for filler stocks as shown in Table 89. Moreover, verification of Stock Reports and WSIs showed a total of accounted/issued filler stocks of 61,265.6320 nkgs, thereby showing a total unaccounted filler stocks of 32,733.7988 nkgs of imported rice

31.20 The discrepancy in the number of bags of fillers issued per Stock Reports and its equivalent to kgs per WSIs casts doubt on the correct recording of the actual nkgs of bags of rice sold with filler transactions.

*Unaccounted receipt of excess kgs. from withdrawals of stocks*

31.21 In NDO, analysis of the issued WSIs showed that there were stock issuances to various retailers that weighed more than 50 nkgs/bag. For the 1st semester of CY 2016, a total of 66,871 bags with net weight of 3,357,442.12 kgs., averaging to 50.2077 nkgs/bag, were issued to various retailers. The required gross kgs in the said number of bags issued was only 3,351,032.28, therefore showing an excess of 6,409.84 kgs or an equivalent to approximately 128 bags. The excess kgs per said issuances ranged from 0.50 kgs to 214 kgs.

31.22 Excess in the required nkgs in the withdrawals of stocks by various retailers happens when the total Net Weight (NWT) of the number of bags being withdrawn exceeded the required Gross Kgs (50 kgs/bag + MTS weight) to be issued, as shown in Table 90.

31.23 Review of submitted reports pertaining to said stock issuances revealed that no proper accounting/documentation is being made for this kind of transaction. In the issued WSIs, the issuances of filler stocks were indicated in the "add/less" portion of the computation. "Add" means fillers were issued as the required gross kgs. of the number of bags being withdrawn was not yet served, while "less" means there was an excess in the gross kgs of the number of bags being withdrawn.

31.24 Interview with the WSs revealed that the excess kgs are being collected from the bags using the "buriki" method (a probe use to sample rice from sacks). The collected kgs of rice will be put to the filler box (only warehouse MFC 7 has a filler box) or returned to bags and will be used in the issuances of filler stocks.

**Table 90 - Excess Kgs. in the Issuance of Stocks Weighing More than 50 Kgs/Bag**

Warehouse	No. of Bags Issued a	Gross Kgs b	Net Kgs c	Weight of Empty Sacks (in Kgs) d=b - c	GWT (in Kgs) e	TWT (in Kgs) f	NWT (in Kgs) g=e - f	Total Nkgs in Excess of NWT h=b - g
MFC 2	4,440	222,519.70	222,000.00	519.70	390,025.00	167,110.00	222,910.00	(390.30)
MFC 3	15,559	779,711.54	777,950.00	1,761.54	1,380,560.00	599,150.00	781,410.00	(1,698.46)
MFC 4	2,218	111,161.86	110,900.00	261.86	229,120.30	117,650.00	111,470.30	(308.44)
MFC 5A	8,645	433,201.17	432,250.00	951.17	686,835.00	253,095.00	433,740.00	(538.83)
MFC 5B	8,310	416,420.20	415,500.00	920.20	685,490.00	268,470.00	417,020.00	(599.80)
MFC 5C	5,950	298,154.50	297,500.00	654.50	486,370.00	187,800.00	298,570.00	(415.50)
MFC 5K	141	7,066.72	7,050.00	16.72	13,254.72	6,180.00	7,074.72	(8.00)
MFC 5L	1,230	61,643.60	61,502.00	141.60	115,821.80	54,060.00	61,761.80	(118.20)
MFC 7	20,378	1,021,152.99	1,018,900.00	2,252.99	1,576,189.30	572,382.00	1,023,485.30	(2,332.31)
<b>Total</b>	<b>66,871</b>	<b>3,351,032.28</b>	<b>3,343,552.00</b>	<b>7,480.28</b>	<b>5,563,666.12</b>	<b>2,225,897.00</b>	<b>3,357,442.12</b>	<b>(6,409.84)</b>

MTS – Empty Sacks    TWT – Tare Weight    GWT – Gross Weight    NWT – Net Weight

31.25 In Eastern Pangasinan PO, verification of the stock issuances revealed that there were instances when the gross weight per truckscale ticket is more than what was needed to fully serve the nkgs sold, as shown in Table 91.

**Table 91- Summary of Verification of Stock Issuances in Eastern Pangasinan PO**

WS/S AO	Month	Net Weight per Truck Scale Ticket (TST)	No. of Bags	WSI No.	Gross Weight per WSI	Should be Total Gross Weight	Unaccounted Excess Stocks (NWT per TST less GWT per WSI)
<b>B. Aqbanlog</b>							
	January	3,510	70	23444222	3,507.70	3,509.10	2.30
	August	20,530	390	various	19,546.10	19,550.70	983.90
	September	20,030	397	various	19,891.34	19,901.61	138.66
	October	36,700	730	various	36,570.50	36,594.90	129.50
	November	61,050	1,215	various	60,841.13	60,907.95	208.88
	December	18,650	370	various	18,541.25	18,548.10	108.75
		<b>160,470</b>	<b>3,172</b>		<b>158,898.02</b>	<b>159,012.36</b>	<b>1,571.99</b>
<b>C. Bustamante</b>							
	January	7,050	140	various	6,975.40	7,018.20	74.60
	February	23,280	462	various	23,151.62	23,160.06	128.38
	March	2,510	50	23445310	2,506.50	2,506.50	3.50
	April	2,390	47	23445427	2,355.64	2,356.11	34.36
	July	21,360	425	various	21,276.50	21,305.25	83.50
	August	8,050	160	various	8,017.60	8,020.80	32.40
	September	4,040	80	various	4,009.25	4,010.40	30.75
		<b>68,680</b>	<b>1,364</b>		<b>68,292.51</b>	<b>68,377.32</b>	<b>387.49</b>
<b>C. Rosales</b>							
	December	<b>9,740</b>	<b>193</b>	various	<b>9,667.03</b>	<b>9,675.09</b>	<b>72.98</b>
<b>E. Bacalzo</b>							
	July	17,440	345	various	17,291.40	17,294.85	148.60
	August	10,290	200	23445923	10,024.00	10,026.00	266.00
	September	4,520	90	23964867	4,509.90	4,511.70	10.10
		<b>32,250</b>	<b>635</b>		<b>31,825.30</b>	<b>31,832.55</b>	<b>424.70</b>
<b>R. Bocaling</b>							
	April	1,510	30	23446207	1,503.60	1,503.90	6.40
	June	4,780	95	23961986	4,761.40	4,762.35	18.60
	July	15,180	300	various	15,034.30	15,039.00	145.70
	August	26,730	531	various	26,614.13	26,619.03	115.87
	October	1,510	30	23965409	1,503.60	1,503.90	6.40
	December	36,800	732	various	36,689.48	36,695.16	110.52
		<b>86,510</b>	<b>1,718</b>		<b>85,106.51</b>	<b>86,123.34</b>	<b>403.49</b>
<b>Total</b>		<b>357,650</b>	<b>7,082</b>		<b>354,789.36</b>	<b>355,020.66</b>	<b>2,916.64</b>

31.26 Although there were notations in some of the TSTs that the excess stocks were taken back from the sold stocks, the same were not treated following the guidelines prescribed in the aforementioned SOP. Since the excess stocks were not fully documented, it appears that said stocks were not added back to the SAOs' accountabilities, thereby these are deemed withdrawn.

31.27 The practice of not reporting the excess kgs in the issuances of bags of stocks weighing more than the required gross kgs is an indication of weak internal control, which when undetected and unresolved, encourages fraudulent acts by warehouse personnel.

*WSIs with erasures/alterations and incomplete information*

31.28 In NDO, there were issued WSIs that have erasures/alterations, GWTs and TWTs that do not tally with the corresponding TSTs and errors in the addition/subtraction which resulted in over-issuance of fillers of 520 kgs pertaining to four WSIs due to error in the computation. Details are shown in Table 92.

**Table 92 - Over-issuance of Fillers**

WSI No.	Warehouse	No. of Bags	Fillers (In Kgs)			Remarks
			Per WSI	Should be	Difference	
24272029	MFC 2	150	238.60	38.60	200.00	Issued 5 bags filler per ESR No. 1530884 11111530883
23650772	MFC 3	50	15.61	5.61	10.00	Issued 1 bag filler per ESR No. 1378641
24271469	MFC 3	130	15.72	5.72	10.00	Issued 1 bag filler per ESR No. 1531857
24269786	MFC 5L	697	327.44	27.44	300.00	Issued 7 bags filler per ESR No. 1531961
<b>Total</b>			<b>597.37</b>	<b>77.37</b>	<b>520.00</b>	

31.29 In Ilocos Sur and Abra POs, examination of WSIs attached to the stock reports as of July and August 2016, respectively, disclosed the following deficiencies:

- a. The name of the "Carrier," "Truck No." and "Inspected By" portions were not accomplished;
- b. Quantities in gross kgs were not written in words immediately below the closing asterisk mark, only the quantity in bags;
- c. Some of the affixed signatures of recipients were not required to be forcefully written thereby, such were unclear/unreadable;
- d. Some recipients' signatures were not affixed;
- e. Some erroneous entries were corrected using the correction tape instead of crossing such with a straight line; and
- f. Some corrected entries had no initials of the WS.



31.30 Item II.A.5 of NFA SOP No. GM-WH11 issued on January 29, 2001 states that *“Erasures in any form shall not be allowed. An erroneous entry shall be corrected by crossing with a straight line and the Warehouse Supervisor II (Sr. GOO) shall affix his initials over the correction.”*

31.31 The inability to observe proper documentation as prescribed in the SOP caused difficulty in the verification or immediate gathering of data or information.

31.32 The WSI serves as the document evidencing all stocks issued from the WS's accountability. It is the responsibility of the WS to ensure that computations are correct and any alteration/erasure made on the WSI bears his initial. The discrepancies noted on the above WSIs are also indications of breakdown of significant controls particularly in the issuance of filler stocks in the warehousing operations which could lead to undetected fictitious transactions or intentional errors to cover unscrupulous activities within the warehouses.

**31.33 In view of the above observations, we recommended that Management:**

- a. Require the WSs to document the emptied containers from filler stocks with a separate AI and WSI as required under NFA SOP No. GM-DN10.A;**
- b. Evaluate existing control measures in warehouse operations and institute additional controls, including the review of the documentation of receipts of excess kgs from issuances of stocks weighing more than 50 kgs/bag;**
- c. Instruct the WSs to observe proper documentation as prescribed in the NFA SOP No. GM-WH11 in accomplishing the WSIs; and**
- d. For NFA-NDO, direct the WSs to thoroughly review computations indicated in the WSI before signing the “Certified Correct” portion of the WSI and hold liable the WSs for the over issued fillers.**

**31.34 We also reiterated our recommendations in prior year's audit that Management:**

- a. Require the strict monitoring and accounting of the filler transactions of warehouses starting from the recording of the fillers in the WSIs up to the recording of the transactions in the Stock Reports and in the accounting records/books;**
- b. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse;**
- c. Ascertain the accuracy of the reported number of filler bags issued and account for the difference per stock report and its equivalent kgs per issued WSIs; and**

**d. Initiate investigation to determine personnel responsible for possible fraudulent activities, particularly in the issuances of fillers, so that appropriate measures and sanctions are enforced on those found guilty of fraudulent acts.**

31.35 The following comments were provided by Management:

a. NDO- The issuance of the AI for filler transactions has been started last March 2017 based on the request of the WSs. A committee will be created to conduct thorough analysis and verification of warehouse transactions, to monitor the filler transactions of the warehouses, to evaluate existing controls in the warehouse operations and to institute additional controls on the issuance of fillers. On the issuance of WSIs, the WSs are reminded/instructed to review the details and computations indicated therein before signing.

b. CDO- It issued Memoranda to ensure the veracity of the filler transactions of the different warehouses. Upon verification of filler transactions of CDO warehouses for the period January to June 2016, the fillers and the emptied bags for fillers in the WSI were properly recorded in the stock reports (with attached summary report on filler transactions). Upon further study and analysis, there was no net overstatement or understatement on fillers (nkgs) provided that the recorded fillers in WSIs are the actual fillers issued for the underweight stocks. Also, the weights of bags of rice that are emptied are not pegged at 50 kgs. Most of the bags of rice weighed less than 50 kgs.

c. Ilocos Sur PO- It reminded all WSs to strictly observe proper documentation of all warehouse transactions accompanied by an Office Memorandum issued to them for their guidance and reiteration of the instructions.

d. Abra PO- It implemented several distribution strategies to increase sales such as the adoption of tie-up sales ratio on the different varieties of ageing stocks was one of them. Rice retailers demanded fast or immediate issuances and weighing of their rice purchases. The WS was instructed to immediately comply with the recommendations. The deficiencies identified were results of their experiences that oftentimes tolerated, such as:

d.1 Buyers leave after witnessing the counting and weighing of stock purchases and subsequently claimed their WSIs and ORs;

d.2 Carrier shows up only after piling of rice stocks, thus, "Carrier" portion has not been accomplished;

d.3 Representatives or carriers cannot write properly and legibly. Carriers utilize two or more tricycles to load rice; and

d.4 Retailers come at the warehouse in groups which creates queuing, thus, multiple encoding and weighing of stocks are done simultaneously.

e. Northern Leyte PO- It issued Memorandum to all warehouses for the strict compliance of the SOP on filler transactions and made an assurance that it will conduct further verification on the reported filler transactions in CY 2016.

f. Northern Samar PO- The number of bags of stocks/net kilograms of stocks was based on the Bill of Lading and with the assumption that the stocks received were in good condition.

g. Biliran PO- The over-issuance of filler stocks was due to the change in weight and age of the stocks and NFA Southern Leyte commented that due to the delay in the preparation of the reports, matters pertaining thereto were overlooked.

31.36 As rejoinder to NDO's comment, the concerned Audit Team stands by its audit recommendations that strict monitoring and accounting be made on the filler transactions of warehouses; the accuracy of the reported 2,486 bags filler transactions and the receipt of 6,409.84 excess kgs from sales of stocks weighing more than 50 kgs/bag during the first semester of CY 2016 be investigated/verified; and that a report be prepared to provide documentation of activities undertaken. Also, the WSSs shall be required to pay the amount equivalent to the 520 kgs over-issued fillers due to incorrect computation.

#### **Unissued Filler Stocks to Buyers or Retailers**

**32. The reliability of recorded filler stocks in Ilocos Norte and Ilocos Sur POs of 34,901.87 nkgs or equivalent to approximately 698.04 bags for all rice varieties could not be ascertained due to some admissions and allegations that filler stocks were not received or fully received by concerned retailers or buyers, thereby defeating the purpose and intent of the issuance of filler stocks.**

32.1 NFA outlined specific policies, procedures, documentation and reporting system of warehouse operations under SOP Nos. GM-WH07 dated January 10, 1995, GM-WH11 dated February 15, 2001, GM-DN10 dated April 28, 1995, and GM-DN10.A dated September 4, 2006, among others.

32.2 NFA SOP No. GM-DN10.A, entitled "*Amendment to the Implementing Guidelines on Filler Transactions*" provides for the warehouse documentation and reporting system of filler transactions. Filler stocks are issued when the authorized quantity of stocks for issuance per AI, as the number of bags fully served but the net kilograms still has a balance for issuance. On the other hand, there are cases wherein the nkgs have been served, but the number of bags still has a balance per issuance, in which case filler sacks are issued. Said SOP also states that recipients/buyers are required to provide containers for filler stocks where the said filler stocks are to be transferred.

32.3 Filler stocks are reported in the Weekly Stock Reports particularly in the Statement of Weekly Issues wherein the net weight of the filler stocks is presented as part of the gross and net weights of the sales/distribution which is the basis of the Accounting Office in recording the cost of inventories from rice sales.

32.4 At the end of every month, WSSs request for an inspection and preparation of an AI for the emptied containers from filler stocks issued to buyers supported with a list of filler stocks issued derived from the WSSs served for that particular month. Said request

is then the basis of the Accounting Office to recognize in the books in the form of a memorandum entry.

32.5 For CY 2016, the Ilocos Norte and Ilocos Sur POs had total stocks outflow of 58,449 bags and 81,538 bags, respectively, for all rice varieties inclusive of an approximately 698.04 bags or 34,901.87 nkg that were accounted for as filler stocks. The breakdown of the filler stocks per rice variety is shown in Table 93.

**Table 93- Filler Stocks per Rice Variety**

Variety	NFA Ilocos Norte PO		NFA Ilocos Sur PO	
	Nkg	Bags	Nkg	Bags
VCEW51	3,464.40	69.29	2,037.00	40.74
VCCW51	4,080.00	81.60	2,533.96	50.68
TFEW51	834.30	16.68	1,410.80	28.22
TFCW51	982.40	19.65	3,008.33	60.17
VCEW52	4,579.01	91.58	10,300.64	206.01
WD1G50 (Local Rice)	275.70	5.51	1,395.33	27.91
<b>Total</b>	<b>14,215.81</b>	<b>284.31</b>	<b>20,686.06</b>	<b>413.73</b>

32.6 It is the standard policy and procedure of the Agency that at every month or nearing month end, WSs request for an inspection and issuance of an AI of emptied sacks brought by filler stocks accompanied by the recapitulation of filler stocks issued during the month/period derived from the WSI. The reported filler stocks for the month/period are recognized and recorded in the accounting books as a memorandum entry, whereas the corresponding costs are also recorded as part of the Cost of Goods Sold for the month.

32.7 The reported or recorded filler stocks are assumed then to have been received by the buyers or retailers to augment the deficiencies or loss in net weight of a standard 50 kgs. per bag of rice brought about by shrinkage, pilferages, decrease in the stock's moisture contents and other natural causes.

32.8 In Ilocos Norte PO, the Audit Team conducted a survey or interview in few selected market outlets including Out of the Market (OTM) retailers to prove that filler stocks are actually received by the buyers or retailers. Presented in Table 94 are facts and other information derived from the survey or interviews conducted.

**Table 94- Summary of the Results of Survey / Interview Conducted**

Questions Raised	Total Number of Respondents	Answered YES	Answered NO
Are you aware or do you have any knowledge about filler stocks?	42	22	20
Did you receive filler stocks as indicated in the WSI?	42	16	26
Did you personally witness the weighing of stocks and receive the corresponding fillers, if there is any?	42	16	26
Did you waive your rights to receive the filler stocks due you, as indicated in the WSI?	22	2	20

32.9 Results of the survey or interview with the 42 samples taken revealed that 26 retailers or 61.90 per cent admitted or alleged that they did not receive any filler stocks for every rice withdrawals or purchases, more so that they are not aware what “filler stock” is all about. The Audit Team presented samples of utilized WSIs with filler stocks to respondents who said that they did not receive any single kilo of filler stocks, pointing at the bottom/last portion of derived kgs per actual weighing to inform them that those are filler stocks that they are entitled to receive or due them.

32.10 Based on the result of the survey or interview, stocks withdrawn by the retailers alleged not to have been weighed at the NFA warehouse prior to issuance - as per WSI such was presumed to have been actually weighed with the corresponding provisions on fillers when in fact, actual weighing was not conducted. Considering that there was no actual weighing conducted, provisions on fillers are no longer required as it is presumed that the actual gross weight of every issued bag (waived not to be weighed) is equal to the standard gross weight per bag (50 kgs per bag plus weight of empty sack).

32.11 In Ilocos Sur PO, review and analysis made on selected filler transactions reported for the month of February and October 2016 by the three WSs at FLGC Tagudin Warehouse disclosed that of the 27 buyers of VCEW52 rice stocks taken from one pile, 24 buyers who purchased from two up to 25 bags had reported fillers ranging from 2 to 20 kgs. whereas, no fillers were reported for the three buyers particularly, LGU-Suyo which purchased 10 bags of VCEW52 rice stocks. Indicated in the WSIs of the three buyers were gross kgs that were equivalent to the nkgs.

32.12 The weight of stocks of TFCW51 in average nkgs in the month of October 2016 computed from the weekly stock reports is questionable as the average weight was increasing when it should be decreasing as the quantity of bags decreases hence the weight also decreases. The computed average nkgs of TFCW51 based on weekly stock reports is shown in Table 95.

**Table 95 - Computed Average Nkgs Based on Weekly Stock Reports**

<b>Period</b>	<b>Ave. Nkgs in Stock Reports</b>
October 1-7, 2016	51.70
October 8-15, 2016	52.21
October 16-22, 2016	52.28
October 23-31, 2016	53.08

32.13 The average actual weight per sales transaction as compared with the average nkgs computed from weekly stock reports prior to sale showed variances. The average nkgs in the stock reports is more than the average actual weight per WSI. The difference ranged from 0.46 to 0.86 kgs for VCEW52 whereas for TFCW51, the difference ranged from 0.28 to 3.10 kgs. These cast doubts as to the reliability of fillers stocks issued as well as the stock reports.

32.14 Moreover, filler stocks reported or presented in whole number on various WSIs are unrealistic as sacks weight are in decimal numbers, such as, 0.11, 0.12 and 0.075. The non-utilization of digital weighing scale or table-top weighing scale where filler stocks are to be weighed affects the accuracy of fillers issued.

32.15 Validation conducted from selected accredited retailers of the different market areas from the 1<sup>st</sup> and 2<sup>nd</sup> Districts of Ilocos Sur including LGUs (cities, municipalities and barangays) to determine whether filler stocks are received or fully received disclosed several allegations or claims, to wit:

- a. Copies of WSIs were not given to LGUs (cash and credit sales) and all accredited retailers. Only guard stubs are provided to them to be given to the guards before leaving the warehouse. Some just affixed their signatures in the WSIs unaware of data written on it while others affixed their signatures even if the WSIs are not yet filled out;
- b. LGUs had zero knowledge of fillers;
- c. Some buyers claimed that there is no actual weighing of stocks. Others are unsure if stocks are weighed because they delegated the withdrawal of stocks from NFA warehouses to their authorized representatives or drivers; and
- d. Fillers are received but when weighed upon arrival in their stall or place, the weight is usually short by 0.50 to 5.00 kgs per bag.

32.16 The simulated information on the documents to make them appear that filler stocks are authentic and actually received by concerned buyers or retailers, created doubts as to the reliability of recorded filler transactions during the year. If such practice continues to transpire, the unusual depletion of stocks in the guise of a purportedly legitimate filler transaction and the possible commission of fraud and irregularities could not be discounted. Likewise, the claim of some buyers that no actual weighing of stocks was undertaken, is also an indication of the possible commission of padded handling costs as “2 moves” are paid for sales transactions instead of “1 move” only.

32.17 Such claims or allegations demonstrate breakdown of controls in warehousing procedures that should be immediately and properly addressed as these might possibly lead to the commission of intentional errors and/or fraud while affecting also the integrity of the NFA POs.

32.18 **We recommended that Management:**

- a. **Instruct the WSs to: (i) furnish the buyers or retailers with a copy of the WSI, (ii) require the buyers to bring with them containers for fillers every time they purchase and witness the weighing of stocks, and (iii) issue the filler stocks to the buyer/retailer as indicated in the WSI with the corresponding signature opposite the name of the receiving party or the retailer/buyer acknowledging that they actually received the filler stocks;**
- b. **Instruct the Provincial Managers to disseminate to concerned retailers and buyers the NFA's policies and procedures on filler transactions;**

- c. Adopt control measures that would deter any possible unscrupulous acts, such as installations of CCTVs, to monitor warehouse activities and operations;**
- d. Require the WSs to strictly observe pertinent provisions of NFA rules, regulations and procedures on warehousing operations, particularly on the proper documentation procedure and reporting system of filler transactions; and**
- e. Issue table-top weighing scales to all WSs where fillers are to be weighed.**

32.19 Management submitted the following comments :

- a. The Ilocos Sur and Ilocos Norte POs agreed to advise the WSs to issue the filler stocks to the buyers as indicated in the WSI and affix their signatures to show that said filler stocks are received and to adhere the procedures, rules and regulations on warehouse operations.
- b. A meeting will be set with the retailers in Ilocos Norte PO to discuss policies and procedures to be implemented in selling NFA rice. As an initial action, it had verbally informed and explained to all buyers withdrawing their allocations about filler stocks especially to those retailers making big purchases as a bigger volume of fillers maybe expected to be issued. A Monitoring Team will be reconstituted to validate if filler stocks are issued to accredited retailers. Likewise, it shall also issue a directive to all security guards assigned at the gate of both warehouses to check entries appearing in the WSI being presented by the buyer before the latter is allowed to leave the NFA premises. If filler stocks are indicated in the WSI, the buyer will be requested to show same and to record the quantity in the guard's logbook. Lastly, a Committee will be created to conduct ocular inspection of the warehouses to evaluate and determine the number and location of additional CCTVs to be installed inside and in the loading/unloading points in said warehouses. A supplemental Annual Procurement Plan (APP) and budget request will be prepared to cover purchase and installations of the CCTVs.
- c. The Ilocos Sur PO claimed that policies on rice issuances are discussed with retailers during retailer's meetings. It instructed the designated Information Officer to prepare an advisory/notice advising all accredited retailers to ask/demand from the WSs for filler stocks, if any. It claimed that fillers indicated in the WSIs were properly issued to buyers. If found that total weight is not the exact weight, fillers are placed right away inside the containers of rice purchases or in another container, hence, table-top weighing scales are not used. One hundred per cent (100%) weighing of rice purchases has been observed to determine correct weighing and exact weight of purchases; hence, two moves are implemented. Weighing is witnessed by the buyers or representatives. The matter with regard to installation of CCTVs will be discussed with the RO.

32.20 As a rejoinder, the Audit Team deems that the results of survey or validation from retailers are contrary to Management's claims that fillers were properly issued, rice issuances are weighed 100 per cent and copies of WSIs were issued to buyers. Thus,

**we further recommended that Management conduct an investigation on the issues raised on filler transactions and file appropriate charges against erring personnel, if warranted.**

#### **Indication of padded handling cost**

**33. The computation of the handling costs paid in Ilocos Norte and Benguet POs amounting to P2.752 million was unreliable considering that not all stocks sold had passed through the platform scale or had been weighed and that the number of handling moves was not indicated in the WSRs and WSIs as required in NFA Memorandum No. AO-213-05-008 dated April 10, 2003.**

33.1 The NFA policies, procedures, documentation and reporting system of warehouse operations, specifically 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. The Agency employs the services of stock handlers in the movement of rice stocks at the warehouse for the receipt of transfer-in of stocks, sale and distribution of stocks, rebagging, reconditioning and weighing as documented by WSRs and WSIs, accordingly.

33.2 Administrative Order (AO) 2K3-05-008 issued on May 13, 2003 on “*Weighing of Stocks and Payment of Handling Claims*” provides that:

#### **II. IMPLEMENTATION GUIDELINES**

*It has been observed that the general policy on 100% weighing of stocks during issues and receipts is being abused and taken advantage of by some warehouse personnel by making it appear in the documents that 100% weighing was conducted even for transactions where no actual weighing was undertaken. This is especially true in the issuance of rice allowance to NFA and AFP personnel, sales to retailers, wholesalers and institutions where it is a common knowledge that in some instances stocks are no longer weighed prior to issuance for operational expediency and economy.*

*It is similarly true during transfer of stocks where some warehouse personnel only do sample or test weighing of a few stocks to get the average weight per bag and then document all the remaining stocks using fictitious entries close to the derived average weight to make it appear that all stocks were weighed. All of the above cases are done on the pretext of complying with the general policy of 100% weighing of stocks and since the transactions are adequately documented, no amount of auditing can detect such anomaly.*

*The practice has also resulted to padded handling claims which has gone unabated and perpetrated because the monetary benefits derived from this illegal activity is apparently shared by unscrupulous officials and employees of the agency in connivance with labor contractors. Huge losses are incurred and its continued practice will certainly affect the financial viability of the agency.*



## WEIGHING OF STOCKS

*One hundred percent (100%) weighing of stocks may not be undertaken for the following transactions:*

*ISSUANCE OF RICE ALLOWANCE OF NFA PERSONNEL  
ISSUANCE OF RICE ALLOWANCE OF SOLDIERS UNDER EO 88  
ISSUANCE OF STOCKS TO RETAILERS, WHOLESALERS AND  
INSTITUTIONS*

*Weighing or non-weighing of stocks shall be mutually agreed upon by the Warehouse Supervisor and the receiving party (buyer or his/her representative). Either may insist to weigh all the stocks prior to issuance.*

*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.*

*WSI's 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 however cross out "weighed" since no weighing was undertaken.*

*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.*

33.3 In addition, the pertinent provisions of NFA Memorandum No. AO-213-05-008 dated April 10, 2003 relative to rules and regulations on the general policy of 100 per cent weighing of stocks and payment of handling claims, are as follows:

Issuance of rice allowance for NFA personnel

*Item 3 – The WSI for rice allowance issued without weighing shall be stamped with "1 move" and the other WSI for rice allowance weighed prior to issuance shall be stamped with "2 moves" on all copies of the document.*

*Item 5 - As basis of the Warehouse Supervisor in accounting for rice allowance issued for the day with weighing and without weighing, he/she shall indicate in the List of Employees Entitled to Rice Allowance (commonly known as rice allowance payroll-Exhibit I) beside the signature of the employee in the Received By portion the date of withdrawal and "1 move" if the rice allowance was not weighed and "2 moves" if the rice was weighed.*

Issuance of stocks to retailers, wholesalers and institutions

*Item 2 - 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 SWI issued to a buyer whose stocks were weighed shall be stamped with "2 moves" on all copies of the documents.*

*Item 4 - The Warehouse Supervisor's signature on the Certified Correct portion of the WSI shall mean that he/she certifies 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 thereon.*

Provincial transfer of stocks

*Item 4- For single weighing, "2 moves" (for the 100% weighing) shall be stamped on all copies of the WSI and "1 move" for not weighing shall be stamped on all copies of the WSR.*

33.4 For CY 2016, the rate of handling services was P3.01 and P2.68 per bag per move for NFA Ilocos Norte and Benguet POs, respectively. A total amount of P2.752 million was paid by the respective POs for handling services as shown in Table 96. The amount indicated for Benguet PO covered January to July 2016 while that of Ilocos Norte PO was for the whole year for all handling activities whereby the total amount of P313,000 more or less, accounts for handling cost of rice sales or distribution.

**Table 96 - Summary of Handling Rate and Cost Paid**

<b>NFA Office</b>	<b>Handling Rate (per bag per move)</b>	<b>Handling Cost Paid</b>
Ilocos Norte PO	P 3.01	P 1,504,606
Benguet PO (January to July 2016)	2.68	1,247,434
<b>Total</b>		<b>P 2,752,040</b>

33.5 Payment of handling claims are computed based on the number of moves indicated on the Statement of Account. The payment is also supported by WSRs and WSIs issued during the months covering the claim.

33.6 In NFA Benguet PO, verification of the WSIs and WSRs showed that the number of moves was not indicated thereon as required in the Memorandum Guidelines issued for the payment of handling claims.

33.7 Meanwhile, the Audit Team of Ilocos Norte PO had noted during actual and physical inspection at the warehouses that actual weighing of stocks were not religiously undertaken by the designated warehouse personnel, instead, stocks issued or sold are directly loaded to the buyers' truck or hauling vehicle without passing through the platform scale. This would indicate that the buyer or retailer may have waived his or her right on the weighing of stocks withdrawn pursuant to the NFA general policy on 100 per cent weighing of stocks. Henceforth, it is proper then that handling claims of laborers shall be for "one move" only and it shall be stamped at the face of the WSI and on all copies of other supporting documents.

33.8 However, post audit of handling claims by the labor contractor in Ilocos Norte PO revealed that all handling claims were stated and calculated at “two moves” with the exceptions of Dingras GID’s sales transactions above 20 bags wherein stocks are weighed at the truck scale with a “one move” computation of handling cost.

33.9 The Audit Team of Ilocos Norte PO had also conducted a survey or interview on selected accredited retailers for the months of December 2016 and January 2017 in order to corroborate the observation and gather information that stocks sold to buyers had not been 100 per cent weighed at the platform scale prior to issuance. A total of 42 stalls in seven public markets or municipalities including OTM retailers were visited and had participated in the survey or interview. The samples taken represent 46 per cent of the 91 NFA accredited retailers for CY 2016. The question raised was whether rice stocks withdrawn by these retailers are actually weighed at the NFA warehouse prior to issuance.

33.10 Results of the survey disclosed that 16 out of the 42 respondents or 38 per cent admitted or alleged that they did not require the weighing of stocks while some of the retailers who replied “Yes” admitted that they were not sure of the weighing since they delegated the withdrawal of stocks to their drivers, while others did not allow weighing of stocks when they were in a hurry. Some respondents also said that each bag weighed below 50 kilograms when the rice purchased were weighed upon arrival at their stalls. Those who answered “Yes” that weighing of stocks were actually undertaken at the warehouse and personally witnessed by them admitted that in some occasions weighing of stocks were not actually done especially during peak seasons or if there were long queues of retailers or buyers withdrawing their allocations.

33.11 In view of the foregoing, it is apparent then that based on the result of the survey, the reported 100 per cent weighing of stocks for sales transaction activities as manifested in the handling claims or documents and in the WSIs was unreliable and questionable. Thus, this resulted in padding of additional “one move” stocks handled, and overstating the amount of handling cost paid to the labor contractor during the year. Also, non-indication or non-stamping of the actual number of moves on all copies of the WSRs and WSIs precluded the verification of the computed and paid handling charges thus, casting doubt on the validity of the transactions.

33.12 The perpetration of padding handling cost indicates breakdown in control activities, particularly in the weighing and non-weighing of stocks in the warehouse operations, which when undetected and unresolved, encourages fraudulent acts by warehouse personnel.

33.13 **We recommended that Management:**

- a. **Require all WSs to: (i) strictly comply with NFA AO 2K3-05-008 issued on May 13, 2003, particularly on the weighing of stocks in order to determine the actual movements of stocks which serve as basis in the payment of handling cost to the labor contractor, and (ii) indicate or stamp the actual number of moves on all copies of the WSRs and WSIs to support the payment for handling claims; and**

- b. Institute control measures that would strengthen monitoring of warehouse operations, such as installation of CCTVs to ensure documentation of warehouse activities and serve as a deterrent for any possible unscrupulous acts by warehouse personnel; and**

33.14 Management of Ilocos Norte PO committed to implement the audit recommendations fully and expeditiously. The following actions were undertaken to address the issues at hand and to strengthen internal control on warehouse operations:

- a. Issued Office Memo coded OPM-17-A-007 dated January 27, 2017 reminding both warehouse supervisors to adhere strictly to the provisions of the SOP on warehousing policies, procedures, documentation and reporting systems giving emphasis on the actual weighing of all stocks received and issued and to reflect or indicate in the WSR or WSI and on all copies of the said documents the actual handling moves of all stocks handled;
- b. Issued Office Memo coded OPM-17-A-008 dated January 27, 2017 addressed to the Provincial Dispersal Committee reminding them on their duties and responsibilities particularly on the aspect of witnessing the weighing of stocks to be loaded/unloaded at the warehouse;
- c. Issued Office Memo coded OPM-17-A-004 dated January 20, 2017 instructing the Special Enforcement and Investigation Officer (SEIO) to review the CCTV footages at Dingras Warehouse and at the PO on a weekly basis and submit a report regarding any observation in the conduct of warehousing operations; and
- d. Issued advisory or notice advising all accredited retailers in the province to ensure that their rice purchases are weighed at the warehouses prior to issuance.

#### **Falsification of WSIs**

**34. Warehouse Stock Issue (WSI) receipts issued by several WSs of Eastern and Western Pangasinan POs were tampered, thus, showing a larger amount of fillers than what was actually issued to customers.**

34.1 Tolerable Allowance (TOLA) is the permissible allowance that is granted to a stock accountable officer in consideration of the losses to his/her grains stocks and grains by-products accountability due to natural causes and other factors beyond his/her control during storage such as moisture content variation, insect infestation, rodent infestation and bird infestation. This is granted after the stock examination was conducted on the accountability of the Stock Accountable Officer (SAO).

34.2 On the other hand, filler stocks are issued to the buyer/customer/authorized recipient when the authorized quantity for issuance had the number of bags fully served but the net kilos still has a balance. This is impliedly authorized under NFA SOP No. GM-DN 10, dated January 3, 1986 as amended by NFA SOP No. GM-DN 10A, which

prescribed the warehouse documentation procedures and reporting system for filler transactions.

34.3 Given the above circumstances, the benefit of TOLA opens an opportunity for SAOs to incur unauthorized withdrawals without the fear/concern of subsequent shortage upon stock examination. Thus, it can be said that the TOLA granted might be excessive such that SAOs have the opportunity to use this for purposes other than intended, and to cover unauthorized withdrawal through filler transactions.

34.4 Validation of the issuances made by the WSs in Eastern and Western Pangasinan POs through inquiry with several accredited retailers and random confirmation of the WSRs issued by the WSs/Acting WSs for CY 2016 revealed that there were discrepancies between the original WSIs issued to selected clients against the duplicate copies kept by NFA which were submitted to the Audit Team for post audit. It was observed that the entries in the original copies issued to the buyers were different from what were indicated in the second, third and fourth copies. The actual weights indicated in the original WSIs were reduced in the duplicate copies so as to give way to larger amount/quantity of fillers withdrawn as illustrated in Table 97. Samples of WSIs issued to customers (Carrier's Copy) *vis-a-vis* their duplicate copies submitted to COA (Auditing Copy) are presented in Annex B, Part IV of this Report.

**Table 97- Analysis of Filler Transactions (Original Copy vs. Auditing Copy)**

Date	SAO/ Warehouse	WSI No.	Fillers (in Kgs)		Variance
			Carrier Copy/ Should be	Auditing Copy/ Actually Issued	
Eastern Pangasinan PO					
8/26/2016	R. Bocaling	23964211	-	60.80	(60.80)
8/26/2016	R. Bocaling	23964214	-	14.40	(14.40)
8/26/2016	R. Bocaling	23964216	-	23.00	(23.00)
8/26/2016	R. Bocaling	23964218	-	3.72	(3.72)
8/26/2016	R. Bocaling	23964219	-	28.40	(28.40)
8/26/2016	R. Bocaling	23964225	-	89.60	(89.60)
8/26/2016	R. Bocaling	23964226	-	44.80	(44.80)
8/26/2016	R. Bocaling	23964229	-	62.00	(62.00)
8/26/2016	R. Bocaling	23964231	-	13.16	(13.16)
8/26/2016	R. Bocaling	23964232	-	24.20	(24.20)
8/26/2016	R. Bocaling	23964233	-	13.60	(13.60)
8/26/2016	R. Bocaling	23964235	-	25.04	(25.04)
8/26/2016	R. Bocaling	23964237	-	12.04	(12.04)
8/31/2016	R. Bocaling	23964238	-	69.60	(69.60)
8/31/2016	R. Bocaling	23964241	-	23.60	(23.60)
8/31/2016	R. Bocaling	23964243	-	16.00	(16.00)
8/31/2016	R. Bocaling	23964245	-	30.80	(30.80)
8/31/2016	R. Bocaling	23964247	-	14.40	(14.40)
8/31/2016	R. Bocaling	23964249	-	37.80	(37.80)
8/31/2016	R. Bocaling	23964251	-	61.40	(61.40)
8/31/2016	R. Bocaling	23964253	-	99.60	(99.60)
8/31/2016	R. Bocaling	23964256	-	14.40	(14.40)
8/31/2016	R. Bocaling	23964257	-	10.80	(10.80)
8/31/2016	R. Bocaling	23964258	-	31.40	(31.40)
8/31/2016	R. Bocaling	23964260	-	36.00	(36.00)
8/31/2016	R. Bocaling	23964261	-	23.60	(23.60)
8/31/2016	R. Bocaling	23964262	-	14.40	(14.40)
8/31/2016	R. Bocaling	23964263	-	3.60	(3.60)
8/31/2016	R. Bocaling	23964264	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964269	-	3.60	(3.60)
9/1/2016	R. Bocaling	23964270	-	4.96	(4.96)

Date	SAO/ Warehouse	WSI No.	Fillers (in Kgs)		Variance
			Carrier Copy/ Should be	Auditing Copy/ Actually Issued	
9/1/2016	R. Bocaling	23964271	-	21.40	(21.40)
9/1/2016	R. Bocaling	23964272	-	5.55	(5.55)
9/1/2016	R. Bocaling	23964273	-	29.00	(29.00)
9/1/2016	R. Bocaling	23964274	-	5.55	(5.55)
9/1/2016	R. Bocaling	23964275	-	19.60	(19.60)
9/1/2016	R. Bocaling	23964276	-	60.80	(60.80)
9/1/2016	R. Bocaling	23964277	-	11.10	(11.10)
9/1/2016	R. Bocaling	23964278	-	4.84	(4.84)
9/1/2016	R. Bocaling	23964279	-	10.80	(10.80)
9/1/2016	R. Bocaling	23964280	-	37.20	(37.20)
9/1/2016	R. Bocaling	23964281	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964282	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964283	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964284	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964285	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964287	-	12.04	(12.04)
9/1/2016	R. Bocaling	23964288	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964289	-	7.20	(7.20)
9/1/2016	R. Bocaling	23964290	-	18.00	(18.00)
9/1/2016	R. Bocaling	23964291	-	25.04	(25.04)
9/1/2016	R. Bocaling	23964292	-	39.60	(39.60)
9/1/2016	R. Bocaling	23964293	-	14.40	(14.40)
9/1/2016	R. Bocaling	23964294	-	46.72	(46.72)
9/1/2016	R. Bocaling	23964296	-	56.00	(56.00)
9/21/2016	R. Bocaling	23964354	-	92.00	(92.00)
9/21/2016	R. Bocaling	23964358	-	3.33	(3.33)
9/21/2016	R. Bocaling	23964372	-	52.00	(52.00)
9/21/2016	R. Bocaling	23964373	-	5.55	(5.55)
9/22/2016	R. Bocaling	23964387	-	69.60	(69.60)
9/22/2016	R. Bocaling	23964388	-	22.20	(22.20)
9/22/2016	R. Bocaling	23964389	-	13.60	(13.60)
9/22/2016	R. Bocaling	23964391	-	10.20	(10.20)
9/22/2016	R. Bocaling	23964392	-	10.20	(10.20)
9/22/2016	R. Bocaling	23964393	-	9.20	(9.20)
9/23/2016	R. Bocaling	23964399	-	19.40	(19.40)
9/23/2016	R. Bocaling	23964406	-	26.00	(26.00)
9/23/2016	R. Bocaling	23964409	-	26.00	(26.00)
9/23/2016	R. Bocaling	23964413	-	3.00	(3.00)
9/23/2016	R. Bocaling	23964414	-	22.75	(22.75)
9/26/2016	R. Bocaling	23964427	-	17.40	(17.40)
9/26/2016	R. Bocaling	23964428	-	15.40	(15.40)
9/26/2016	R. Bocaling	23964429	-	33.00	(33.00)
9/26/2016	R. Bocaling	23964441	-	97.20	(97.20)
9/26/2016	R. Bocaling	23964449	-	40.20	(40.20)
9/26/2016	R. Bocaling	23964468	-	13.00	(13.00)
9/30/2016	R. Bocaling	23964486	-	29.60	(29.60)
9/30/2016	R. Bocaling	23964487	2.20	25.20	(23.00)
9/30/2016	R. Bocaling	23964495	-	34.44	(34.44)
9/30/2016	R. Bocaling	23964501	2.40	15.40	(13.00)
9/30/2016	R. Bocaling	23964502	-	54.40	(54.40)
<b>TOTAL</b>			<b>4.60</b>	<b>2196.63</b>	<b>(2,192.03)</b>
<b>Percentage of variance over actual issued fillers</b>					<b>99.79%</b>
9/7/2016	C. Bustamante	23964952	26.00	76.00	(50.00)
9/6/2016	C. Bustamante	23963082	3.40	31.20	(27.80)
<b>TOTAL</b>			<b>29.40</b>	<b>107.20</b>	<b>(77.80)</b>
<b>Percentage of variance over actual issued fillers</b>					<b>72.57%</b>
12/27/2016	C. Rosales	23966657	-	46.00	(46.00)
<b>Percentage of variance over actual issued fillers</b>					<b>100.00%</b>
8/26/2016	E. Bacalzo	23445923	-	24.00	(24.00)
<b>Percentage of variance over actual issued fillers</b>					<b>100.00%</b>

Date	SAO/ Warehouse	WSI No.	Fillers (in Kgs)		Variance
			Carrier Copy/ Should be	Auditing Copy/ Actually Issued	
WESTERN PANGASINAN PO					
2/2/2016	Alaminos GID	23336888	-	30.20	(30.20)
3/2/2016	Alaminos GID	23337673	-	29.40	(29.40)
3/18/2016	Alaminos GID	23336912	-	33.40	(33.40)
8/1/2016	Alaminos GID	23447335	-	8.40	(8.40)
TOTAL			-	101.40	(101.40)
Percentage of variance over actual issued fillers					100.00%
2/2/2016	Mangatarem	23248824	29.86	31.86	(2.00)
2/2/2016	Mangatarem	23248825	26.80	27.80	(1.00)
2/12/2016	Mangatarem	23248830	18.80	25.80	(7.00)
TOTAL			75.46	85.46	(10.00)
Percentage of variance over actual issued fillers					11.70%
3/7/2016	Ferrer	23337088	7.24	83.24	(76.00)
9/21/2016	Ferrer	23970216	6.52	27.52	(21.00)
10/26/2016	Ferrer	23971083	8.32	13.32	(5.00)
TOTAL			22.08	124.08	(102.00)
Percentage of variance over actual issued fillers					82.21%
10/10/2016	Kazenbar	23970692	50.64	120.64	(70.00)
10/21/2016	Kazenbar	23971434	24.80	94.80	(70.00)
12/20/2016	Kazenbar	23971368	5.00	32.45	(27.45)
TOTAL			80.44	247.89	(167.45)
Percentage of variance over actual issued fillers					67.55%

34.5 An analysis was made regarding the withdrawal of excessive fillers without the SAO's possibility of incurring shortages and it was learned that filler transactions were utilized to get the maximum benefit from the TOLA.

34.6 The act of altering an official document for the purpose of misappropriating public funds or property constitutes a crime of malversation through falsification of official documents punishable under the Revised Penal Code (RPC).

34.7 The elements of malversation, essential for the conviction of an accused, under the RPC are that, (1) the offender is a public officer; (2) he has the custody or control of funds or property by reason of the duties of his office; (3) the funds or property involved are public funds or property for which he is accountable; and (4) he has appropriated, taken or misappropriated, or has consented to, or through abandonment or negligence permitted, the taking by another person of, such funds or property.

34.8 The elements of the crime of falsification under Paragraph 4, Article 171 of the RPC, in relation to Article 172 thereof are: (1) The offender makes in a public document untruthful statements in a narration of facts; (2) The offender has a legal obligation to disclose the truth of the facts narrated by him; and (3) The facts narrated by the offender are absolutely false.

34.9 **We recommended that Management:**

- a. **Restudy the NFA policies on TOLA to discourage the practice of the SAOs of maximizing the benefit thereof as TOLA is not intended for unauthorized transactions;**

**b. Direct the Regional Manager of Region I to:**

**b.1 Conduct investigation on the falsification of WSIs regarding the issuance of stock fillers, and immediately relieve erring personnel while investigation is on-going to avoid influencing the investigating team and manipulation of record;**

**b.2 Elevate to NFA higher authorities the evaluation of TOLA granted to SAOs for possible reduction to minimize the opportunity to unauthorized withdrawals of excessive fillers;**

**b.3 Ensure that there is a request for the issuance for filler stocks and that it be properly checked by the Accounting Section prior to approval and issuance of AI for filler stocks; and**

**c. Require the Legal Affairs Department (LAD) to file appropriate administrative charges to erring WSs/SAOs and all other personnel involved in the commission of offense, if warranted. The above recommendations are without prejudice to the institution of proper complaint in a court having jurisdiction with the offense after a full investigation on the matter.**

34.10 Management provided the following comments:

a. Eastern Pangasinan PO- It agreed to adhere with the recommendations except as to the assignment of a checker at the warehouse transactions, wherein it commented that, *"it is too difficult under the present personnel complement and the volume of transactions we have to consider, however, it is well taken should the situation warrants in future transactions. With regard to the infraction in the documentation by SAOs particularly in the WSI, the inconsistencies noted therein from the original to the duplicates, this is a gross violation and intentionally done that entails appropriate legal sanctions among concerned SAOs."*

b. Western Pangasinan PO- It informed that a committee was already created to validate the findings mentioned. Another round of discussion with regard to the matter would be conducted between Management and COA Auditors.

34.11 As a rejoinder, the concerned Audit Team emphasized that the infractions committed by the SAOs are not just simple lapses but are means of misappropriating government funds and property; thus, it stands by its audit recommendation that said SAOs be relieved until the final disposition of the matter.

## **Dispersal**

Dispersal is the effective movement/transfer and positioning of stocks from the strategic stock depositories to other outlying areas where NFA terminal warehouses are situated. It is an operational activity which is very essential in the performance of the price stabilization function of the Agency. Dispersal operations involving transfer of stocks and empty sacks are classified into land transfers and sea transfers.



## Dispersal Losses

35. Marinduque PO shouldered all the losses on stock dispersal by sea amounting to P690,977 due to absence of provisions regarding tolerable limit on dispersal given to private-hauler contractors and truckers as provided in NFA SOP No. GM-DL03 dated January 1, 1991 and as amended by NFA SOP Amendment/Addendum No. GM-DL03.C dated May 31, 2000, hence, additional expenses on the part of NFA. On the other hand, in Batanes PU, there was over recognition of dispersal losses because the gain in weight of stocks during dispersal from NCR source warehouse to imaginary warehouse was not considered in recording the dispersal losses at Batanes destination warehouse as weight gain was not covered by specific accounting treatment in the NFA SOPs, resulting in the overstatement of operating expense by P72,633 and understatement of income by the same amount in CYs 2014-2016.

35.1 NFA SOP No. GM-DL03 dated January 1, 1991 and as amended by NFA SOP Amendment/Addendum No. GM-DL03.C dated May 31, 2000 provides for 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 shall be granted to private-hauler contractors and truckers for shortages/losses based on weight at origin. Variance in excess of the tolerable limit shall be computed and paid based on replacement cost on a per truck basis. However, there was no TOLA set for transfer by sea, thus all dispersal losses were charged solely to NFA.

35.2 Section I.B.2 of NFA SOP No. FS-FA11 or the Revised SOP on Cost Accounting for Stocks issued on June 15, 1999 states that,

*Warehousing expenses, remilling, reconditioning, intra-provincial transfers of stocks and **spillage/losses/variance in weights incurred in inter-warehouse and inter-provincial transfers of stocks shall be treated as operating expenses.*** [Emphasis supplied]

35.3 On the other hand, NFA SOP No. GM-DL04 on Dispersal Monitoring and Reconciliation System approved on November 4, 1991, states that:

### *B. Sea Transfers*

#### *B.1 Pierside*

*1. In cases where a truckscale is available at pierside, an imaginary warehouse shall be established at the truckscale manned by an accountable officer. Transactions shall follow the policies, procedures and documentation for a technical (Transfer-in, Transfer-out (TITO)) transaction.*

#### *For Source Province*

*1.1 Initial weighing shall be undertaken at source warehouse following the usual procedure and documentation. Shipments shall be addressed to the accountable officer of imaginary warehouse at pierside who shall receive and issue stocks based on single weighing. To document the*

*technical transaction, he shall issue a WSR to evidence receipt and issue another WSI to the destination. The WSI issued at pierside shall be the basis in the preparation of the Bill of Lading and debit advice.*

*For Destination*

*1.1 Unloading of stocks from vessel to truck shall be supported by an Unloading Receipt (UR). Weighing shall likewise be undertaken at pierside, manned by an accountable officer of an imaginary warehouse at the truckscale. He shall issue WSR for vessel discharged from source in favor of source province. He shall then issue WSI to the final receiving accountable officers. Transactions in the imaginary warehouse shall be on a TITO basis. This procedure shall apply for unloading from foreign and domestic vessels.*

*2. Where there are no available truckscale at pierside the usual existing procedure of weighing at issuing/receiving warehouse shall be followed. However, provincial management must institute all necessary measures to prevent pilferages and spillages.*

35.4 During CY 2016, Batangas PO had transferred to Marinduque PO 120,000 bags, or 5,994,784 nkgs of imported and local rice. However, records of the receiving warehouse showed that it only netted to 5,967,237.93 nkgs, thus incurring a variance of 27,546.07 nkgs equivalent to P690,977. Analysis disclosed that the receiving warehouse had incurred the highest variance of 0.4595 per cent in terms of nkgs.

35.5 The total variance of P690,977 was charged solely to Marinduque PO, thus it incurred additional expenses. Comparison of last year's (CY 2015) losses of the PO from dispersal by sea showed that there was a huge increase of 103.09 per cent or P350,749 from last year's losses of P340,228. It was also observed that of the enumerated expenses in the financial statements of Marinduque PO, dispersal losses ranked third among the biggest items charged to Operating Expenses.

35.6 In Batanes PU, the province with meager palay production only available for personal consumption, the Batanes populace sourced rice from other provinces. Due to its isolated geographical location, the cost of transporting rice contributed to higher prices of rice commodity. As such, residents relied heavily on their rice consumption from NFA with 62.79 per cent market share in CY 2016. The NFA-Batanes PU received all its stocks through stock dispersal from NFA-NCR and nearest Provincial Office which is NFA-La Union.

35.7 The Batanes PU Management initially recorded stock transfers received through dispersal at standard transfer cost based on the Bill of Lading. Subsequently, dispersal expenses were recorded together with the dispersal variances/losses based on the Advice from NCR Regional Office (RO) through adjusting entry by debiting Merchandise Inventory and Dispersal Losses.

35.8 The NFA NCR District Offices (DOs), as the source warehouse, weighed the stocks for dispersal using the platform scale. The NCR RO imaginary warehouse manned by NFA-Integrated Port Services Operations (IPSO) documented the technical

transaction indicating the weight of stocks based on the truck scale at the Port of Manila. The NFA-Batanes PU, as the destination warehouse, documented the receipt of stocks, indicating the weight using the platform scale.

35.9 If the weight at truck scale (IPSO) is less than the weight at platform scale (source warehouse), the result is dispersal losses which will be recognized by RO while any dispersal gains is disregarded. The latter is not covered by specific provision on the accounting treatment in the NFA SOPs.

35.10 As noted in prior year's audit, there were variances in the weights from the source warehouse, imaginary warehouse and the Batanes PU, as the receiving warehouse. In most cases, the weight using the truck scale from the imaginary warehouse (IPSO) reflected higher weight compared with the platform scale used by the source warehouse and the destination warehouse.

35.11 The dispersal losses recorded by the Batanes PU were the variance in weight between the imaginary warehouse (IPSO) and its receiving warehouse. Since the imaginary warehouse (IPSO) recognized only weight losses but not weight gain from source warehouse, the dispersal losses recorded by Batanes PU was higher than the actual losses. The dispersal losses recognized were based on the difference in weight of the stocks per imaginary warehouse and per destination warehouse.

35.12 The Batanes PU, as receiving warehouse, recognized higher dispersal losses from NFA-NCR DO's warehouses due to gain in weight resulting from the variances between the platform scale and truck scale used, which was not recognized by imaginary warehouse (IPSO), thereby resulted in overstatement of operating expenses by P10,930, P24,346 and P37,357 in CYs 2016, 2015 and 2014, respectively, and understatement of income by the same amounts.

**35.13 We recommended that Management of Marinduque PO improve and adopt more stringent control measures to further reduce the losses in sea dispersal, and make representation with the NFA HO to revisit the SOPs with regard to the dispersal of stocks through transfer by sea and request that a considerable tolerable allowance be set.**

**35.14 We also reiterated our previous year's recommendations that Batanes PU Management revisit the NFA SOPs on Dispersal Operations specifically on stock dispersal, and coordinate with the NCR RO for proper accounting treatment over recognition of dispersal/weight losses, as well as dispersal/weight gain without specific accounting recognition in the NFA SOPs.**

35.15 Management provided the following comments:

- a. The Senior Accounting Specialist (SAS) of Marinduque PO explained that dispersal losses incurred were the difference/variance between the declared nkg of the source province and the receiving province. The biggest variance occurred during the receipt of 30,000 bags of local rice from Batangas in December 2016. It instructed the SAS to countercheck all the documents and even the journal entries made to determine the accurate amount of losses. It added that the sacks containing the local rice are not good. The sacks are

thinned coat and easily damage during hauling/loading and unloading which caused rice spillages.

b. The Batanes PU explained that it is only an end user of the SOP, thus amending the Dispersal Operation SOP was beyond its authority. Coordination with NFA NCR will be done for the proper accounting treatment to the over recognition of dispersal losses.

35.16 As a rejoinder, the recommendation of the Audit Team for the Batanes PU Management is not to amend the SOP on Dispersal Operation, but for the PU Management to assess the existing SOP to better address issues on accounting treatment of dispersal losses.

### On Tolerable Allowance Computation

**36. The quantified losses of stocks due to theft on three instances at the NCR warehouses from CYs 2001 to 2013 were not deducted in the Stock Examination Reports (SERs) of SAOs due to the absence of specific guidelines, resulting in erroneous SERs and computation of TOLA. Also, the TOLA system's computation of factors affecting grains storage might no longer address the current conditions in the warehouses that could result in inappropriate computation of TOLA.**

36.1 NFA SOP No. GM-WH13, "*SOP on the New Computerized Stock Examination and TOLA Computation*" approved/issued on April 22, 2003, as amended, provides the new guidelines on the processes involved from the stock examination until the final computation and decision on the amount of stocks and MTS shortages.

36.2 There had been cases of quantified losses of stocks due to pilferages from CYs 2001 to 2013, as illustrated in Table 98. The respective accountabilities of the concerned SAOs/WSs had been completed. Evaluation of the processes involved in the conduct of stock examination and computation of TOLA and information gathered from Management disclosed that established losses of stocks due to theft were not deducted from the SER. The TOLA system is used by the POs in the encoding of warehouse transactions, using the warehouse documents. As such, in case of loss of stocks, the quantification of lost stocks thru the use of WSI to adjust the inventory in the possession of the SAOs covering a specific period could not be encoded/inputted in the system. As embedded control in the system, any encoding of quantity of bags and net kilograms without the corresponding warehouse document reference will not be accepted by the system.

**Table 98- SAOs with Quantified Loss of Stocks due to Theft**

SAO	Warehouse	No. of Bags	Year	Status
L. Ferrer	Blossoms II-III	32,629	2001	Case forwarded to NFA-Internal Audit Services Department. Liability for the loss of 32,629 bags was directed to Thunder Investigation and Security Agency. Warehouse Supervisor L. Ferrer and B. Calizo were recommended for preventive suspension.
R. Ramos	Elisco Warehouse	632	2003	Case forwarded to NFA-Enforcement and Investigation Prosecution Department. The WS already made payment.
M. Buñag	J.Y. and Sons	70	2013	Liability for the lost bags was settled by the contracted security agency.

36.3 Likewise, the set computation on factors affecting grains storage due to natural causes such as moisture content variation, insect infestation, rodent infestation and bird infestation might no longer be applicable to current conditions in the warehouses since the levels had been set more or less 15 years ago, resulting in inappropriate computation of TOLA. These factors were embedded in the TOLA system which generated the SER and computed for the TOLA.

**36.5 We recommended that Management revisit the existing policy on New Computerized Stock Examination and TOLA Computation, in particular, the appropriate treatment of losses due to theft in the SER and computation on factors affecting grains storage embedded in the TOLA system and identify the needed amendments in the policy to ensure the accurate computation of TOLA.**

### **Institutionalized Farmers as Distributors (IFAD) Program**

**37. The non-compliance with the guidelines of the Institutionalized Farmers as Distributors (IFAD) Program, which included: a) the issuance of rice allocation to two delisted/dissolved cooperatives; b) 29 unregistered cooperatives with the Cooperative Development Authority (CDA) as of December 31, 2015; c) 122 cooperatives without Certificate of Good Standing issued by CDA, and d) acceptance of Special Power of Attorney (SPA) at the Farmers Organization's/Farmers Association's chosen withdrawal point of IFAD rice allocation, could deprive the intended beneficiaries of the opportunity to participate and avail of the benefits of the Program.**

37.1 The IFAD Program was intended to give opportunity to the Farmers Organizations (FORs)/Farmers Associations (FAs) 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 contained in the SOP No. GM-DN29 dated December 6, 2009 on IFAD of NFA Rice Program, as amended by SOP No. GM-DN29.A dated March 23, 2010 and NFA's CY 2015 IFAD Guidelines dated July 20, 2015, which set the terms and conditions on the CY 2015 IFAD rice allocation, qualified participants, payment and withdrawal. Mechanics of the implementation require that:

#### **III. SPECIFIC GUIDELINES/MECHANICS OF THE IMPLEMENTATION**

- 1. Invitation to Participate/Submission of Letter of Intent (LOI) – NFA shall publish for one (1) day in at least one daily newspaper of general circulation, as well as in the NFA website, an Invitation to Participate to all interested and capable FOs/FAs to participate in the IFAD Program. Interested and qualified FOs/FAs shall submit within three (3) working days after the last day of publication, a Letter of Intent (LOI) signifying their intention to participate in the IFAD Program to the NFA Provincial Manager in their respective area. The LOI shall indicate, among others, the point of withdrawal and the withdrawal period. The concerned field offices shall ensure that LOIs are supported by the following documents:*

- a. *Original copy of Assembly Resolution signifying their intent to join the NFA IFAD Program and designating their authorized representative (with specimen signature and picture);*
- b. *Audited Financial Statement (FS) for the last two (2) consecutive years;*
- c. *Certified photocopy of Certificate of Registration issued by the Agency where they are registered;*
- d. *General Assembly (GA) Minutes of the Meeting and members' attendance in their GA for the immediate past two (2) years;*
- e. *Certificate of Good Standing/Certificate of Operations issued by the Agency where they are registered.* [Underlining provided]

37.2 The IFAD Guidelines also require the following:

- a. The NFA, upon approval of the NFA Council, shall allocate the volume of two million bags for the Program. The rice allocation shall come from the CY 2014 imported stocks, 25 per cent and 15 per cent broken.
- b. The volume of allocation shall be pro-rated based on the volume of palay deliveries for the immediate past years, i.e., 2013 and 2014, including January to June 15, 2015.
- c. Ten per cent of the total volume shall be allocated to all officers of the Philippine Farmers Advisory Board (PFAB) and Provincial Farmers Action Council (PFAC).
- d. Payment of stocks shall start on August 27, 2015. Payment shall be made on a one-time or staggered basis after the issuance of the IFAD Certificate to the FORs/FAs.
- e. FOR authorized representative shall be required to present and submit identification card and the IFAD Certificate, and personally withdraw and sign the warehouse documents in the issuance of the IFAD allocation. Special Power of Attorney (SPA), Deed of Assignment, First and Second Indorsements shall not be allowed.

37.3 In CY 2016, the HO approved the request of IFAD beneficiaries for transfer of payment and withdrawal area from 47 provinces to NFA-NCR. NCR allocated 654,910 bags for the IFAD Program to 341 FORs/FAs of which 285 were cooperatives regulated by the CDA, while the remaining 56 were regulated by other agencies, such as, the Securities and Exchange Commission (SEC) and National Irrigation Administration (NIA). The LOIs with the supporting documents, were processed and evaluated by the NFA HO-Grains Marketing Operations Department (GMOD), thus, were deemed verified thereon as compliant with the Guidelines.

37.4 However, the Audit Team verified the status of registration of the 285 cooperative-availees of CY 2015 IFAD Program from the CDA (verification conducted was limited only to the cooperatives, thus it did not include those registered with the SEC and other regulatory bodies). The results of verification, shown below, disclosed that evaluation conducted by Management was deficient.

- a. 29 or 10.18 per cent were not registered with the CDA;
- b. 122 or 42.81 were not rated by the CDA as cooperative with good standing;
- c. One cooperative was dissolved on November 11, 2015; and
- d. One cooperative was delisted from the Master List of Registered Cooperatives.

37.5 The Masterlist of Registered Cooperatives as of December 31, 2015 and information on delisted/dissolved cooperatives are accessible in the CDA website. Thus, cooperative which had been a recipient of complaints and had conducted unauthorized activities inconsistent with its purpose are among the basis for non-issuance of Certificate of Good Standing and/or delisting. The Audit Team is concerned that several cooperatives were allowed to participate in the IFAD Program despite deficiencies in the required supporting documents, which gave undue advantage and favor to non-existing and non-complying organizations at the expense of those duly registered and rated with good standing by the CDA, thus a cloud of uncertainty on whether the authorized participants were indeed the IFAD Program's true beneficiaries.

37.6 In addition, the IFAD availees chose the withdrawal point at NCR, which was far away from their registered location, even coming from as far as Zamboanga. Be that as it may, additional transportation and other expenses would likely be incurred by the IFAD availees, considering that some allocations were as low as 200 bags. Also, the issues raised in Cavite PO AOM No. 2017-009(16), as enumerated below, were indicative that only few individuals/FORs/FAs owned the withdrawn allocation/stocks.

- a. Only two authorized representatives withdrew and received the rice stocks while the other four who were attorney-in-fact transacted 121,720 bags or equivalent to 99.17 per cent of allocations by presenting SPA despite the prohibition in the CY 2015 IFAD guidelines.
- b. Sixty-four (64) IFAD payments were collected through 73 Managers' Checks drawn only from six bank branches, except for one cash payment. The checks issued from the same bank branch were taken from the same check booklet because of the continuous series of check number. It showed that 49 checks issued for 80.21 per cent of allocation with the total amount of P128.081 million was drawn against Banco De Oro- General Trias Cavite Branch.
- c. The payments by FORs/FAs were made on five dates only where 67 payments representing 96.84 per cent of allocation had been paid on June 14, 15 and 23, 2016.
- d. The withdrawals made by several FORs/FAs were loaded in the same truck.

37.7 At CDO, verification of documents disclosed that there were 195 FOrs/FAs that availed a total of 308,976 bags of rice amounting to P413.031 million from June to August 2016 under the CY 2015 IFAD Program. However, only four individuals who were given SPA by the FOrs/FAs', as their authorized representatives, withdrew the said volume of stocks contrary to the provision of SOP No. GM-DN29 that SPA shall not be allowed.

37.8 The conditions cited in Cavite PO and CDO in the preceding paragraphs indicate high probability that control in the distribution of NFA rice was given to only few individuals, thereby defeating the purpose of the IFAD Program, that is – to give opportunity to the FOrs/FAs to directly participate in the distribution of a portion of NFA imported rice to help them generate more income and uplift their economic and social well-being.

37.9 The NFA have other programs that benefits the FOrs/FAs, such as, Farmer's Incentive Rice Purchase (FAIR), Farmers' Option to Buy-Back (FOBB) and participation in the Minimum Access Volume (MAV), as rice importers. In fact, these programs have given opportunities to the farmers as seller/distributor of milled rice.

**37.10 We recommended that Management:**

**a. Determine the appropriate measures to address the following issues and concerns in the implementation of IFAD Program:**

**a.1 Inadequacy of verification of LOIs and supporting documents conducted at the source POs;**

**a.2 Allowing the use of SPA despite the prohibition in the CY 2015 IFAD Program guidelines;**

**a.3 Change in withdrawal point and the cost-benefit to farmer beneficiaries in withdrawing the allocation from NCR instead of at respective provinces *vis-a-vis* transportation costs and optimization of income;**

**a.4 Indications of fraud, such as, submission of spurious documents by unregistered/non-operating cooperatives to avail the benefits of the NFA IFAD Program;**

**a.5 The intended/legitimate FOr/FA-beneficiaries were being deprived of the benefits of the Program;**

**b. Conduct evaluation of the IFAD Program *vis-a-vis* the following:**

**b.1 Effectiveness of existing controls in the implementation of the Program;**

**b.2 Duplication of benefits derived on other NFA Programs intended for the farmers/organizations, as inputs for the HO's program development strategy in further improving the economic and social well-being of the farmers;**



**c. Investigate the non-compliance with the CY 2015 IFAD Program guidelines as cooperatives from different regions/provinces were allowed to participate despite deficiencies in supporting documents of their LOIs and IFAD participant-farmers' organizations/cooperatives from different regions/provinces were allowed to withdraw stocks by presenting SPA; and**

**d. Refrain from issuing IFAD allocations to FOs/FAs not rated/classified as "Good Standing" by the CDA or not registered with the Authority or any regulatory agencies mentioned in NFA SOP No. GM-DN29 and; henceforth, ensure that FOs/FAs are duly registered/in good standing status before issuing IFAD allocations.**

37.11 Management provided the following comments:

a. NCR RO –

a.1 Considering that the verification of LOIs was done at the provinces outside the jurisdiction of NCR, they deemed it more appropriate for NFA HO to act. As such, they shall refer this matter to HO for action.

a.2 The SPA was allowed in an amendment Memo 2015 No. GMOD-MRSD-J-022 dated October 12, 2015, re: Amendment to the Implementing Guidelines on the 2015 IFAD of NFA Rice Program, approved by then NFA Administrator.

a.3 At first glance, change in the withdrawal point to NCR may appear disadvantageous to the FOs/FAs beneficiaries specially those who are from afar, with modest volume of allocation given the additional costs that entails and the attendant activities in getting the stocks from NCR warehouses. Considering, however, that change of withdrawal point is an option for IFAD beneficiaries which provide them a wider choice for selecting their buyers. The IFAD beneficiaries therefore could haggle with buyers that are from their place and from NCR and sell at the highest price.

a.4 As regards indication of fraud, they will leave the matter upon the discretion of top Management, but nonetheless, they will bring this matter to the attention of NFA HO.

a.5 A post implementation program evaluation should be undertaken to determine whether the IFAD Program objectives were met and that corrective measures, where necessary, are put in place. They will recommend this to NFA HO which is more in a position to undertake the same given that the scope of the IFAD Program is national.

b. Cavite PO- Chairman Edwin Paraluman was elected as overall Chairman of Philippine Farmers Advisory Board (PFAB), a national level consultative body of the NFA. Each PFAB member organization nationwide has designated one (1) authorized representative and two (2) official alternates covered by a Board Resolution. It was opined that the far distance of Cavite PO as withdrawal area of FO's IFAD allocation and additional expenses on the part of FO beneficiaries made them decide to issue SPA to the Chairman of PFAB; and the master list of

IFAD beneficiaries was approved and authorized by NFA HO. The authenticity of the beneficiaries can be checked and verified from GMOD.

c. CDO

c.1 Item E of the existing SOP states, *“As a general rule, FO/FA allocations shall be paid and withdrawn only in the province where the FO/FA is located. However, payment and withdrawal in other provinces may be allowed but only upon request of the concerned FOs/FAs and upon authorization of the Grains Marketing and Operations Directorate (GMOD) Department Manager of NFA-Central Office. A Special Power of Attorney (SPA) shall in no case be allowed on the withdrawal of stocks.”* Stocks withdrawn at CDO by FOs/FAs from different regions/provinces complied with the said provision (with attached copy of the Confirmation from NFA-GMOD per Message No. GMOD-IMD-2K16-F-20 dated June 9, 2016 authorizing transfer and withdrawal to NCR IFAD allocations from Regions I, II and IX relative to the Letter Request of the PFAB to NFA-GMOD dated June 8, 2016).

c.2 Also, SPAs were strictly required of their (FOs/FAs) authorized representatives who will be transacting with CDO.

c.3 Classification and processing of IFAD documents of FOs/FAs are under the jurisdiction of NFA-GMOD, and CDO has no knowledge and capacity to identify and classify which FO/FA is in “Good Standing” or not. CDO is only given authority for withdrawal (issuance) of stocks with the payment of IFAD allocations of concerned FOs/FAs.

c.4 It is CDO's belief that some provisions of the guidelines were amended by the HO, i.e. extension of the implementation period and transfer of withdrawal of stocks to their preferred province/region were mainly for the benefit and welfare of FOs/FAs. Further, some of the other provinces/regions had limited stocks good only for their stakeholders and did not suffice for IFAD allocations of FOs/FAs within their jurisdiction.

37.12 The following are the concerned Audit Teams' rejoinders to the above comments:

a. Considering the results of validation conducted by the Audit Team as discussed in Paragraph 37.4, the Certificate of Operation issued by NFA HO - GMOD reflected the worthiness of availing cooperatives to qualify in the IFAD Program and the quality of validation conducted by said Department on documents submitted by the cooperatives. The mechanics of IFAD implementation specifically stated that among the required documents are the “Certified photocopy of Certificate of Registration issued by the Agency where they are registered” and “Certificate of Good Standing/Certificate of Operations issued by the Agency where they are registered”. The latter was not complied with when the NFA – GMOD issued the Certificate of Operation to the availing cooperatives, notwithstanding that NFA is not the registering/regulatory agency for the FOs/FAs cooperatives, corporation and other organizations.

b. The issuance of Certificate of Operation was limited only to FOs/FAs with palay deliveries, specifically to the 60 per cent allocation; for the remaining 40 per cent allocation, delivery of palay was no longer required. The Audit Teams maintain that the Certificate of Good Standing provides significant information on status of operation and performance of cooperatives based on standards set by the CDA as its regulatory body. It is most appropriate that Management raise concerns on the unclear provisions in the guidelines, proper implementation and evaluation of the IFAD Program, as a whole.

c. Likewise, the amendment on the issuance of SPA per Memo 2015 No. GMOD-MRSD-J-022 dated October 12, 2015 opened the door to any FOs/FAs officers at national and regional level to represent any cooperative which availed the IFAD Program. Hence, the new provision in the IFAD guidelines, i.e., which gave ten per cent of the total volume allocation to all officers of the PFAB and PFAC provided undue advantage over the cooperatives belonging to the 60 per cent required to deliver palay to NFA. Hence, a PFAB officer with SPA to withdraw IFAD allocation from Cavite PO may have taken advantage of the 60 per cent allocation for FOs/FAs with deliverables, aside from the 10 per cent separately granted to him as officer. The purpose of such amendment was intended for the FOs/FAs to sell the rice allocation at highest selling price to interested FOs/FAs or other entities rather than to participate in the direct distribution of NFA rice. The Audit Teams deem it proper that Management further evaluate the amended guidelines on issuance of SPA to determine whether the objective of the IFAD Program for the FOs'/FAs' direct participation in the distribution of the portion of imported rice was indeed realized.

### **Unnecessary handling expenses**

**38. In Catbalogan PO, the transfer of the same variety of IMR for the period January to July 2016 from GID Catbalogan and Guiuan, Eastern Samar Warehouses to GID Borongan Warehouses despite the adequate stocks on hand at the issuing and receiving warehouses resulted in wastage of government funds in terms of unnecessary handling and trucking fees of P1.677 million and P414,888, respectively.**

38.1 The NFA Catbalogan PO issued Authority to Issue (AI) based on a message for transmission received from the NFA Regional Director of Region VIII, directing to transfer imported rice of 29,000 bags or 1,490,677.50 nkg from GID Catbalogan warehouse to GID Borongan warehouses (old and new) from January to July 2016.

38.2 Further, review of the stock transfer showed that both the issuing and receiving warehouses have sufficient stock balances for the period January to July 2016. Thus, it was not necessary to transfer stocks from GID Catbalogan Warehouse to GID Borongan Warehouse during the afore-said period.

38.3 Based on the approved rates for handling of P3.528 per bag at 50 kgs per move and trucking fee of P67.79/bag at 50 kgs, the estimated total fees using these data and applying the normal two moves in handling at the source warehouse and two moves at the receiving warehouse for the period January to July 2016 totalled to P1.677 million.

The incurrence of these expenditures could have been avoided had the unnecessary transfer not been made.

38.4 Moreover, at NFA Borongan, verification of the Stock Reports showed that Management issued AI to transfer imported rice VCEW52 of 1,500 bags or 74,609 nkg from GID Guiuan Warehouse to GID Borongan Warehouse on April 1, 2016. On April 19-22, 2016, transfers were made from GID Borongan Warehouse to GID Guiuan Warehouse of 5,000 bags or 248,050 nkg of the same variety of imported rice.

38.5 Based on the approved rates for handling of P3.00 per move and trucking fee of P58.292 per 50 kilos, the total trucking fees using these data, applying the normal two moves in handling amounted to P414,888.

38.6 Further review of the transaction showed that both receiving warehouses have sufficient stock balance as stated in the Stock Report.

**38.7 We recommended that Management direct the concerned NFA ROs/POs to determine first the stock balance of the receiving warehouse before the transfer of stocks within and outside the Province to avoid the incurrence of unnecessary handling and trucking fees.**

38.8 The concerned NFA POs explained that all transfers were based on the instruction from the Regional Manager supported with fax message which serves as the authority to carry out the activity. Samar PO is the depot for the whole three Provinces of Samar. As such, it is obliged to transfer the stocks to other provinces upon the instruction of the RO. Further, Borongan PO justified that transfers of stocks from Guiuan Warehouse to Borongan Warehouse of 1,500 bags was made in anticipation of voluminous request from DSWD and LGUs for feeding program and to avoid congestions. For the 5,000 bags transferred from Borongan PO to Guiuan PO, all were covered with TITO transaction from vessel to Guiuan.

38.9 As a rejoinder, the Audit Team observed that stock transfers for January, April, May and June 2016 were not supported with District Office Request, Stock Dispersal Authority and Regional Office instructions/wires. Other transfers with authority were diverted to Borongan Warehouse instead of Oras and Guiuan Warehouses. Stock Dispersal should be in accordance with NFA SOP No. DL04 dated November 4, 1991 to avoid the incurrence of unnecessary handling and trucking fees. Further, transfers of stocks from Guiuan Warehouse to Borongan Warehouse and Borongan to Guiuan Warehouses were made without proper coordination in violation of NFA SOP No. GM-04 dated November 4, 1991.

#### **Uncollected storage fees**

**39. Storage fees in the total amount of P323,375 were not collected by CDO, Misamis Occidental and Quezon POs contrary to Item No. 6 of NFA SOP GM-DN09.A, as amended, thus depriving the NFA of additional income.**

39.1 Item 6 of NFA SOP No. GM-DN09.A states that:

*Buyer shall pay at the NFA Cashier on cash basis. Buyer shall be required to withdraw all their stock purchase within a specified number of*

*days after issuance of 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 P 0.50/bag/day corresponding to the number of days their stocks are stored at the 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. [Emphasis supplied]***

39.2 In NCR-CDO, verification of documents disclosed that out of the total 308,976 bags availed by the recipients of the IFAD, withdrawals of 62,799 bags at the CDO warehouses were made from July 16 to August 1, 2016, which were already beyond the July 15, 2016 deadline. The total storage fees for these withdrawals that should have been collected was P120,546, as presented in Table 99.

**Table 99 - Stock Withdrawals from July 16 to August 1, 2016**

<b>Date Withdrawn</b>	<b>No. of Bags</b>	<b>Amount of Stocks Withdrawn</b>	<b>No. of Days Delayed(From the July 15, 2016 Deadline)</b>	<b>Storage Fees(No. of Bags x P0.50 x No. of Days)</b>
July 16, 2016	14,791	P 19,722,850	1	P 7,396
July 17, 2016	3,950	5,332,500	2	3,950
July 18, 2016	11,647	15,511,050	3	17,470
July 19, 2016	11,159	15,064,650	4	22,318
July 20, 2016	11,155	15,059,250	5	27,888
July 21, 2016	3,555	4,799,250	6	10,665
July 22, 2016	2,050	2,767,500	7	7,175
July 23, 2016	1,230	1,660,500	8	4,920
July 25, 2016	1,515	2,045,250	10	7,575
July 26, 2016	1,220	1,647,000	11	6,710
August 1, 2016	527	711,450	17	4,479
<b>Total</b>	<b>62,799</b>	<b>P 84,321,250</b>		<b>P 120,546</b>

39.3 However, there were no storage fees collected for the above 62,799 bags withdrawn after the July 15, 2016 deadline on IFAD withdrawals and/or issuances of said stocks were not withheld pending the payment of the storage fees in violation of SOP No. GM-DN09. Thus, the CDO was deprived of income from storage fees amounting to P120,546 which could have been used for its operational expenses.

39.4 Likewise, Audit of stock reports and collections for CY 2016 of Misamis Occidental PO revealed that stock purchases of LTMP, DSWD and other BBO's were not withdrawn within schedule and the corresponding storage fees were not collected.

39.5 Inquiry disclosed that the storage fees were temporarily lifted by the Operations Division of Misamis Occidental PO for quite some time now, thus the PO is no longer imposing it as incentive to buyers and for the PO to be able to dispose its large old-stocks of inventories. When the Audit Team inquired from Management as regards its basis for not imposing the storage fee, the PO was not able to present any document/s on the matter.

39.6 The Audit Team also inquired from the concerned WS why they are not withholding the issuance of stocks pending payment of the storage fee. The WS explained that storage fees were no longer collected to encourage buyers of NFA stocks. In view of this, the Misamis Occidental PO lost its opportunity to earn storage fee income of P202,829.

39.7 **We recommended that Management of:**

a. **CDO hold liable/institute appropriate sanction on responsible personnel for non-collection of P120,546 storage fees for IFAD stocks withdrawn after the deadline, and henceforth, strictly implement the withdrawal of stocks within the deadline set and/or the collection of storage fees for stocks withdrawn after such deadline; and**

b. **Misamis Occidental PO collect storage fees from the concerned buyers/retailers as required in Item 6 of NFA SOP No. GM-DN09.A, as amended.**

39.8 Management comments are as follows:

a. CDO- The withdrawal of stocks was extended until July 15, 2016; however, due to the volume of IFAD stocks paid on June 30, 2016 which was the last day of payment, authorized representatives requested additional extensions for their withdrawal.

b. Misamis Occidental PO- It based its action pursuant to NFA General Memorandum (DM-DN09, Item No. 2, Special Distribution Scheme) which provided strategies which can be implemented on a case to case basis depending on the prevailing situation. The prevailing situation then was that the PO had to dispose of its ageing rice inventory which was more than 18 months old. Since one of the apprehensions of the grains businessmen in going into volume purchases is the availability of storage space in their warehouses, the PO verbally conceded to extend withdrawal period of buyers just to be able to dispose of these old rice stocks. This is considering also that all purchased stocks by a buyer and LTMPD were withdrawn in about a week's time only.

On the purchases of DSWD, since they are paid at the RO, the delayed withdrawal of rice had prior approval of the Regional Director (RD) upon written request of the DSWD Region X. It is the honest belief of the PO that the authority to grant this request is within the discretion of the RD. Otherwise, the RD would have issued an instruction to collect storage fees. Also, considering that the DSWD is a government agency concerned with the grant of aid and relief operations to individuals affected by disaster/calamities, it would be self-defeating to charge a government institution.

39.9 As a rejoinder, the concerned Audit Teams maintain their stand that the storage fees should be collected for IFAD stocks withdrawn after the deadline set as required in NFA's issuances on the implementation of IFAD and that collection of storage fees from the buyers be imposed as the NFA SOP No. GM-DN09.A does not provide any exemption. Meanwhile, **we further recommended that Management revisit the guidelines on setting the deadline for stock withdrawals and collection of storage**

fees and define the conditions where the collection of fees may be given consideration.

#### Yolanda Rehabilitation and Reconstruction Program (YRRP)

40. Only the amount of P58.138 million or 52.28 per cent of the P111.205 million funds received under the YRRP was obligated as of December 31, 2016; thus, adversely affecting the warehousing activities of the affected POs particularly the condition and quality of the stored stocks due to congestion. In addition, the repair/rehabilitation/reconstruction projects amounting to P34.227 million were obligated after December 31, 2014 which is beyond the effectivity of the Special Allotment Release Order (SARO); thus the expenses incurred became irregular.

40.1 The onslaught of super typhoon Yolanda on November 8, 2013 severely affected the NFA's infrastructures and post-harvest facilities in the Visayas Region. Consequently, the NFA Administrator requested funding for the repair/rehabilitation/reconstruction of such infrastructures and post-harvest facilities that amounted to P111.205 million.

40.2 Based on the report of damaged NFA infrastructures submitted by the concerned ROs in Regions VI, VII and VIII, the number of the NFA's infrastructure and post-harvest facilities subject for repair/rehabilitation/reconstruction as well as the corresponding estimated budget are shown in Table 100.

**Table 100 - Budget for Infrastructure and Repair/Rehabilitation/  
Reconstruction of Post-Harvest Facilities in Regions VI, VII and VIII**

<b>NFA-RO/PO</b>	<b>No. of Damaged Facilities</b>	<b>Estimated Budget</b>
<b>Region VI</b>		
RO VI	1	P 60,000
Aklan PO	7	1,825,000
Antique PO	2	1,834,930
Capiz PO	25	11,380,765
Iloilo PO	5	1,510,000
Negros Occidental PO	1	95,000
<b>Sub-total</b>	<b>41</b>	<b>16,705,695</b>
<b>Region VII</b>		
Negros Oriental PO	1	40,000
Cebu PO	13	3,725,000
<b>Sub-total</b>	<b>14</b>	<b>3,765,000</b>
<b>Region VIII</b>		
RO VIII	2	901,000
Northern Leyte PO	8	85,410,989
Eastern Samar PO	1	4,422,088
<b>Sub-total</b>	<b>11</b>	<b>90,734,077</b>
<b>Total</b>	<b>66</b>	<b>P 111,204,772</b>

40.3 Accordingly, the Department of Budget and Management (DBM) released to the Bureau of the Treasury (BTr) SARO No. F-13-01331 in the amount of P111.205 million and Notice of Cash Allocation (NCA) No. BMB-F-13-0024881 for the same amount.

Based on the SARO, the allotment released therein shall be valid for obligation until December 31, 2013. However, due to the overwhelming effects of the natural calamities in CY 2013, the House of Representatives and the Senate passed Joint Resolution No. 01 on December 9, 2013 extending the validity of appropriations until December 31, 2014.

40.4 In the audit of transactions for the period from November 2013 to December 2015, we noted that of the P111.205 million funds received under the YRRP, only P54.715 million or 49.20 per cent was obligated as of December 31, 2015, thus, adversely affecting the warehousing activities/operations of the affected NFA POs, as the intended purpose of the fund is for the construction of warehouses to replace those damaged/destroyed by the typhoon. Due to low/slow utilization of the fund, it resulted in limited storages thereby affecting the condition/quality of the stocks. Moreover, the amount of P31.922 million for the implementation of two repair/rehabilitation/reconstruction projects was obligated only in CY 2015 which was already beyond the effectivity of the SARO which was only until December 31, 2014. Hence, the expenses incurred were considered irregular.

40.5 For these observations, we recommended that Management obtain authorization from proper bodies to utilize the YRRP fund beyond December 31, 2014 in order to regularize the obligation of funds in CY 2015, and to implement other projects which were not completed as at year-end. However, these recommendations have not been addressed by Management; hence, the observation with updates is reiterated hereunder.

40.6 As noted in the prior year's audit observation, Region VIII had the highest funding requirement but with lowest number of projects since its 100-TCC (Thousand Cavans Capacity) warehouse with office and 200-TCC warehouse with structural frames and masonry walls were totally destroyed requiring an estimated budget cost of P25 million and P48 million, respectively.

40.7 Based on the BTFMD's Report on fund authorized and remitted to the NFA-RO Nos. VI, VII and VIII, and Technical Research Services Department (TRSD's) Report on Status of Projects as of December 31, 2016, the total funds remitted to the three regions amounted to P71.334 million while the total funds disbursed/utilized in the implementation of YRRP amounted to P69.583 million. Details of the remittance and status reports as of December 31, 2016 are summarized in Table 101.

**Table 101- Reported Fund Utilization and Status of Projects as of December 31, 2016**

<b>Region</b>	<b>Estimated Budget Cost per Region</b>	<b>Amount Released by HO</b>	<b>Amount Disbursed/ Utilized</b>	<b>Number of Facilities Repaired/ Rehabilitated/ Reconstructed</b>	<b>Weighted Average Percentage of Accomplishment</b>
VI	P 16,705,695	P 15,431,328	P 14,813,582	48	100.00
VII	3,765,000	3,615,000	3,321,979	14	100.00
VIII	90,734,077	52,288,042	51,447,042	13	81.25
<b>Total</b>	<b>P 111,204,772</b>	<b>P 71,334,370</b>	<b>P 69,582,603</b>	<b>75</b>	<b>93.75</b>



40.8 Based on status report of TRSD as of December 31, 2016, there was an increase in fund utilization of P0.693 million in Region VI (CY P14.814 - Prior Year (PY) P14.121 million). This was attributable to the release of the 10 per cent retention fee for the BOLO B project. As to the number of facilities repaired/rehabilitated/reconstructed, Region VI has already achieved the 100 per cent (48 out of 48) completion since prior year.

40.9 In Region VII, 14 or 100 per cent of damaged facilities were repaired/rehabilitated/reconstructed with total disbursements of P3.322 million since prior year. On the other hand, in Region VIII, there is an increase in the targeted number of facilities to be repaired/rehabilitated/reconstructed (from 11 to 16) due to the three (3) additional repair projects for the repair/rehabilitation of staff house - Phase 2 in RO compound, Leyte, and for the revision of project for 200-TCC warehouse into 2-units 100-TCC warehouse with WS II Office and Compound Electrical Lighting in Alang-alang, Leyte.

40.10 The fund for the repair/rehabilitation of staff house- Phase 2 was a realignment of the excess/savings from projects for repair/reroofing of 30-TCC warehouse, and repair/rehabilitation of rice mill and dryer. Whereas, the additional fund of the revised project was sourced from realignment of excess/savings fund from projects for Five Tons-Per-Hour (5TPH) rice mill and various mechanical dryers. Similarly, project fund for various mechanical dryers was allocated to 100-TCC warehouse (variation order) project, and fund for 5TPH rice mill was allocated for Phase 3 repair/rehabilitation of staff house.

40.11 As to the utilization of fund in Region VIII, there is an increase of P21.960 million (CY P51.447 million - PY P29.487 million) due to the increase in disbursement for the construction of 100-TCC warehouse in Ormoc City, the construction of the variation order for 100-TCC warehouse and the Phase 3 repair/rehabilitation of staff house. Of the 16 targeted projects to be completed out of funds from YRRP, all were 100 per cent completed except for the additional three projects, i.e., 2 units 100-TCC warehouse with WS II Office and Compound Electrical Lighting in Alang-alang, Leyte which were still scheduled for bidding as of December 31, 2016.

40.12 Analysis and verification conducted on the utilization of the YRRP fund disclosed that as of December 31, 2016, of the P111.205 million received by NFA, only P58.138 million or 52.28 per cent was utilized/obligated, as presented in Table 102.

**Table 102 - Fund Utilization per Audit**

<b>Region</b>	<b>Estimated Budget Cost (a)</b>	<b>Amount Remitted (b)</b>	<b>Amount Obligated (c)</b>	<b>Total Disbursements (d)</b>	<b>Percentage of Utilization (e=c/a)</b>
VI	P 16,705,695	P 15,431,328	P 14,998,267	P 14,272,796	89.78
VII	3,765,000	3,615,000	3,447,344	3,171,872	91.56
VIII	90,734,077	39,345,764	39,692,196	39,692,196	43.75
<b>Total</b>	<b>P 111,204,772</b>	<b>P 58,392,092</b>	<b>P 58,137,807</b>	<b>P 57,136,864</b>	<b>52.28</b>

40.13 The low fund utilization rate was mainly due to the delay in the implementation of the revised project worth P50.188 million in Region VIII, which consisted of three projects. As verified by the COA Auditor assigned thereat, as of March 31, 2017, only Warehouse No. 2 of the 2 units 100-TCC warehouse with WS II Office was started in January 2017, while Warehouse No. 1 and Compound Electrical Lighting projects were

still subject for bidding. Thus, the delay adversely affected the warehousing activities of NFA Leyte PO, particularly the condition and quality of the stored stocks due to congestion.

40.14 Furthermore, it was also noted that NFA did not obligate the YRRP fund within the effectivity of the SARO, as extended by Joint Resolution No. 01 of the House of Representatives and the Senate. As of December 31, 2014, the amount of P85.901 million or 77.25 per cent of the fund remained unobligated. Of this amount, P34.227 million, as presented in Table 103, was obligated after the effectivity of SARO had already lapsed.

**Table 103 - Obligations after December 31, 2014**

Location	Name of Projects	Estimated Budget Cost	Amount Remitted	Date Obligated	Amount Obligated
<b>Region VI</b>					
Aklan	Repair of Banga WH A&B	P 500,000	P 500,000	N/A	P –
	Repair/Rehabilitation of WH BOLO B	7,901,165	6,922,211	March 2015	6,922,211
<b>Region VIII</b>					
Ormoc City	Construction of 100TCC WH with WS II Office	25,000,000	25,000,000	9/11/15-12/18/15	25,000,000
Alang-Alang	Reconstruction of 200TCC WH with WS II Office				
	Revised Project:	50,188,313			
	- 2 units 100TCC WHs with WS II - No. 1		–	N/A	*
	- 2 units 100TCC WHs with WS II - No. 2		–	N/A	*
	- Compound Electrical Lighting		–	N/A	*
	Satake Dryer				
	- 100-TCC (variation order)	1,111,687	1,111,687	8/3/16	1,111,687
	Rice Mill and Dryers				
	- Repair of Staff house Phase 3	1,200,000	1,200,000	10/29/15	1,192,703
<b>Total</b>		<b>P 85,901,165</b>	<b>P 34,733,898</b>		<b>P 34,226,601</b>

\* As of December 31, 2016, projects were still scheduled for bidding.

40.15 In previous year's audit, we recommended that Management obtain authority from proper bodies to utilize the YRRP fund beyond December 31, 2014. To implement said recommendation, on June 20, 2016, Management sent a letter dated June 15, 2016 to the Secretary of DBM but up to this time, no authority or any reply was received on the matter. As there are no documents to show that the NFA is authorized to utilize the fund after CY 2014, the expenses therefrom could be considered irregular.

**40.16 We reiterated our prior year's audit recommendations that Management:**

- a. Exert utmost effort to obtain/follow-up the authority from proper bodies to utilize the YRRP fund beyond December 31, 2014 in order to regularize the obligation/utilization of funds after CY 2014; and**
- b. Henceforth, ensure that funded projects are only implemented within the validity of SAROs.**

**40.17 We also recommended that upon obtaining authority from proper authorities, Management prioritize the implementation of the remaining projects which were not started/completed as at year-end.**

40.18 Management informed that it sent a letter dated June 19, 2017 to DBM Secretary Benjamin E. Diokno for the follow-up of its request for authority to utilize the YRRP fund beyond December 31, 2014.

### **Corn Development Fund (CDF)**

**41. The difference in CDF balance between NFA's books of accounts and bank statement had increased by P4.145 million or 450.54 per cent, from P0.920 million as of December 31, 2015 to P5.065 million as of December 31, 2016, thus casting doubt on the reliability of the year-end balance of the Other Payables-CDF account of P161.154 million.**

41.1 The CDF was created through the issuance by the former President of the Philippines of the Memorandum Order (MO) No. 468 on March 17, 1998. The MO granted NFA authority to import duty/tariff free 300,000 metric tons of corn to help ensure sufficient supply of corn in the face of the then projected corn shortage as a result of El Niño, and to provide relief to the hog and poultry industries. It also provides that any net proceeds accruing from the importation of corn will be held in trust by the NFA to be used for corn development projects. The CDF amounted to P124.10 million, which was the fund generated from the sale of imported corn in CY 1998.

41.2 Section 74 of PD No. 1445 states that *"at the close of each month, depositories shall report to the agency head in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that reconciliation is made between the balance shown in the reports and the balance found in the books of the agency."*

41.3 Likewise, among the characteristics of financial reporting is reliability which should be used as guide in the recording of transactions. Philippine Accounting Standard (PAS) 1 states that *"Financial information is reliable when the quality of information assures the users that such is free from bias and error and faithfully represents what it purports to represent."*

41.4 The CDF was taken up in the NFA's books under Other Payables-CDF account. The fund was deposited initially with the Philippine National Bank (PNB) which was transferred to Land Bank of the Philippines (LBP) in CY 2016 under time deposit and current accounts. In last year's audit, it was raised that as of December 31, 2015, the CDF balance in the books differed from the total balance per bank statements for time deposit and current accounts by P0.920 million. For CY 2016 audit, a difference was again noted between the two balances which amounted to P5.065 million as at year-end, or an increase by P4.145 million or 450.54 per cent, as presented in Table 104.

**Table 104 - Difference Between Balances per Bank and per Books - CDF**

<b>Particulars</b>	<b>2015</b>	<b>2016</b>	<b>Increase/ (Decrease)</b>
Balance per Bank			
CDF Time Deposit	P 153,269,902	P 154,819,631	P 1,549,729
CDF Current Account	12,514,141	11,399,241	(1,114,900)
	<b>165,784,043</b>	<b>166,218,872</b>	<b>434,829</b>
Balance per Books- Other Payables- CDF ( 439-27) account	164,864,504	161,154,031	(3,710,473)
<b>Difference</b>	<b>P 919,539</b>	<b>P 5,064,841</b>	<b>P 4,145,302</b>

41.5 Management indicated in its AAPSI for CY 2015 results of audit that it is now in the process of updating the CDF books of accounts using manual entries and posting of transactions with the assistance of Accountant/Job Order personnel for CDF. The adjusting entries have already been made and posted in the books as of September 30, 2016.

41.6 However, despite the continuous reconciliation being done, there was still unreconciled amount of P5.064 million as at year-end, thus casting doubt on the reliability of the year-end balance of the Other Payables-CDF account.

**41.7 We reiterated our prior year's audit recommendation that Management instruct the ASD to exert extra effort to reconcile the CDF's book balance with the balance per bank to come up with the correct balance.**

41.8 The ASD and BTFMD Managers informed that they were able to account for the increase in variance and committed to exert utmost efforts to expedite the reconciliation of the affected accounts.

**42. No complete set of separate books of accounts were maintained for CDF contrary to the provisions of NFA SOP No. TS-ES22 dated February 14, 2008, thus, detailed transactions involving sources and uses of funds balance cannot be easily determined/monitored.**

42.1 NFA SOP No. TS-ES22 dated February 14, 2008 provides for the Revised Operating Procedure (SOP) on the Management and Utilization of the CDF. Section III.J.2 of the SOP provides that the CDF shall be held in trust by NFA and shall be treated in the NFA books of accounts as "Other Payables-CDF." Moreover, Section III.J.3 of the same SOP requires that the pro-forma journal entries presented therein shall be used in recording CDF transactions in the NFA books as well as in CDF books.

42.2 To record CDF's transactions, NFA maintained subsidiary ledgers for Other Payables-CDF and Cash-in-Bank accounts since it started adopting the e-NGAS in CY 2007. It was noted, however, that since the start of CDF operations in CY 1999, no separate set of books of accounts were maintained for its transactions.

42.3 The non-maintenance of complete set of separate books for CDF had also been noted in prior years' audit. However, the recommended course of action remained not fully implemented. Thus, the absence of complete set of books where detailed CDF transactions should have been recorded, transactions made for the said fund cannot be easily determined/monitored and the balance as of a certain period cannot easily be established.

**42.4 We reiterated our prior years' audit recommendation that Management require the CDF Committee Secretariat to strictly adhere to the provisions of NFA SOP No. TS-ES22 on the maintenance of a complete set of books for CDF in order to regularly monitor the receipts and utilization of the fund and to facilitate determination of its balance as at any given period.**

42.5 The ASD and BTFMD Managers informed that due to difficulty in retrieving NFA records pertaining to CDF transactions from CYs 1998 to 2007, no separate books of accounts were established. In view thereof, they requested to borrow the records/documents submitted to the Audit Team in CYs 1998 to 2007, to facilitate the reconciliation and recording of transactions for the said period.

### **Non-utilization of Property and Equipment**

**43. Machineries with acquisition costs of P745,000 and P475,000 in NFA Marinduque and San Jose, Occidental Mindoro POs, respectively, were not utilized or disposed, thus, the NFA was not able to derive the expected benefits to recover the cost of the financial assistance granted to the farmer-members of the Farm Level Grains Center (FLGC).**

43.1 Section 76 of PD No. 1445 provides that:

*Transfer of property between government agencies. – Any government property that is no longer serviceable or needed by the agency to which it belongs may be transferred without cost, or at an appraised value, to other agencies of the government upon authority of the respective heads of agencies in the national government, or of the governing bodies of government-owned or controlled corporations, other self-governing boards or commissions of the government, or of the local legislative bodies for local government units concerned.*

43.2 Moreover, Section 79 of the same PD states that:

*Destruction or sale of unserviceable property – 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 to the highest bidder under the supervision of the proper committee an award or similar body in the presence of the auditor concerned or other duly authorized representative of the Commission, after advertising by printed notice in the official gazette or for not less than 3 consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in a least 3 public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission.*

43.3 In Marinduque PO, machineries with a total acquisition cost of P745,000 were not utilized and have been idle since their repossession from farmers' cooperative sometime in CYs 1999 and 2000, thus the expected benefit to be derived therefrom was not attained. These machineries were repossessed from the group of member-farmers of the FLGC who were unable to pay their amortization. Management informed that

although the assets are still serviceable, these are not being used in their operation for being quite uneconomical to operate since these machineries require an input of 4.5 to 5 tons of palay. The PO is not a procuring office wherein the volume of palay is very low/minimal and there are times that there is no procurement at all.

43.4 It was observed during the physical count of stocks at FLGC Warehouse last November 2016 that the space occupied by these machineries should have been used for the stocks. The required volume of stocks in the warehouse may decrease due to lack of space. Moreover it is not proper that these old and idle machineries be kept in the warehouse for these may become hiding and breeding places of rats, insects and pests. This observation has been noted in the previous year, but the recommendations have not been implemented by the Management.

43.5 In San Jose PO, the Biomass Furnace Retrofitted to Dryers amounting to P475,000 which was delivered on April 20, 2014 remained uninstalled for more than two years, hence the post-harvest machinery was not utilized, precluding the NFA Occidental Mindoro PO to increase procurement of palay stocks.

43.6 The postharvest machinery is one of the strategies to enhance farm productivity and efficiency in order to achieve food security and safety and increase the income of small farmers. The biomass furnace is used for drying farm crops to improve the quality of rice. In this regard, the NFA received P121 million subsidy from the Department of Agriculture in CY 2014 for the repair/rehabilitation/improvement of NFA's post-harvest facilities.

43.7 The HO entered into a contract with Agri Component Corporation for the provision of retrofitting biomass furnace to mechanical dryers. Section 1.1 (k) of the Special Conditions of the Contract Agreement provides that Occidental Mindoro PO was among the sites in which one unit biomass furnace will be delivered, retrofitted or installed to an existing mechanical dryer and will be commissioned/tested. On April 20, 2014, the equipment was completely delivered to Occidental Mindoro PO and was recognized in its books on December 31, 2014.

43.8 However, since its delivery at Occidental Mindoro PO, the biomass furnace retrofitted to dryer has not yet been installed. Inquiry from TRSD disclosed that a shed is needed for the biomass furnace to be installed. According to them, the Occidental Mindoro PO has an existing shed. But when the biomass furnace will be installed and put to operation at the shed's present location, it will cause inconvenience either to people residing nearby or for the travellers because palay dust will scatter on the national road. It has been proposed that a new shed be built at the back of the NFA warehouse for the biomass furnace.

43.9 Due to long period of being uninstalled, the subject equipment is exposed to further deterioration. Moreover, with the unutilized mechanical dryer the NFA Occidental Mindoro PO was not able to increase the procurement of palay, since drying is needed for palay after harvest. Under NFA SOP No. GM-PR16, the procurement standard quality for palay has a maximum moisture content of 14%. According to International Rice Research Institute (IRRI), the palay, after harvest, has a moisture content of 20% to 25%, hence a drying process is needed to meet the standard quality. It was learned that the farmers sold their newly harvested palay to private traders who are using mechanical

dryers instead of selling their produce to NFA. Had the biomass furnace retrofitted to dryer been installed and utilized, NFA Occidental Mindoro PO would have increased its palay procurement.

**43.10 We recommended that Management require the:**

- a. Marinduque PO to transfer or dispose the machineries in accordance with Sections 76 and 79 of PD No. 1445 to avoid further deterioration and to maximize the use of said machineries; and**
- b. San Jose PO to facilitate the immediate construction of a shed so as the biomass furnace retrofitted to dryer could be installed and utilized.**

**43.11 Management informed that in:**

- a. Marinduque PO- This case has been discussed in the Regional meeting. There is already a plan to transfer the machineries to other POs. However, there are no identified POs yet due the transfer cost that maybe incurred.
- b. San Jose, Occidental Mindoro PO- Based on record, one unit of biomass furnace was delivered by contractor, Agri Component Corporation, in dismantled form last April 24, 2014. However, it was not yet installed due to unavailability of Dryer Shed as stated in the letter of billing by the Contractor addressed to the then Director of NFA Region IV, Batangas City. As of end of CY 2016, the equipment was not yet installed due to on-going bidding for the construction of Dryer Shed. It committed that representation will be made to the RO in order to expedite the completion of dryer shed for the immediate installation, commissioning, testing and acceptance of the biomass as retrofitted to their existing mechanical dryer.

**43.12** The concerned Audit Teams encouraged the concerned POs to immediately act on the recommendations to avoid further deterioration and to maximize the utilization of these machineries and equipment.

## **COMPLIANCE WITH TAX LAWS**

**44.** 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 promptly remitted these amounts intact to the Bureau of Internal Revenue (BIR) in CY 2016, thus, helping the government to collect funds needed for its operations. Total taxes withheld amounting to P511.355 million were remitted within the period prescribed by the BIR regulations.

## **COMPLIANCE WITH THE GSIS LAW**

**45.** For CY 2016, NFA complied with the requirements on the deduction of the GSIS premiums from the salaries of its officials and employees and the remittance thereof to the GSIS. The balance of Due to GSIS account of P2.805 million as of December 31,

2016 represents unremitted premiums deducted from the December 2016 salaries of NFA officials and employees, which were remitted in January 2017.

## **GENDER AND DEVELOPMENT (GAD)**

**46. The NFA's GAD budget of P10.006 million for CY 2016 for the implementation of various programs/activities based on its GAD Plan and Budget (GPB) for the same year was equivalent to only 0.013 per cent of the total approved Corporate Operating Budget (COB) of P76.487 billion instead of the required minimum allocation of P3.824 billion or five per cent of the COB, contrary to the provisions of DBM/NEDA/PCW Joint Circular No. 2012-01. In addition, the GAD budget of P10.006 million was not fully utilized as only P7.506 million or 75.01 per cent was expended indicating that the planned programs/activities were not fully implemented, thus the benefits expected from such programs/activities were not served to the targeted beneficiaries.**

46.1 Section 2.3 of the Philippine Commission on Women (PCW), National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM) Joint Circular No. 2012-01 dated September 30, 2012 states that:

*Pursuant to the Magna Carta of Women (MCW) and the General Appropriations Act (GAA), all government departments, including their attached agencies, offices, bureaus, state universities and colleges (SUCs), government-owned and controlled corporations (GOCCs), local government units (LGUs) and other government instrumentalities shall formulate their annual GPBs within the context of their mandates to mainstream gender perspective in their policies, programs and projects. GAD planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five percent (5%) of their total budgets. The computation and utilization shall be implemented in accordance with specific guidelines provided herein.*

46.2 Part V of COA Circular No. 2014-001 dated March 18, 2014 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 (AR) shall be furnished the said Audit Team within five (5) working days from the end of January of the preceding year.

46.3 Based on the NFA's DBM-approved COB of P76.487 billion for CY 2016, the amount to be allocated for GAD related activities should be at least five per cent, or P3.824 billion. However, based on the PCW-approved GPB for CY 2016 submitted to the COA Auditor on April 29, 2016, only P10.006 million which is equivalent to 0.013 per cent was set aside for said purpose, or deficient by 4.987 per cent. The details of the GPB are summarized in Table 105.



**Table 105 - Annual GPB for CY 2016**

<b>Programs, Activities, Projects (PAPs)</b>	<b>Budgetary Estimate</b>
<b>Head Office</b>	
Hiring of GAD Consultant	P 420,000
GAD Day Care and Office	1,290,376
GAD Planning and Budgeting Forum/Seminar/Workshop	366,600
GAD Psychosocial Awareness Seminar/Workshop for Manager	1,626,800
Hiring of Contractual GAD Technical Support Staff	445,176
Regular Meeting of Central Office GAD Focal Point System	56,000
GAD Awareness Briefings	155,000
Women's Month Celebration	17,000
18- Day Campaign on Violence Against Women and Children (VAWC)	17,000
<b>Total</b>	<b>4,393,952</b>
<b>Field Offices ( Regions I - XV)</b>	<b>5,612,400</b>
<b>Total Budget</b>	<b>P 10,006,352</b>

46.4 The NFA was able to submit a copy of its GAD AR for CY 2016 on February 22, 2017 which was submitted to PCW for review. However, review of the AR showed that of the P10.006 million GAD budget for CY 2016, only P7.506 million or 75.01 per cent was utilized. Based on the schedule submitted by the GAD-Technical Working Group (TWG), of the amount expended, P2.376 million represents expenses in the NFA-HO while the amount of P5.130 million pertains to expenses in the Field Offices.

46.5 Further review of the GAD AR disclosed that the GAD budget was not entirely utilized as there were activities which were not undertaken although there was an activity with reported accomplishment but without corresponding expense. There were also activities with budgets, which were not fully utilized while the expenses incurred for some activities were significantly above their allocated budgets. Moreover, some of the reported accomplishments were not clearly presented in the AR which did not fully support the actual implementation of the activities.

46.6 It was also noted that based on the AR and records from the GAD-TWG, the expenses incurred amounted to P7.506 million of which P2.376 million pertains to NFA-HO expenses. However, accounting records showed that GAD expenses in the NFA-HO amounted to P2.512 million only, or a difference of P136,192.

46.7 Meanwhile, the status of GAD implementation in the ROs/POs is discussed in Table 106.

**Table 106 – Status of Implementation of GAD in ROs/POs**

<b>ROs/POs</b>	<b>Status</b>
Region I	It incurred actual expenses amounting to P136,067 for the conduct of two GAD related activities entitled "Gender and Development Forum" and "Personality Development and Livelihood Demo" participated both from NFA employees and stakeholders.
Region III	The Agency's budget for GAD was 4.91 per cent short of the required 5 per cent of the total appropriations for CY 2016, depriving the employees of the full benefits contrary to DBM-NEDA-PCW Joint Circular No. 2012-01.

<b>ROs/POs</b>	<b>Status</b>
Region IV	The RO conducted the Gender Sensitivity Training (GST) at the Region IV Office Conference Room. The period of implementation was from October 28, 2016 to December 16, 2016 with 11 batches of GST training. Participants were from the Regional Office, Laguna, Infanta, Quezon, Marinduque, Palawan, Mamburao, Occidental Mindoro, Oriental Mindoro, Batangas and Romblon.
Region V	Mainstreaming strategy of GAD activities into the Agency's Major Projects/Activities/Programs were not observed in the preparation of GAD Plan and Budget of NFA RO No. V, NFA-CSPO, NFA-MBTPO and NFA-SSGPO for CY 2016, contrary to Section 2.3 of the PCW-NEDA-DBM Joint Circular No. 2012-01 and to the provisions of EO No. 273.
Region VI	NFA RO No. VI, Iloilo and Antique POs were not able to comply with the provision of Section 35 of General Appropriations Act for FY 2016 which requires allocating for GAD Activities at least five per cent (5%) of its budget depriving the employees of the benefits that could have been derived from GAD programs.
Region VII- Negros Oriental PO	The Agency's allocation for GAD programs/activities of P261,175 is way below the required five per cent (5%) minimum allocation based on the total approved COB contrary to the provisions of DBM/NEDA/PCW Joint Circular No. 2012-01. Moreover, Management was not able to fully implement the programmed activities and projects identified, thus, depriving the targeted beneficiaries of the opportunity to avail of the benefits expected from such programs/activities.
Region VIII	The GPB amounted to P313,410 of which P286,631 was spent for GAD- related activities during the year.
Region IX – Zamboanga del Norte PO	The total amount of P196,538 GAD related expenses were not included in GAD-AR, thus, understating the expenses attributed to GAD which was not in accordance with Section 35 of RA No. 10717 and PCW-NEDA-DBM Joint Circular No. 2012-01 and PCW Memorandum Circular No. 2016-5 dated September 20, 2016. While in Zamboanga del Norte PO, the GAD Focal Point System lacked the capacity and technical expertise. As such, GPB and AR were not prepared, although a Seminar on GAD awareness was conducted.
Region X	GAD programs and activities were implemented.
Region XI	GAD funds were audited pursuant to COA Memorandum No. 2009-020 dated May 15, 2009. Funds were utilized in accordance with the guidelines and no adverse observations were noted.
RO XIII-NCR	For CY 2016, the NFA-NCR had total GAD budget allocation of P786,598. The fund was intended for two major projects which included the amount of P106,874 for the conduct of various seminars which was not adequately supported by documents as required in COA Circular No. 2012-001 dated June 14, 2012, as amended by COA Circular No. 2013-001 dated January 10, 2013, and Circular No. 2004-006 dated September 9, 2004; and the P616,000 allotted for the various repairs of comfort rooms in the regional and district offices which did not qualify as chargeable expenses per Annex A of PCW-NEDA-DBM Joint Circular No. 2012-01.
RO XIV -ARMM	Minimal funds intended for Gender and Development programs and activities were utilized by Management, contrary to the provisions of Section 28 of the General Provisions of the GAA of FY 2016.
RO XV- CARAGA	The RO and Agusan del Norte PO failed to allocate 5 per cent of the total COB for the implementation of its GAD-related Programs, Activities and Projects (PAPs) and submit the GAD Accomplishment Report for FY 2016 in prescribed form contrary to DBM-NEDA-PCW Joint Circular No. 2012-01, thus the Agency appears to be neither gender-responsive nor gender-sensitive in the conduct of its activities.

46.8 As minimal allocation was provided for GAD programs/activities and with low utilization, the Agency was not assured that gender issues were fully addressed during the year while intended GAD beneficiaries were deprived of the opportunity to avail of the benefits expected therefrom. Likewise, the variance in the reported expenditures and the unclear accomplishments affected the reliability of the GAD AR.

**46.9 In view thereof, we reiterated our previous years' audit recommendations that Management:**

- a. Allocate funds of at least five per cent of the annual total budget for GAD programs/activities, pursuant to DBM-NEDA-PCW Joint Circular No. 2012-01;**
- b. Ensure the full implementation of programs/activities included in the GPB for the year;**
- c. Closely coordinate with NFA Field Offices on the implementation of GAD programs/activities to ensure full implementation of the GPB; and**
- d. Require the NFA GAD Focal Point to coordinate with the ASD on the preparation of the GAD AR to ensure that the actual amount of the expenses incurred will be correctly presented therein.**

**46.10 We also recommended that Management require the NFA GAD Focal Point to ensure that accomplishments are clearly and fully presented in the GAD AR.**

46.11 Management provided the following comments:

a. HO

a.1 The Agency's Annual GPB was prepared by the previous GAD TWG members and Secretariat with the intention to earmark P10.006 million to focus on the activities that are doable within the period of one year and the rest of budget was to be attributed to the COB. The non-inclusion of the attribution of the rest of the allocated amount was due to the lack of proper information and coordination with BTFMD during the presentation of the CY 2016 GPB. This was not, in part, due to any malice on the part of the GAD Secretariat but can also be attributed to the hastiness in the preparation of the CY 2016 GPB since it has already missed the deadline for submission.

a.2 The partial implementation of the NFA GAD PAPs for CY 2016 was caused by two reasons: (1) the reconstitution of the TWG due to some of the members' retirement or transfer to another assignment. Moreover, no plantilla positions exist for the program, which can be filled up, to serve as personnel for concentrating solely on the monitoring and implementation of the GAD program; and (2) late approval and downloading of the budget to Central and Field Offices since budget for GAD activities was approved only during the third quarter of the year. Hence, the Central and Field Offices were not able to prepare and schedule more activities. The result is that the allocated budget was not fully utilized for GAD PAPs.

a.3 The CY 2016 AR was submitted to PCW last February 1, 2017 for review. This was returned to NFA for revision last February 28, 2017. This was immediately revised and resubmitted in March 2017. With a new PCW reviewer, the CY 2016 AR was again returned with more comments for revision. Hence, it is still pending approval by PCW.

a.4 The discrepancy between the reports from GAD TWG report and ASD was due to a lack of an effective monitoring system of the GAD fund releases/utilization. The GFPS only relied on the ASD's expense data and remitted funds to NFA Field Offices. It was also found out that during the preparation of CY 2016 AR, there was limited data available, that is, the report only used the data from January to November 2016.

a.5 The NFA-GFPS committed to cost-efficiently initiate the gender mainstreaming in cost-efficient manner, endeavor to allocate at least 5 per cent of the Agency's budget to GAD, implement 100 per cent of the targeted PAPs based on the submitted Annual GPBs, coordinate with the Field Offices and concerned members of the GFPS and ASD, and endeavor to provide a clear GAD AR.

b. Region III- Management of Region III informed the following reasons for the deficit on five per cent GAD budget requirement:

b.1 NFA's budget depends only thru borrowings and net lending. Net lending is the subsidy given by the National Government for palay procurement and rice importation and the rest of Personal Services, Maintenance and Other Operating Expenses and Capital Outlay budgets are being sourced thru borrowings.

b.2 In CY 2016, total GAD budget ceiling for the entire NFA was only P10.006 million wherein Region III ceiling was only P0.623 million and the authority from HO Budget Department was only P0.540 million, but the total GAD fund utilized was P0.582 million thereby resulting to a deficit of P41,953 which was sourced from the GOE fund.

b.3 On the other hand, NFA Nueva Ecija PO commented that their budget for GAD activities came from NFA-Region III and they are only authorized up to the ceiling amount they received but they ensure that the budget will be utilized for the full benefits of the employees.

b.4 Management also mentioned that they will coordinate with the NFA-Region III for the compliance of required five per cent GAD budget in adherence with the provisions stated under PCW-NEDA-DBM Joint Circular.

c. Region IV-B-Oriental Mindoro PO- It was amenable of the noted deficiencies but explained that it has been submitting GPB to the HO thru the RO in compliance with the previous year's audit recommendations. However, despite favorable endorsement by the RO, it was not informed whether the same has been approved by HO; hence, programs and activities for GAD were not implemented.

d. Region V- The RO and Sorsogon PO noted and acknowledged the audit observation on GAD and assured that the strategy of prioritizing the mainstreaming or incorporating into its major PAPs gender issues had already been incorporated in the CY 2017 GPB for NFA Region V based on the copy provided by the RO. Management committed to comply and monitor its proper implementation.

e. Region VI- It has no control as to budget allocation for GAD as it falls under the authority of HO.

f. Region VII- Planning and budgeting for GAD programs for CY 2016 was prepared by the GAD TWG in the HO. The total amount of P261,175 was the allocation for the whole Region VII for GAD activities. The PO was allotted the amount of P48,763 which was fully utilized.

g. Region VIII- It has formulated GAD Plans and Programs and incorporated in its budget the amount allocated which was spent for GAD related activities during the year.

h. Region IX- Zamboanga del Norte PO- It is amenable on the deficiency observed by the Team due to shortcomings with regard to capacity and technical expertise of its GAD focal person. It will coordinate the matter with the RO for the provision of the required GAD capacity seminars.

i. Region XIV-ARMM- It has implemented the GAD plan for CY 2016 with minimal budget.

46.12 As audit rejoinder, the Audit Teams appreciate the commitments made by Management with regard to the audit recommendations. However, the Teams will strictly monitor NFA's compliance with the provisions of DBM-NEDA-PCW Joint Circular No. 2012-01 on budget allocation. Furthermore, constant coordination with the ROs/POs should be done and programmed activities and projects identified in the Annual GPB be fully implemented in order to provide the targeted beneficiaries the opportunity to avail of the benefits expected from GAD.

## **UNSETTLED AUDIT OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

**47.** As at December 31, 2016, NFA had total consolidated unsettled Notices of Suspension (NSs) of P9.069 million, Notices of Disallowance (NDs) of P178.750 million and Notices of Charge (NCs) of P2.718 million. The details and status are shown in Annex C, Part IV of this Report.

### PART III - STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 198 audit recommendations embodied in the prior years' Annual Audit Reports (AARs), 37 were fully implemented, 123 were partially implemented and 38 were not implemented. Details are as follows:

Observations and Recommendations	Actions Taken/Comments
<b><u>CY 2015 AAR</u></b>	
1. The non-recognition of customs duties of P7.120 billion and handling and transportation costs of P4.730 million as component costs of imported rice resulted in the understatement of the Merchandise Inventory account of P15.886 billion as of December 31, 2015 by approximately P7.125 billion and the related Cost of Sales (COS) of P19.939 billion for the year by approximately P7.303 billion.	Related discussion in Part II, Observation No. 1 of this Report.
We reiterated our prior year's recommendations that Management require:	
a. Accounting Services Department (ASD) to 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; and	Partially Implemented.  Customs Duties were not recorded in the proper period.
b. 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 CY 2015. Henceforth, coordinate with the NCR for the timely recognition of the expenses to present the correct balance of Merchandise Inventory account and COS and for proper matching of costs/expenses and revenue/income during the period.	Partially Implemented.  As of June 2016, handling costs from December 2015 to March 2016 were recorded.

Observations and Recommendations	Actions Taken/Comments
We further recommended that Management of SDO effect necessary adjustments relative to the transportation cost of P1.118 million erroneously recorded in the books of Cavite PO.	Not Implemented.  No advice to adjust/book the P1.118 million transportation cost from the NCR Regional Finance Officer was received as of February 20, 2017.
2. The validity, existence and collectibility of the Accounts Receivable-Trade in the total amount of P893.515 million 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.	Related discussion in Part II, Observation No. 2 of this Report.
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;	Partially Implemented.  Adjustment at NFA – HO was made on March 31, 2016 per Journal Entry Voucher (JEV)-2016-03-005826.
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;	Partially Implemented.  Gathering of documents is on-going to support the request for write-off of accounts.
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 Standard Operating Procedure (SOP) No. FS-FA13; and	Partially Implemented.  Reconciliation is on-going. Communications are being made to concerned offices for validation of account balances.

Observations and Recommendations	Actions Taken/Comments
<p>d. Include the collection targets in the Annual Plans and Targets as means of gauging the efficiency of collection of accounts receivable.</p>	<p>Partially Implemented.</p> <p>Based on AAPSI, this is already implemented in the field offices as they are submitting the Quarterly Monitoring of Receivables which included their collection targets and actual collection.</p>
<p>3. The reliability of the PE account with net book value (NBV) of P2.469 billion remained doubtful in view of the unreconciled variance of P107.402 million between the book balance and the established inventory count in the HO and Field Offices (FOs), or an increase of P16.836 million from the prior year's noted variance; net understatement of Accumulated Depreciation (AD) by P10.514 million resulting in overstatement of Retained Earnings (RE); existence of abnormal balances in AD amounting to P13.895 million; and non-reclassification of unserviceable properties of P12.027 million to Other Assets account pending their disposal.</p>	<p>Related discussion in Part II, Observation No. 8 of this Report.</p>
<p>We reiterated our prior year's audit recommendations that Management:</p>	
<p>a. Require the ASD and GSD of HO to conduct complete and thorough verification and reconciliation of the property and accounting records, including the PE items "For Reconciliation," to determine other cause/s of discrepancies so that necessary corrections/adjustments can be effected in both records to arrive at correct/reconciled balances.</p>	<p>Partially Implemented.</p> <p>In NFA-HO, there is an on-going retrieval of documents or information to support the reconciliation.</p>
<p>b. 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.</p>	<p>Partially Implemented.</p> <p>In NFA-HO, various JEVs were prepared for reconciliation of unserviceable PE.</p>



Observations and Recommendations	Actions Taken/Comments
c. Strictly observe proper disposal procedures 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.	<p>Partially Implemented.</p> <p>Agusan del Sur issued Office Order ADSH-2016-d-02 dated April 6, 2016 creating the Provincial Disposition Committee for the immediate disposal of junk assets.</p> <p>In RO No. VIII, partial IIRUPs were prepared. However, two biddings conducted were both declared failure.</p>
We also recommended that Management:	
a. Prepare and effect the necessary adjusting entries for the PE that have overstated and understated the AD account;	<p>Partially Implemented.</p> <p>In NFA-HO, there is difficulty in the retrieval of documents to support reconciliation.</p>
b. Exert utmost efforts to record the PE within the month of its acquisition provided that documentary requirements are fully considered. In case circumstances do not permit, make adjusting entries to update the late depreciation expenses;	<p>Partially Implemented.</p> <p>In NFA-HO, this is an on-going process of on-time recognition of PE as part of the roll-out of e-IFOMIS.</p>
c. Trace and analyze the reasons for having negative AD and properly document the result of analysis. Once the reasons are determined, prepare necessary entries to adjust the account;	<p>Partially Implemented.</p> <p>In NFA-HO, there is difficulty in the retrieval of documents to support reconciliation while in RO No. VIII, reconciliation between Accounting and Supply Office is still on-going at the Northern Leyte PO.</p>
d. Determine the total cost incurred for the landscape and parking area, as basis for reclassifying them to Land Improvements and the computation of their depreciation according to their useful lives; and	<p>Fully Implemented.</p> <p>Initially, reclassification was made to Office Buildings rather than to Land Improvements. A request for reclassification had been made and it was fully adjusted.</p>
e. Refrain from directly recording construction materials as depreciable assets during the construction stage as this affects the future depreciation of an	<p>Fully Implemented.</p> <p>The Agency is now using the Construction-In-Progress account</p>

Observations and Recommendations	Actions Taken/Comments
asset.	instead of directly recording to the PE account.
<p>4. The accuracy and reliability of inventories for consumption accounts of the HO amounting to P12.584 million could not be ascertained due to deficiencies in the monitoring and accounting for supplies and materials, contrary to Sections 43 and 62 of the MNGAS, Volumes I and II, respectively, and failure to align its SOP No. GS-PD16 to Section 46, Volume I of the MNGAS which resulted in variances between the reported balance per books and balance per actual physical inventory amounting to P4.156 million.</p>	<p>Related discussion in Part II, Observation No. 9 of this Report.</p>
We recommended that Management:	
a. Instruct the ASD and GSD to exert efforts to reconcile their balances of inventory for consumption account;	<p>Not Implemented.</p> <p>In NFA-HO, no adjustment was made to reconcile ASD and GSD records; instead, a reclassification for the purpose only of migration to e-IFOMIS was made.</p>
b. Require the GSD to maintain SCs instead of SLCs while the ASD maintain SLCs to ensure better control and monitoring of the inventories;	<p>Partially Implemented.</p> <p>During witnessing of the inventory count, the ASD is currently using the SLCs prescribed in MNGAS, but not all Supply Officers maintain the SCs.</p>
c. Require the Inventory Committee to use the format for RPCI as prescribed in the MNGAS; and	<p>Partially Implemented.</p> <p>During the December 2016 inventory count, some of the Supply Officers are still not using the RPCI prescribed by MNGAS.</p>
d. Revisit the provisions of NFA SOP No. GS-PD16 to identify the provisions that need to be revised/amended and those lacking provisions in order to align these to the provisions in the MNGAS.	<p>Not Implemented.</p> <p>As at audit date, no revision/ amendment has been made to the SOP to re-align it with the MNGAS.</p>

Observations and Recommendations	Actions Taken/Comments
<p>5. The validity, existence and collectibility of the inter-agency accounts totaling P248.846 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 in the financial statements.</p>	<p>Related discussion in Part II, Observation No. 3 of this Report.</p>
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>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;</p>	<p>Partially Implemented.</p> <p>A demand letter was sent to MIAA, PITC and various LGUs in October 2016. In addition, the LGU of Davao made a partial payment to NFA.</p>
<p>b. Pursue an extensive collection policy for the accounts due to the NFA and intensify efforts to collect long outstanding accounts; and</p>	<p>Partially Implemented.</p> <p>Retrieval of documents is on-going.</p>
<p>c. For the agencies which still have transactions with NFA, coordinate with their authorized official/s in order to finally collect these receivable accounts.</p>	<p>Partially Implemented.</p> <p>Retrieval of documents is on-going.</p>
<p>6. Shortages of Stock Accountable Officers (SAOs) recorded as Due from Officers and Employees in the total amount of P805.783 million remained uncollected due to Management's inability to strictly implement its own policy which casts doubt on the full recovery of the receivable account.</p>	<p>Related discussion in Part II, Observation No. 4 of this Report.</p>
<p>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:</p>	
<p>a. Conduct an evaluation of the existing warehousing policies and procedures to</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>identify the causes of the incurrence of shortages and strengthen the measures that will prevent and/or address the same;</p>	<p>Some of the causes were already identified. Continuous evaluation is being conducted to address and/or prevent incurrence of shortages. Also, the installation of CCTVs on warehouses was discussed in the NFA-NCR Exit Conference.</p>
<p>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</p>	<p>Partially Implemented.</p> <p>The Senior Enforcement and Investigation Officer (SEIO) of Sorsogon PO readily serves the demand letters as soon as they are issued by the PM/OIC.</p> <p>Stock examinations at RO No. X are on-going. Some have already been forwarded to the NFA Regional TOLA Committee (RTAC).</p>
<p>c. Fervently follow-up the early resolution of the cases of concerned accountable officers to effect immediate collection of their shortages.</p>	<p>Partially Implemented.</p> <p>The NFA-LAD is continuously evaluating records to determine the matter of filing charges against erring SAOs. Also, in Region IV-B Mamburao, demand letters, Notice of Failure to Settle Stock Shortages, and Show Cause Orders have been issued to SAOs.</p>
<p>7. Stock shortages taken up in the books under Other Assets account amounted to P2.112 billion, most of which remained outstanding for more than five years, and cannot be reclassified to Due from Officers and Employees 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.</p>	<p>Related discussion in Part II, Observation No. 6 of this Report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>We reiterated our prior year's audit recommendations that Management:</p>	
<p>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 Stock Examination Report (SER) to the RTAC for TOLA computation;</p>	<p>Partially Implemented.</p> <p>In NCR-NDO, Management is coordinating with the RO on the settlement and computation of TOLA through Inter-Office Memo NDO-OPM-D-56.</p> <p>In Marinduque PO, the Audit Team provided the Agency pertinent documents from the duplicate copies on file in order to complete the stock liquidation report.</p> <p>Re-checking of stock examination report versus weekly stock reports is on-going.</p>
<p>b. Require the RTAC to speed up the TOLA computation to establish the final shortages of the SAOs/WSs so that the settlement/collection of the amounts could be pursued and the balance of the accountabilities that could not be ascertained be minimized/reduced;</p>	<p>Partially Implemented.</p> <p>In NCR-NDO, there were already some adjustments made based on documents found that reduced the outstanding balances of overages in the Deferred Credits account while in NCR-SDO, Management informed that it will coordinate with RTAC regarding the result of TOLA computation and to consider the use of secondary documents.</p> <p>In RO No. IX, RTAC had rendered one report on TOLA computation in CY 2016.</p>
<p>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</p>	<p>Partially Implemented.</p> <p>NCR-CDO informed that it will make representation with top Management to revisit NFA SOP No. GM-WH13 to provide timelines for stock examination and TOLA computation. Although, current stock examinations/liquidations at CDO are immediately being accomplished and</p>

Observations and Recommendations	Actions Taken/Comments
	forwarded to RO for TOLA computation.
<p>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.</p>	<p>Partially Implemented.</p> <p>Management is continuously conducting audit of stock accountabilities of NFA SAOs.</p>
<p>8. Uncollected overdue receivables amounting to P85.186 million from various companies, private individuals and former NFA officials/employees who have died, resigned or retired from the service, remained dormant for five to ten years and more due to lack of documentation and the failure of the concerned officials to undertake measures for the proper disposition of the dormant accounts pursuant to COA Circular No. 97-001 and NFA SOP No. FS-FA 13, thus rendering the accuracy and existence of the reported balances doubtful.</p>	<p>Related discussion in Part II, Observation No. 7 of this Report.</p>
<p>We reiterated our previous years' audit recommendations that Management:</p>	
<p>a. Institute all measures to document the receivables and continuously send demand letters to all concerned to enforce collection of the dormant receivable accounts; and</p>	<p>Fully Implemented.</p> <p>In NFA-HO, adjusting entry was made in June 2016 following the recommendations per AOM 2016-04(2015) dated April 13, 2016.</p>
<p>b. 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.</p>	<p>Partially Implemented.</p> <p>The Batangas PO followed-up from NFA-HO the collection of the outstanding receivable from a sugar corporation since the payment was made thereat. Loan records were not yet located.</p>

Observations and Recommendations	Actions Taken/Comments
We also recommended that the ASD reclassify the receivables of the HO under Other Assets account to their proper accounts to conform to NGAS.	Fully Implemented.  Adjusting entry was made in June 2016 following the recommendations per AOM No. 2016-04 (2015) dated April 13, 2016.
9. The validity of Accounts Payable presented under Payable accounts amounting to P4.543 billion as of December 31, 2015 is doubtful due to the absence of necessary supporting documents and/or existence of dormant accounts amounting to P29.349 million.	Related discussion in Part II, Observation No. 10 of this Report.
We reiterated our prior year's recommendations 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, thereby ensuring the correctness and validity of obligations;	Partially Implemented.  In CARAGA-RO, Surigao del Sur and Agusan del Sur, Management has substantiated the documentary requirements and has made settlements to various creditors during the year.  In NFA HO and Masbate PO, there is difficulty in retrieving necessary supporting documents. Further, in NFA HO, the amount of P3.796 million dormant accounts was reversed in CY 2016.
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;	Partially Implemented.  In RO No. VII, Management obtained confirmation from POs concerned and has already started the reconciliation and retrieval of documents.  In Antique PO, JEVs for the reconciled accounts were already submitted. However, numerous accounts were not reconciled yet.
c. Require the Accountant to continue prioritizing the in-depth analysis,	Partially Implemented.

Observations and Recommendations	Actions Taken/Comments
<p>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; and</p>	<p>Verification and reconciliation are continuously being undertaken.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>The total amount of P3.796 million dormant accounts were reversed in CY 2016.</p>
<p>10. The reliability, validity and accuracy of the Loans Payable - Domestic and Foreign accounts as of December 31, 2015 amounting to P103.726 billion and P164.681 million, respectively, are doubtful due to absence of necessary supporting documents and variance of P8,084.549 million between records of the creditor of P8,143.364 million and books of P58.815 million.</p>	<p>Related discussion in Part II, Observation No. 11 of this Report.</p>
<p>We recommended that Management require the ASD to:</p>	
<p>a. Exert extra effort in retrieving the necessary supporting documents to review the long outstanding loans payable and prepare adjusting entries, if warranted;</p>	<p>Partially Implemented.</p> <p>In NFA HO, Management had provided the necessary records/documents for review by the Audit Team.</p>
<p>b. Pursue the reconciliation of its records with the records of the CCC; and</p>	<p>Not Implemented.</p> <p>No reply was received from CCC as regards NFA's letter.</p>
<p>c. Obtain copies of documents from the creditor evidencing the payment made on the loans and the corresponding interests.</p>	<p>Not Implemented.</p> <p>Other than the relevant documents from the creditor, Management instead provided the Audit Team with Acknowledgement Receipts by the remitting bank and other documents.</p>



Observations and Recommendations	Actions Taken/Comments
<p>11. The Due to the National Treasury account balance of the HO amounting to P30.676 billion as of December 31, 2015 is doubtful due to the existence of dormant accounts, abnormal balance, absence of necessary supporting documents and long outstanding guarantee fees. Moreover, the balance of Interest Payable account amounting to P1.871 billion as at year-end includes interest on advances/net lending amounting to P751.228 million which is unsettled for one to two years and above. All of these affect the reliability, validity and accuracy of the payable accounts.</p>	<p>Related discussion in Part II, Observation No. 12 of this Report.</p>
<p>We recommended that Management:</p>	
<p>a. Require the ASD to prioritize the retrieval of the supporting documents in order to undertake the in-depth analysis, verification and full extent of validation of dormant accounts, including the account with negative balance, so that necessary adjusting entries can be made; and</p>	<p>Not Implemented.</p> <p>Management is still in the process of retrieving the documents.</p>
<p>b. Seek endorsement from higher authority for the NFA's Road Map particularly on the transfer to the NG of the Authority's obligations; otherwise, settle outstanding advances, including the interest and guarantee fees. If unable to settle due to limited funds, request negotiation on possible payment plan with the CAG-DOF.</p>	<p>Not Implemented.</p> <p>Management is still unable to pay its obligations to the Bureau of the Treasury. The balance as of December 31, 2016 further increased by P2.405 billion from P30.676 billion in CY 2015 to P33.081 billion.</p>
<p>12. Dividend due to the NG from the NFA's net earnings of P1.875 billion for CY 2014 has not been declared and remitted to the BTr, contrary to Section 3 of Republic Act (RA) No. 7656, resulting in the understatement of the liability and overstatement of Retained Earnings accounts and depriving the NG of funds for carrying out the programs, projects and other priority development goals of the government. Although the Agency could have been exempted from paying</p>	

Observations and Recommendations	Actions Taken/Comments
<p>Dividends due to negative Retained Earnings pursuant to Section 5-f of the Revised Implementing Rules and Regulations (RIRR) of same RA, its request for exemption was submitted late to the DOF.</p>	
<p>We recommended that Management:</p>	
<p>a. Follow-up the status of its request for the downgrading of dividend rate from 50 per cent to zero, and if not granted, remit to the BTr the approved dividend adjustment; and</p>	<p>Not Implemented.</p> <p>Management did not provide the Audit Team with any document to prove there were follow-ups made on the status of its request for the downgrading of dividend rate from 50 per cent to zero.</p>
<p>b. Henceforth, adhere strictly to the provisions of RA No. 7656 and its RIRR, particularly on the prescribed period for the submission of request for downward adjustment for dividend rate and payment plans.</p>	<p>Fully Implemented.</p> <p>NFA incurred Net Loss in CYs 2015 and 2016.</p>
<p>13. In the books of HO, the Due to Other NGAs, Due to GOCCs and Other Payables accounts with balances of P253.087 million, P15.149 million and P305.345 million, respectively, as at year-end cannot be relied upon as these include P216.356 million trust liabilities that have remained dormant for the past eight years, improper offsetting of trust liabilities in the amount of P6.801 million against receivable accounts without analysis and supporting documents and the adjustment made for NFA's Lingap Para sa Mahihirap Program fund amounting to P14.902 million without complete supporting documents.</p>	<p>Related discussion in Part II, Observation No. 13 of this Report.</p>
<p>We reiterated our previous years' audit recommendations that Management:</p>	
<p>a. Cause the thorough verification of the nature or purposes of projects long outstanding and determine the status</p>	<p>Partially Implemented.</p> <p>Management encountered difficulty in</p>

Observations and Recommendations	Actions Taken/Comments
whether already completed, discontinued or abandoned;	locating/retrieving necessary supporting documents.
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; and	Not Implemented.  Locating/retrieving of necessary supporting documents is on-going.
c. Make the necessary adjustments in the books to determine correct/actual balances and cause remittance to the concerned agencies.	Partially Implemented.  Management encountered difficulty in locating/retrieving necessary supporting documents.
We also reiterated our previous year's recommendations on the Lingap Fund that Management require the ASD and the IASD to reconcile their records, and effect the necessary adjustments which are adequately documented in order to reflect the correct fund balance. In addition, we recommended that Management submit fund utilization report, indicating the summary of expenses and the status of the report of accomplishments certified by the Accountant.	Partially Implemented.  Management encountered difficulty in locating/retrieving necessary supporting documents.
We further recommended that Management cause the thorough analysis, reconciliation and review of the affected accounts on the adjustments made in the trust liability accounts in the amount of P6.801 million and provide valid documents to support the adjustments, otherwise revert the same to the trust liability accounts.	Fully Implemented.  Adjustment was made for the Pamaskong Handog Project. As to the offsetting of the payables and receivables accounts of the OP, Management submitted the additional documents supporting the adjustment made on March 3, 2016.
14. The balance of Deferred Credits account of P516.847 million as at year-end is unreliable as this still includes dormant balances of P23.788 million in HO and several FOs as stocks remained unwithdrawn for five years and more; and overages of SAOs of P190.685 million which remained not established.	Related discussion in Part II, Observation No. 16 of this Report.

Observations and Recommendations	Actions Taken/Comments
<p>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 HO departments/offices and ROs to include, among others, the following:</p>	<p>Partially Implemented.</p> <p>NCR-NDO continuously coordinates with the RO as to the disposition of the accounts of retired/separated/deceased SAOs through issuance of Inter-Office Memo NDO-POM-D-56.</p>
<p>a. Gather documents supporting the transactions pertaining to the advance payment of the legislator and on the conduct of stock examinations on SAOs with overages;</p>	<p>Partially Implemented.</p> <p>NCR-NDO continuously coordinates with the RO as to the disposition of the accounts of retired/separated/deceased SAOs through issuance of Inter-Office Memo NDO-POM-D-56.</p>
<p>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 of those who have retired or were separated from service; and</p>	<p>Partially Implemented.</p> <p>Verification cannot be completed due to unavailability of necessary data.</p>
<p>c. Obtain information and guidance on the following:</p>	<p>Partially Implemented.</p> <p>Verification cannot be completed due to unavailability of necessary data.</p> <p>Partially Implemented.</p> <p>Stocks &amp; MTS accountability of F.M. Escalona was completed. He paid the shortage of P15,058.71 on April 11, 2016.</p> <p>Partially Implemented.</p> <p>Verification cannot be completed due to unavailability of necessary data.</p>
<p>c.1 Appropriate disposition of the advance payment made by the legislators since the stocks apparently have already been long withdrawn;</p>	<p>Partially Implemented.</p> <p>Verification cannot be completed due to unavailability of necessary data.</p>
<p>c.2 Status of accountability of the warehouse accountable officers; and</p>	<p>Partially Implemented.</p> <p>Stocks &amp; MTS accountability of F.M. Escalona was completed. He paid the shortage of P15,058.71 on April 11, 2016.</p>
<p>c.3 Appropriate disposition of the long outstanding overages of retired/separated SAOs with or without final TOLA computation.</p>	<p>Partially Implemented.</p> <p>Verification cannot be completed due to unavailability of necessary data.</p>
<p>15. The intra-agency receivable and payable accounts were not yet eliminated/zeroed out as at reporting date due to timing</p>	<p>Related discussion in Part II, Observation No. 15 of this Report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>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>We reiterated our prior years' recommendations that Management:</p>	
<p>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 and closely coordinate with other offices for the prompt determination and resolution of the differences to facilitate reconciliation and prepare the necessary adjustments; and</p>	<p>Partially Implemented.</p> <p>Management is in continuous coordination with concerned NFA Offices to identify discrepancies. Several accounts have already been closed to Government Equity account. Others are partially reconciled.</p> <p>In NFA-HO, reconciliation is on-going.</p> <p>In Infanta PO, results of confirmation made on the balances appearing in the books as of November 30, 2016 with the books of the HO still showed significant variances</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>Reminders were given regularly to the Accountants for them to strictly comply with the SOP.</p>
<p>16. The payments for the Collective Negotiation Agreement (CNA) Incentive amounting to P31.643 million to officials and employees of HO, NCR and some ROs/POs and the NFA's share to the Provident Fund in the amount of P25.392 million in CY 2015, both charged to the savings in CY 2014, were not supported by existing valid CNA, contrary to Item 4.1 of DBM Budget Circular No. 2014-2. Thus, the propriety of the expenses could not be fully assessed.</p>	

Observations and Recommendations	Actions Taken/Comments
We recommended that Management:	
a. Cause the submission of CY 2014 existing and valid CNA to support the grant of CNA Incentive and remittance of NFA's share to the Provident Fund;	Partially Implemented.  Submitted documents are still not valid since CNA already expired as of CY 2008.
b. Require the NCR-NDO Accountant to adjust in the books the payment of CNA Incentive to Prior Years' Adjustments account; and	Fully Implemented.  Necessary adjustment was already effected.
c. Henceforth, strictly adhere to the existing rules and regulations on the grant of CNA Incentive.	Partially Implemented.  Existing CNA signed only on June 9, 2015 was submitted.
17. The NFA Council members and alternates were paid reimbursable expenses for meals and were granted rice allowance in CY 2015 amounting to P1.091 million and P69,030, respectively, contrary to Section 23 of RA No. 10149 and Section 7 of EO No. 24. Moreover, reimbursable expenses for meals in the total amount of P0.747 million and P344,104 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 meal expenses and/or the attendees of the meetings held, thus the validity/propriety of the expenses could not be fully established, while consultancy services is not among the expenses enumerated under Section 12 of EO No. 24 which are allowed to be paid directly by NFA.	
We reiterated our last year's audit recommendations that Management:	
a. Require the refund of rice allowance granted to the NFA Council members and alternates;	Partially Implemented.  NS and ND were prepared for non-compliance with the audit recommendation.

Observations and Recommendations	Actions Taken/Comments
<p>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;</p>	<p>Partially Implemented.</p> <p>Not all documents submitted satisfied the required document to prove the validity of the reimbursed meal expenses.</p>
<p>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</p>	<p>Fully Implemented.</p> <p>Issued ASA No. 2016-CO-02-4-057 to transfer fund allotted to the Council Secretary, for the use of the NFA Council.</p>
<p>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.</p>	<p>Partially Implemented.</p>
<p>We also recommended that Management:</p>	
<p>a. Require the Council Secretariat and the ASD to examine thoroughly the documentation for claims for reimbursement of meal expenses of Council and alternate members to avoid doubts on the propriety/legality of reimbursements using receipts;</p>	<p>Partially Implemented.</p> <p>The Council Secretariat and the ASD are now examining thoroughly the documentation for claims for reimbursement of meal expenses of the Council.</p>
<p>b. Cause the refund of the amount of P1,918 which was reimbursed twice;</p>	<p>Fully Implemented.</p> <p>Paid/settled under OR No. 0175815 dated June 24, 2016.</p>
<p>c. Require the submission of price quotations on meal expenses exceeding P50,000 as required in Section 52 of RA No. 9184; and</p>	<p>Fully Implemented.</p> <p>Required price quotations from different suppliers were already submitted to the Audit Team.</p>

Observations and Recommendations	Actions Taken/Comments
d. Submit justification on the hiring of consultants charged against the Chairman's Fund and on allowing reimbursements for the following:	Fully Implemented.  Hiring of Consultant for OPAFSAM was discontinued.
d.1 Two receipts for meals with the same Official Receipt No.;	Partially Implemented.  Management submitted justification; however, still for issuance of NS.
d.2 Meal expenses for meetings of OPAFSAM staff charged to the Chairman's fund under Check No. 187836; and	Partially Implemented.  Refunded the amount of P569,873.59 under OR No. 175856 dated June 30, 2016.
d.3 Out-of-town meetings held.	Partially Implemented.  For issuance of ND on expenses for out-of-town meetings.
18. The non-recognition of corresponding tax subsidy to cover the amount of import duties for the March to October 2015 importations of rice amounting to P4.578 billion rendered the NFA's reported income unreliable.	Partially Implemented.  Customs duties were not recorded in the proper period. See related discussion in Part II, Observation No. 1, of this Report.
We reiterated our prior year's audit recommendation that Management require the ASD to take up in the books of accounts the tax subsidy received from the NG corresponding to the customs duties for the importation of rice.	
19. DAP funds which were unutilized/unobligated in the amount of P1.899 million and those obligated after July 1, 2014 of P2.039 million, or a total of P3.938 million remained unremitted to the BTr as of December 31, 2015 due to Management's inaction to have these funds remitted, contrary to Supreme Court (SC) Decision in G.R. No. 209287 dated February 3, 2015.	Related discussion in Part II, Observation No. 19 of this Report.
We recommended that Management oblige the ROs/ POs with	Not Implemented.



Observations and Recommendations	Actions Taken/Comments
<p>unobligated/unutilized DAP funds to return the same to the BTFMD; and require the latter to remit to the BTr the unutilized DAP Fund of P1.899 million and the amount of P2.039 million which was obligated after July 1, 2014.</p>	<p>The Agency is on its consistent stand of not remitting back the excess/unutilized DAP fund as well as funds obligated after July 1, 2014.</p>
<p>20. Delayed and non-submission of the financial reports and supporting schedules such as DVs, Reports of Disbursements (RODs), Reports of Collections and Deposits (RCDs), Purchase Orders, perfected contracts, Report of Accountability for Accountable Forms (RAAFs) and Reports of Inspection on consumable and perishable items, as well as unserviceable and disposable government property and other assets and other relevant supporting documents were not submitted within the prescribed period, contrary to the provisions of COA Circular Nos. 2009-001, 2009-006, 95-006, Section 100 of PD No. 1445 and Section 22 of the MNGAS, Volume I, thus preventing the Auditors' timely audit, review and determination of the validity, propriety and legality of the Agency's transactions.</p>	
<p>We recommended that the Management of the concerned ROs/POs to:</p>	
<p>a. Require the concerned Accountants, Bids and Awards Committee (BAC) and property officers to strictly adhere to the provisions of COA Circular Nos. 2009-001, 2009-006, 95-006, Section 100 of PD No. 1445 and the MNGAS Volume I on the submission to COA of the required financial reports, copy of contracts and Purchase Orders and supporting documents; and</p>	<p>Partially Implemented.</p> <p>Some of the contracts, Report of Checks Issued, Liquidation Reports and Bank Reconciliation Statements were still not submitted within the prescribed period.</p>
<p>b. Oblige the Cashier/Accounting Section to submit immediately all unsubmitted reports including the DVs and supporting documents, and the RAAF.</p>	<p>Partially Implemented.</p> <p>In Palawan PO, as of September 30, 2016, there are still stock reports for CY 2015 which are not submitted to</p>

Observations and Recommendations	Actions Taken/Comments
<p>21. Penalties due to delayed delivery/arrival were not imposed against NFA's suppliers for imported rice which could be attributed to the non-inclusion in the contract agreements of the provision on the deduction of penalty from the payments due thereto. Thus, for CYs 2014 and 2015 alone, uncollected penalties accumulated to US\$3.662 million (P162.828 million) as of December 31, 2015.</p>	<p>the Audit Team.</p> <p>Related discussion in Part II, Observation No. 26 of this Report.</p>
<p>We recommended that Management:</p>	
<p>a. Cause the collection of the penalties from concerned suppliers for non-compliance with delivery schedules; and</p>	<p>Not Implemented.</p> <p>There were no documents submitted to the Audit Team to show that efforts were exerted by NFA to collect the said penalties.</p>
<p>b. Revisit the provisions of the contracts on penalty on shipments beyond the arrival period to determine provisions for amendment in order to have a reasonable assurance that all deliveries are made within the prescribed delivery period and penalties for late delivery are directly deducted from the payables to the suppliers.</p>	<p>Fully Implemented.</p> <p>The provision on GAFTA penalty on late deliveries is now included in the prescribed format of Certificate of Complete Delivery Receipts (CCDRs).</p>
<p>22. The actual quantity of imported rice delivered by the suppliers were way below the requirement provided in the supply agreement/contract which might cause an adverse effect on the projected demand of volume of rice to be imported as determined by the Inter-agency Food Security Committee (FSC)-Rice, thus affecting the maintenance of the required buffer stocks.</p>	
<p>We recommended that Management:</p>	
<p>a. Investigate the difference in quantity between Bill of Lading and actual delivery</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
and institute appropriate action, as warranted; and	Management informed that differences in quantity between Bill of Lading and actual delivery were due to spillages. Already included in the CCDRs.
b. In future rice importations, ensure that the minimum and maximum quantities to be delivered by the sellers be fully provided in the supply contracts to avoid delivery way below the contracted quantity which might adversely affect the maintenance of the required rice stock levels.	Not Implemented.  No action was taken by Management on this matter.
23. The award of the contract to Vinafood II for the importation of 100,000 MT, 25 per cent broken, well-milled long grain white rice on CIF-DAP-FOW basis based on the re-submitted lowest bid offer of US\$416.85/MT which was above the reference price of US\$408.14/MT by US\$8.71/MT resulted in incurrence of additional cost in the total amount of US\$0.871 million.	Partially Implemented.  Not yet stipulated in the contract but bid/contract price for CY 2016 rice importation was within the approved reference price.
We recommended that Management ensure that the approved Reference Price for undertaking certain rice importation is used as the price ceiling in the evaluation of price offers by qualified participating foreign government agencies in order to arrive at a reasonable price of imported rice and to avoid incurrence of additional cost by the government.	Not Implemented.  The provision still exists in the TOR.
It is further recommended that Management revisit the provision of the TOR relative to the rejection and submission of revised price offers.	
24. The absence of policies to address the recurring short landing on rice importation in NCR disregarded accountability inherent to its operation and financial transactions, resulting in unaccounted stocks and loss of funds from government coffers and deprivation of availability of	

Observations and Recommendations	Actions Taken/Comments
<p>NFA rice to its intended consumers. In CY 2015, the customs duties of P92.352 million were subsidized by the government on the 1,586.714 MT short landing.</p>	
<p>We recommended that NCR Management, in coordination with the HO:</p>	
<p>a. Revisit the established policies in the rice importation operations and financial transactions to identify critical processes with or without effective embedded controls;</p>	<p>Partially Implemented</p> <p>The importation guidelines for the 3<sup>rd</sup> batch of CY 2015 rice importation already contained policy on short landings. The equivalent paid custom duties for short landed delivery are now being deducted from NFA's payables to the supplier.</p> <p>The import documents for CYs 2013-2014 could not be retrieved by Management from its cargo handlers since shipping agents/custom brokers did not keep copies of these documents. Future pertinent documents on importation will be secured from concerned entities and will be properly filed by NFA for reference.</p> <p>NFA could only call the attention of the suppliers and inform them of noted import variances which it could use as basis to institute measures to control pilferages.</p>
<p>b. Re-design controls specific to the critical processes with the end in view of established accountability on rice importation operations and financial transactions; and</p>	<p>Partially Implemented.</p>
<p>c. Consider the inclusion of specific terms and conditions on short landing in the supply contract with suppliers.</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>25. The rice inventory levels in NCR and some POs in Regions IV, VI, IX and XIII were way above the required level of buffer stocks for food security which reached the maximum level resulting in excess of stocks, thus could expose a larger quantity of undistributed stocks stored longer than necessary to risk of deterioration/damage which could result in losses.</p>	<p>Related discussion in Part II, Observation No. 27 of this Report.</p>
<p>We recommended that Management:</p>	
<p>a. Upon conducting detailed evaluation and analysis of rice demand and supply, considering the environmental factors and rice smuggling, devise a more realistic and relevant plan of rice procurement and allocation that is aligned with the mandate of NFA, specifically on buffer stocks and at the same time responsive to the needs/preferences and buying capacity of majority of the rice consumers to avoid the occurrence of excess stocks over buffer requirement;</p>	<p>Partially Implemented.</p> <p>Guidelines on Grains allocation is not yet amended.</p>
<p>b. Ensure that warehousing policies and procedures are strictly observed to avoid further damage/deterioration of stocks and eventual losses to NFA;</p>	<p>Partially Implemented.</p> <p>In NCR, Management has reminded all Warehouse Supervisors to strictly adhere to the existing NFA SOPs and good warehouse keeping guidelines.</p>
<p>c. Dispose/disperse stocks immediately to other NFA offices needing the same; and</p>	<p>Partially Implemented.</p> <p>There were intra and inter regional stocks dispersal made based on NCR Marketing Plan and GMOD authorization.</p>
<p>d. In CDO, assess the effects of granting import permits to private importers through MAV.</p>	<p>Partially Implemented.</p> <p>CDO's Grains Situation Report (GSR) was forwarded to top Management to aid them in assessing the effects of granting import permits (IPs) to private importer through MAV.</p>

Observations and Recommendations	Actions Taken/Comments
<p>26. The NFA's warehousing policies and procedures on warehouse custody, piling system, storage structure and specification, and good warehouse-keeping were not strictly observed at warehouses. The deficiencies could result in environmental and health hazards and losses due to grain damage/deterioration and theft/pilferage of stocks.</p>	<p>Related discussion in Part II, Observation No. 30 of this Report.</p>
<p>We recommended that Management require all personnel concerned to:</p>	
<p>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;</p>	<p>Partially Implemented.</p> <p>In NCR, Management has reminded all Warehouse Supervisors to strictly adhere to the existing SOPs and good warehouse keeping guidelines.</p> <p>In Zambales PO, partially damaged gutters and the presence of holes in the GI sheets in Mango Terminal warehouse in Iba, Zambales were not repaired and no other actions were taken to address the problem.</p> <p>In NCR NDO, there is still a kitchen located inside MFC 2 and 3. Management is awaiting reply from the RO as to the disposition of the non-operational and unutilized machineries stored in the NDO warehouses.</p>
<p>b. Discontinue the practice of cooking food inside the warehouse and placing dirty unused machines close to stockpiles to avoid potential danger to the warehouses and personnel and to prevent possible contamination of rice stocks and adverse effects on warehouse temperature/humidity; (NCR-NDO and Camarines Sur PO)</p>	<p>Fully Implemented.</p>
<p>c. Cancel the lease by the cooperative of the Minprocor space to provide more storage space for stocks instead of</p>	<p>Not Implemented.</p> <p>A contract was already executed</p>

Observations and Recommendations	Actions Taken/Comments
leasing another warehouse, avoid the consequence of leasing property without a written contract and prevent possible loss of Minprocor stocks; (NCR-CDO)	between NFA and the National Cooperative Marketing Federation (NCMF).
d. Provide more vents, safety screens of doors/vents/windows, LED lights and fire extinguishers; utilize CCTVs and watch towers/bridges; and repair floors in warehouses, and/or make the provision of same structures as part of the agreement in the contracts of lease of warehouses; (NCR-CDO)	Partially Implemented.  In NCR-CDO, vents, safety screens, more fire extinguishers, CCTVs and watch towers/bridges are yet to be provided/installed at the warehouses.
e. Ensure that the Agency engineering team be regularly fielded to conduct inspection of all facilities for early detection of their physical conditions so as necessary action(s) be undertaken; (Quirino PO)	Fully Implemented.  In RO II-Quirino PO, regular inspection of NFA facilities is conducted by technical personnel to observe and perform preventive maintenance on all infrastructures.
f. Refrain from stacking unused sacks on top of the piles of rice and relocate the same to a more appropriate area either within or outside the premises of the warehouse, taking into consideration the need to preserve the quality of both the piles of rice and the unused sacks; (Zamboanga City and Zamboanga del Norte POs)	Partially Implemented.  In Zamboanga PO, unused sacks were removed and the areas were sanitized to prevent insect infestation and contamination.
g. Apply the FIFO method in the issuance of stocks to reduce, if not prevent, the possibility of rice infestation, damage and eventual loss to the government; and (NCR-Cavite PO and Region VI)	Fully Implemented.  Generally, FIFO is being adopted in maintaining inventory. However, in cases due to non-attainment of the distribution target caused by a very competitive situation in the market, Management decided to adopt sales strategy other than FIFO method if only to accelerate sales towards achieving performance level acceptable to the Agency and the Governance Commission for Government-Owned or Controlled Corporations (GCG).

Observations and Recommendations	Actions Taken/Comments
h. Conduct rebagging of spillages and immediate piling of bags to avoid stock deterioration and possible loss of government resources. (Bukidnon PO)	Fully Implemented.  In RO No. X, rebagging of spillages has been done.
We further recommended that other ways/means be devised to prevent heat build-up and humidity in the warehouses and that the open divider at the Minprocor Warehouse be closed with concrete wall. We likewise recommended that NFA SOP No. GM-WH07 be revisited to make some of its provisions applicable to present situations.	Partially Implemented.  In NCR-NDO, non-operational and unutilized machinery were already coordinated with the RO. Awaiting for response.
27. Procured 14,498 bags or 712,145.71 nkgs of palay by Kalinga, Palawan and Misamis Oriental POs were stored for 8 to 33 months despite the 9-6-3 policy of NFA, thus the possibility of not attaining the 65 per cent milling recovery for regular milled rice and 63 per cent for well-milled rice that may eventually lead to losses.	
We recommended that Management:	
a. Strictly adhere to the 9-6-3 aging policy to maintain the good quality of stored stocks (Kalinga, Palawan and Misamis Oriental POs); and	Partially Implemented.  Milling of old stocks is on-going.  In Palawan PO, Management informed that it is safer to store rice in palay form.
b. Ensure that the reported data between the Pile Report and PQAR are reconciled as to the correct age of the stocks stored in the NFA Warehouses as of a given period to enable Management to come up with appropriate decisions (Palawan PO).	Not Implemented.  In Puerto Princesa City, as of December 31, 2016, the Pile Layout of 3,636 bags of local Rice at NFA-owned warehouse showed that these were aged "D" or 12 to 16 months old, while the reported age in PQAR was "C" or 8 to 12 months old.
28. There were unaccounted filler transactions at the NCR-Cavite PO warehouses, equivalent to approximately 874 bags and discrepancies between the	Related discussion in Part II, Observation No. 31 of this Report.



Observations and Recommendations	Actions Taken/Comments
<p>number of bags and/or net kilograms (nkgs) of fillers recorded in the Stock Reports and those issued based on the Warehouse Stock Issues (WSIs) at NCR-CDO, caused by undocumented/unidentified filler transactions which resulted in erroneous stock reports, inaccurate balance of the warehouses' stocks inventory at any given month, and either understated or overstated the Sales Revenue and other related accounts.</p>	
<p>We reiterated our prior year's audit recommendations that NCR-Cavite PO Management strengthen monitoring controls on warehouse operations, and undertake the following:</p>	
<p>a. Conduct thorough analysis and verification of warehouse transactions to account for the correct stock balances of each warehouse in CYs 2015 and 2014; and</p>	<p>Partially Implemented.</p> <p>In NCR, Management has required new format for filler transactions report.</p>
<p>b. Investigate and determine/establish the accuracy of reported 456 and 816 bags filler transactions in CYs 2015 and 2014, respectively, and recommend appropriate sanction on erring Warehouse Supervisors, as warranted.</p>	<p>Partially Implemented.</p> <p>In NCR - Cavite PO, Management has not yet submitted analysis of warehouse transactions for CYs 2014 and 2015.</p> <p>In Maguindanao PO, Management conducted inventory on the unaccounted fillers and made a report thereon.</p>
<p>We also recommended that Management:</p>	
<p>a. Require the NCR-Cavite PO to prepare a report on the conduct of (a) and (b) above, covering the CYs 2015 and 2014 warehouse transactions to provide documentation of activities undertaken in compliance with the audit recommendations and results thereof; and</p>	<p>Not Implemented.</p> <p>Required report has not yet been submitted by Management.</p>
<p>b. Require the NCR CDO to strictly monitor and account the filler transactions</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>of warehouses starting from the recording of the fillers in the WSIs up to the recording of the transactions in the Stock Reports and in the accounting records/books, and to investigate the accuracy of the reported 413 bags filler transactions and similar transactions during the year and recommend appropriate sanction on erring Warehouse Supervisors, as warranted.</p>	<p>All WSs are now submitting reports of issuances of stocks where the WSI numbers of the issued fillers and the corresponding MTS receipts are indicated therein. Weekly reports are submitted to the Audit Team.</p>
<p>We further recommended that the actual nkgs of the bags of fillers be recorded in the Stock Reports/accounting records and the recording of filler transactions/sales of rice pegged at 50 nkgs/bag be discontinued to effect the correct recording of same transactions in the Stock Reports and accounting records/books.</p>	<p>Partially Implemented.</p> <p>The fillers recorded in WSIs are the actual fillers for the underweight stocks. The fillers and empty bags for fillers in the WSIs were properly recorded in the Stock Reports.</p>
<p>29. At NCR-Cavite PO, the reported “two moves” in the WSIs of 301,708 bags issued for the year instead of “one move” resulted in the overstatement in handling cost by P1.101 million since the weight per bag pegged at 50 nkgs was above the average weight at 49.7876 nkgs of total stocks received at Cavite PO warehouses considering that 75 per cent of sales could have been issued without passing through the platform scale/have not been weighed.</p>	<p>Related discussion in Part II, Observation No. 33 of this Report.</p>
<p>We reiterated our prior year’s audit recommendations that Management:</p>	
<p>a. Evaluate existing control activities in warehouse operations, including documentation and reporting, and institute additional controls, if necessary;</p>	<p>Partially Implemented.</p> <p>In NCR, Management has reminded all Warehouse Supervisors to strictly adhere to the existing SOPs and good warehouse keeping guidelines.</p>
<p>b. Strengthen monitoring of warehouse operations, such as installation of CCTVs; and</p>	<p>Partially Implemented.</p> <p>In Region I, the Security Services includes the provision for CCTVs for NFA-owned warehouses only.</p>

Observations and Recommendations	Actions Taken/Comments
<p>c. Initiate investigation to determine personnel responsible for possible fraudulent activities so that appropriate measures be undertaken and corresponding sanctions be imposed to those found guilty of committing fraudulent acts.</p>	<p>Partially Implemented.</p> <p>Management created a Committee tasked to investigate the filler transactions, but as at audit date no reports have been furnished the Audit Team.</p>
<p>We also recommended that a report be prepared on the conduct of (a), (b) and (c) above to provide documentation of activities undertaken in compliance with the audit recommendations, and on the results thereof.</p>	<p>Partially Implemented.</p> <p>Management has not submitted any report yet.</p>
<p>30. NCR-CDO and NDO did not conduct bag to bag count with 100 per cent weighing when the WSs replaced each other contrary to the provisions of NFA SOP No. GM-WH12. Thus, the accuracy of the balances of the stocks transferred could not be determined and any shortage/overage incurred by the former WS could be carried over to the incumbent WS. Likewise, the risk of mix-up of the receipts and issuances could result from housing their stocks at the same warehouses.</p>	
<p>We recommended that NCR-CDO and NDO Management:</p>	
<p>a. Refrain from having change of WS/accountable officer without the conduct of a bag to bag count and 100 per cent weighing to establish the actual balances of stock accountabilities at time of transfer;</p>	<p>Partially Implemented.</p> <p>NDO Management assured strict compliance to the required bag-to-bag count and 100 per cent weighing on transfer of accountabilities.</p>
<p>b. Facilitate the immediate transfer of each accountable officer's stocks to his assigned warehouse or the transfer of stocks to the accountable officer occupying the warehouse where his stocks are still located to avoid mix-up of stock transactions; and</p>	<p>Not Implemented.</p> <p>The immediate transfer of accountable officer's stocks to the assigned warehouse could not be implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>c. Henceforth, strictly observe the applicable provisions of NFA SOP No. GM-WH12 relative to the change of accountable officers/WSs to ensure that actual beginning and ending balances of incoming and outgoing accountable officers/WSs are established.</p>	<p>Fully Implemented.</p> <p>Strict compliance with SOP No. GM-WH12 is being enforced by Management.</p>
<p>31. In Cebu PO, the errors and/or misstatements in reporting the weight of imported rice received resulted in an unusual increase in the average weight per bag at the time of issue as against the reported average weight at the time of receipt at an estimated amount of at least P1.416 million.</p>	
<p>We recommended that Management:</p>	
<p>a. Require the ROs/POs to strictly observe the requirements of NFA SOP No. TS-MT05 that requires the use of truck scale in their warehouse operation to deter the issue on weight variances between stock receipts and issues;</p>	<p>Not Implemented.</p> <p>Warehouse 113 is still using platform scale instead of truck scale.</p>
<p>b. Instruct the Cebu PO to monitor and account the final overage in the accountability of the WS in Warehouse 113 considering the notable difference to ensure proper recognition of the overage in the financial records and proper liquidation of his accountability;</p>	<p>Not Implemented.</p>
<p>c. Consider the use of digital weighing platform scale in all warehouses that would automatically produce receipts indicating the actual weight in order to eliminate human factor and discretion in the declaration of weight in all transactions in the warehouse; and</p>	<p>Not Implemented.</p>
<p>d. Review procedures and composition of the committee on importation to ensure that stock weighing is properly undertaken and correctly reported.</p>	<p>Not Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>32. The palay procured by Nueva Ecija PO of about 32,695 bags to 49,507 bags and by Aurora PO of still undetermined quantity from October to December 2015 classified and paid as good quality were confirmed as storm damaged palay (SDP) based on the initial result of the quality analysis of palay samples conducted by the Regional Standard Quality Assurance Office (RSQAO) and joint effort of TRSD in HO and the Central Luzon Regional Office (CLRO) QAO. Thus, the possibility that the Agency had paid higher amount than the actual/true value of the palay procured cannot be discounted.</p>	
<p>We recommended that Management uphold an impartial investigation that will lead to the filing of administrative/ criminal charges against those erring Nueva Ecija PO's officials and employees identified to have participated and contributed in the commission of the anomaly in palay procurement, including those individuals or groups from the private sector who possibly connived in committing such crime.</p>	<p>Partially Implemented.</p> <p>The investigation is still on-going. An administrative case was filed against concerned personnel and they were relieved from their current posts. Pre-hearing conferences were set on September 23 and 29, 2016 at the NFA Nueva Ecija PO.</p>
<p>We also recommended that Management ensure the integrity and the credibility of its employees through proper screening and that their assignment matches with the qualification standards of the position.</p>	<p>Partially Implemented.</p> <p>Management assured that proper screening is conducted to ensure integrity and credibility of the employees.</p>
<p>For Aurora PO, to remedy the situation and as preventive measures, we recommended that the Provincial Manager:</p>	
<p>a. Instruct the PSQAO to conduct a regular monitoring of the procurement activities for check and balance and to ensure that all palay that will be procured are within the NFA standards;</p>	<p>Partially Implemented.</p> <p>Management requested the Regional Quality Team to conduct quality audit on the procured palay in three warehouses, i.e., GID warehouse in Baler, Maria in Aurora, and in Casiguran.</p>

Observations and Recommendations	Actions Taken/Comments
<p>b. Consider the reshuffling of personnel involved in palay procurement as a way of avoiding familiarity and possible undue influence as a preventive measure in addressing misclassifications and other acts violative of its policies, rules and regulations during the palay procurement seasons;</p>	<p>Fully Implemented.</p> <p>Office Order No. 2K16-D-025 dated April 8, 2016 was issued reassigning the Classifier to Technical Section.</p>
<p>c. Conduct a 100 per cent reclassification of palay positively identified as SDP based on the findings of the RSQAO and establish the actual quantity of palay that will fall below the NFA Standards; and</p>	<p>Fully Implemented.</p> <p>Management has issued Office Memo No. 2K16 DO12 dated April 12, 2016, directing the monitoring of palay procurement and activities to ensure that procured stocks are properly classified in accordance with set standards and procedures and assess performance of grains classifiers.</p>
<p>d. Conduct a deeper investigation and impose sanctions against those who shall be held liable for the misclassification, as warranted under the circumstances.</p>	<p>Partially Implemented.</p>
<p>33. The maximum weekly rice allocation to various retailers as determined in the NFA SOP No. GM-DN09 was not observed in NCR-CDO, thus, casting doubt on whether the intentions of the allocation system was served and could lead to diversion of stocks.</p>	<p>We reiterated our prior year's audit recommendations that Management instruct the NCR-CDO to:</p> <p>a. Strictly adhere to SOP No. GM-DN09 on the selling/distribution of NFA rice based on the weekly allocation set per retailer; or if it is most necessary that weekly allocations of retailers are to be increased, document and issue authorizations on such increases; and</p> <p>Fully Implemented.</p> <p>In NCR, on the issue of excess allocation, sales strategies were implemented depending on the market situation and availability of stocks and the need to monetize stocks to pay for the Agency's obligations.</p>
<p>We reiterated our prior year's audit recommendations that Management instruct the NCR-CDO to:</p>	<p>In Ilocos Sur and Ilocos Norte POs, Management submitted justifications</p>

Observations and Recommendations	Actions Taken/Comments
	and explanations on the observations noted. Nevertheless, they agreed to strictly comply with SOPs in place for the distribution of rice allocations to NFA rice retailers.
b. Require the WSs and the personnel in charge in encoding to report/record in the WSIs and in the stock reports/accounting schedules, the full names of retailers (not just the initials of first names as different individuals have similar initials of first names), their categories whether BBSP, ITM, OTM, etc. and the markets where they belong to facilitate verification and audit on retailers.	Partially Implemented.  A Memorandum was issued to all CDO's WSs to legibly write in the warehouse documents the complete name of retailers and market names for easy verification and audit.
We further recommended that strict monitoring be made especially on retailers who are given excessive weekly rice allocations to prevent diversion or the selling of NFA rice whether as NFA rice or commercial rice to either accredited or non-accredited retailers.	Not Implemented.  For CY 2016, NCR adopted an open sale wherein all grains businessmen including non-accredited retailers were allowed to purchase NFA rice in order to dispose aging stocks.
34. Storage fees of P1.318 million for CY 2015 alone were not imposed on rice sold but unwithdrawn within the prescribed period in NCR-SDO, contrary to Item 6 of NFA SOP No. GM-DN09.A, as amended, thus understating the Service Income account for the same amount while at NCR-NDO, the accuracy and completeness of the income and penalties collected from the market stall rentals at the Valenzuela Gulayang Bayan Center (VGBC) in CY 2015 cannot be ascertained in the absence of perfected contracts of lease for 75 tenants. Moreover, the one-month contracts of lease which were renewed monthly have exceeded two years, contrary to Section 533 of the GAAM, Vol. I and COA Circular No. 88-282A dated April 18, 1988.	Not Implemented.
We recommended that Management require the NCR-SDO to instruct responsible officers and employees to	

Observations and Recommendations	Actions Taken/Comments
<p>collect and record the amount of P1.318 million storage fees due from accredited retailers in CY 2015. Henceforth, strictly comply with the provisions in Item 6 of NFA No. SOP GM-DN09.A, as amended.</p>	
<p>We also recommended that NCR-NDO Management:</p>	
<p>a. Prioritize the revision of the contracts of lease, which include, among others, provisions on the rental rates and computation of penalty charges;</p>	<p>Fully Implemented.</p> <p>In CY 2016, the contracts of lease with tenants were already revised.</p>
<p>b. Execute contracts of lease with all tenants and prepare billing statements based on perfected contracts of lease; and</p>	<p>Fully Implemented.</p> <p>Copies of contracts of lease were already furnished the Audit Team.</p>
<p>c. Strictly observe the provisions of Section 533 of the GAAM on the limitation of the period of revenue generating contract.</p>	<p>Fully Implemented</p> <p>In CY 2016, all contracts of lease were revised to comply with the provisions of Section 533 of the GAAM.</p>
<p>35. Of the P111.205 million funds received under the YRRP, only P54.715 million or 49.20 per cent was obligated as of December 31, 2015, thus, adversely affecting the warehousing activities/operations of the affected NFA POs particularly the condition and quality of the stored stocks due to congestion. Moreover, the amount of P31.922 million for the implementation of two repair/rehabilitation/ reconstruction projects was obligated only in CY 2015 which was already beyond the effectivity of the Special Allotment Release Order (SARO) which was December 31, 2014. Hence, the expenses incurred could be considered irregular.</p>	<p>Related discussion in Part II, Observation No. 40 of this Report.</p>
<p>We recommended that Management:</p>	
<p>a. Obtain authority from proper bodies to utilize the YRRP fund beyond December</p>	<p>Not Implemented.</p>



Observations and Recommendations	Actions Taken/Comments
<p>31, 2014 in order to regularize the obligation of funds in CY 2015 and to implement other projects which were not completed as at year-end; and</p>	<p>Management sent a letter to the DBM. They are waiting for authority/approval.</p>
<p>b. Henceforth, ensure that funded projects are implemented within the validity of SAROs.</p>	<p>Not Implemented.</p>
<p>36. The objective of providing marketing and post-harvest facilities to farmer-members of Irrigators' Associations (IAs) in Regions VIII and X under the fourth component of IRPEP was not fully attained due to (a) failure to repair the two warehouses in Region X; (b) underutilization of Farmers' Kiosks (FKs) in the absence or slow internet connection in the location of FKs, lack of receptiveness of farmers toward the system and distant location of FKs to the farmers; and (c) only 69.51 per cent of the targeted 3,641 participants from Communal Irrigators' Associations (CIAs) were trained on Collective Marketing System (CMS), thus depriving the intended farmer-beneficiaries of the benefits to be derived from the project.</p>	
<p>We recommended that Management:</p>	
<p>a. Submit Liquidation Report for Audit Team's validation and issuance of Credit Notice as required by the DA and return the remaining project fund balance of P2.258 million to the DA considering that the budget for IRPEP implementation pertained only to CYs 2011 to 2015; and</p>	<p>Partially Implemented.</p> <p>NS No. 16-003 (2012 to 2015) dated December 12, 2016 was issued to Management.</p> <p>Meanwhile, only the remaining amount of the fund was returned to DA; the interest earned was retained by the NFA.</p>
<p>b. Henceforth, for similar undertaking in the future, ensure that funds received for project implementation are utilized within the prescribed period and in accordance with the purpose for which the funds were released.</p>	<p>Partially Implemented.</p> <p>No other funds were released to NFA in connection with IRPEP. However, in some NFA projects funded by other government agencies/private organizations, it was observed that</p>

Observations and Recommendations	Actions Taken/Comments
<p>37. Expenses amounting to P181,824 incurred for the trainings and seminars conducted in CY 2015 were not adequately supported contrary to Section 4(6) of PD No. 1445 and COA Circular No. 2012-001, thus the propriety/validity of the expenses could not be fully established. In addition, the non-monitoring of procured IT equipment and furniture and fixtures costing P1.018 million during the implementation of IRPEP is not in consonance with Section 1, Item No. 3 of COA Circular No. 94-013, which rendered the accountability and existence of these properties doubtful.</p>	<p>while funds were utilized for the purpose for which these were released, the funds were not utilized within the prescribed period.</p>
<p>We recommended that Management:</p>	
<p>a. Instruct the RO No. X to submit the lacking documents for travelling expenses in order to fully comply with Item 1.2.4 of COA Circular No. 2012-001;</p>	<p>Partially Implemented.</p> <p>NS dated December 12, 2016 was issued for the remaining transactions without supporting documents.</p>
<p>b. Cause the submission of RFQ of the winning bidder and the Abstract of Canvass for the meal expense incurred during the 4th Policy Dialogue; and</p>	<p>Not Implemented.</p> <p>Also part of the NS issued since no supporting document was provided.</p>
<p>c. Instruct the ASD, Regions VIII and X to account all the properties procured under IRPEP including the determination of their location and status to facilitate the eventual transfer of these properties to NFA.</p>	<p>Partially Implemented.</p> <p>The ASD has already instructed the Regions to account for the properties procured.</p>
<p>38. The CDF balance per books in the HO differed from the bank balance by P0.920 million as of December 31, 2015, thus casting doubt on the reliability of its year-end balance.</p>	<p>Related discussion in Part II, Observation No. 41 of this Report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>We recommended that Management instruct the ASD to exert utmost effort to reconcile the CDF's book balance with the balance per bank to come up with the correct balance.</p>	<p>Partially Implemented.</p> <p>CDF balance per books in the HO as of this date is still under reconciliation.</p>
<p>39. Separate set of books was not maintained for CDF contrary to the provisions of NFA SOP No. TS-ES22 approved on February 14, 2008, thus, detailed transactions involving sources and uses of funds and the fund balance cannot be easily determined/monitored.</p>	<p>Related discussion in Part II, Observation No. 42 of this Report.</p>
<p>We recommended that Management require the CDF Committee Secretariat to strictly adhere to the provisions of NFA SOP No. TS-ES22 on the maintenance of a separate set of books in order to regularly monitor the CDF and to facilitate determination of its transactions and establishment of balance as of a certain period.</p>	<p>Not Implemented.</p> <p>Management does not maintain yet complete separate set of books for CDF. General Journals covering CYs 2008-2016 were presented to the Audit Team only after the exit conference on June 27, 2017.</p>
<p>40. Honoraria in the total amount of P1.090 million were granted to CDF Secretariat/Committee members in CY 2015 despite the absence of documents showing the specific activities undertaken by them, in addition to their regular functions, contrary to the provisions of DBM Budget Circular No. 2007-2 dated October 1, 2007. Thus, the propriety of the claims for honoraria could not be fully established.</p>	<p>Partially Implemented.</p> <p>Management informed that the receipt of honoraria by the CDF Secretariat Committee members is in accordance with the provisions of DBM Budget Circular No. 2007-2 and COA Circular No. 2012-001.</p>
<p>41. Lack of clear guidelines on the extension of grants to proponents in excess of P0.500 million may result in inconsistent</p>	

Observations and Recommendations	Actions Taken/Comments
<p>application in their approval. In addition, the absence of provisions in the MOA executed with grantees particularly stating the procedures and rules on their liquidation may result in delayed liquidation/non-liquidation thereof.</p> <p>We recommended that Management:</p>	
<p>a. Revisit the provisions of NFA SOP No. TS-ES22 on the extension of grant with end in view of providing clear guidelines on the limitations as to amount, number of projects per proponent and the exceptions, if any; and</p>	<p>Partially Implemented.</p> <p>A draft was already prepared regarding amendment to SOP-TS-ES22.</p>
<p>b. Ensure that the procedures as well as the documentary requirements in the liquidation of inter-agency fund transfers/grants provided in COA Circular No. 2012-001 and other existing laws, rules and regulations are complied with by the grantees.</p>	<p>Partially Implemented.</p>
<p>42. The NFA's allocation for GAD programs/ activities of P7.331 million based on its GAD Plan and Budget (GPB) for CY 2015 constitutes only 0.007 per cent of the total approved Corporate Operating Budget (COB) of P104.068 billion instead of the required minimum allocation of five per cent or P5.203 billion, contrary to the provisions of DBM/NEDA/PCW Joint Circular No. 2012-01. Moreover, Management was not able to fully implement the programmed activities and projects identified in its CY 2015 GPB, thus, depriving the targeted beneficiaries of the opportunity to avail of the benefits expected from such programs/activities.</p>	<p>Related discussion in Part II, Observation No. 46 of this Report.</p>
<p>We reiterated our previous year's audit recommendations that Management:</p>	
<p>a. Allocate funds of at least five per cent of the annual total budget for GAD programs/activities, pursuant to DBM-</p>	<p>Not Implemented.</p> <p>Allocated funds for GAD was less than</p>

Observations and Recommendations	Actions Taken/Comments
NEDA-PCW Joint Circular No. 2012-01;	five percent of NFA's annual total budget.
b. Ensure the full implementation of programs/activities included in the GPB for the year;	Partially Implemented.  Of the P10.006 million budget for GAD, only P7.506 million was used/utilized in CY 2016.
c. Submit the GPB and AR within the period prescribed in Section 7.0.v of Joint Circular No. 2012-01 of the PCW, NEDA and DBM and COA Circular No. 2014-001; and	Fully Implemented.  GAD plan/proposed projects were submitted.
d. Closely coordinate with FOs on the implementation of GAD programs/activities to ensure full implementation of the GPB.	Partially Implemented.  Coordination with the FOs is an on-going activity.
We also recommended that Management require the GAD Focal Point to coordinate with the ASD on the preparation of the GAD AR to ensure that the actual amount of the expenses incurred will be presented therein.	Partially Implemented.  While the GAD Focal Point coordinates with ASD on the preparation of GAD AR, variances were still noted between the two reports.

#### **CY 2014 AAR**

43. 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.

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

Observations and Recommendations	Actions Taken/Comments
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 <i>vis-à-vis</i> 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;	Partially Implemented.  Management is currently conducting an in-depth review and analysis for the determination and adjustment of the correct costs that should be recorded in the books of accounts.
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	Not Implemented.  An in-depth review and analysis for the determination and adjustments of the correct cost is still on-going.
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.	Not Implemented.  There is no instruction yet from HO to use the average peso exchange rate for the week or for the month, as basis of costing the imported rice received.
We further recommended that the matter be elevated to the ASD, NFA-HO for the purpose of revisiting the accounting policy.	Not Implemented.  Revisiting the accounting policy was not undertaken as Cavite PO did not discuss the issue with the ASD, NFA-HO.
44. 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.	
We 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	Fully Implemented.  The amount of P8 million was already returned to FFCCCII, under Check No. 190121 dated March 14, 2016.

Observations and Recommendations	Actions Taken/Comments
<p>beneficiaries/areas and volume for rice donation for those in need in times of calamities.</p>	
<p>45. The validity and propriety of the 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.</p>	
<p>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.</p>	<p>Not Implemented.</p> <p>Neither IAC reports nor approval by the OP were provided to the Audit Team.</p>
<p>46. 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.</p>	
<p>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.</p>	<p>Partially Implemented.</p> <p>The Palawan PO has raised the concern to HO and RO. However, the provision of tolerable limit for sea dispersal to amend SOP No. GM-DL03C is not yet applicable in the present dispersal structure and systems. The absence of provisions on tolerable limit on sea dispersal under the SOP does not keep</p>

Observations and Recommendations	Actions Taken/Comments
<p>47. 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).</p>	<p>Management from doing all necessary and stringent measures to minimize losses on sea dispersal.</p>
<p>We reiterated our prior year's audit recommendations that NFA Leyte PO Management:</p>	
<p>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</p>	<p>Fully Implemented.</p> <p>In NFA Leyte, Management informed 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.</p>
<p>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.</p>	<p>Partially Implemented.</p> <p>Dispersal losses for the year were already recorded while the reconciliation of stocks to determine the adjustments of variance of prior years is still on-going.</p> <p>In Catbalogan PO, liquidations of stock accountabilities of the SAOs have incomplete documents due to termite infestation.</p>



Observations and Recommendations	Actions Taken/Comments
<p>48. 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.</p>	
<p>We recommended that Management:</p>	
<p>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;</p>	<p>Partially Implemented.</p> <p>In Cavite PO, validation conducted disclosed that out of 26 Grains Business Entities, 15 entities already complied with all the requirements needed; 10 entities complied partially while the remainder ceased to operate from grains business. Selected verification on accredited retailers' submission of documentary requirements disclosed partial compliance.</p> <p>In Region XI, sample validation of documents revealed that some applicants, new and for renewal, for licenses and registrations still have not complied with the submission of all documentary requirements.</p> <p>In the POs of NFA Cebu, Bohol, Negros Oriental and Siquijor, submission of complete documentary requirements during mobile licensing is not strictly enforced.</p>
<p>b. Ensure that the guidelines, rules and regulations and SOP are disseminated</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
and understood by all process owners down the organization; and	In Camarines Sur PO, there is continuous information dissemination thru Ugnayan and meeting with stakeholders.
c. Establish, set-up and maintain a database of clientele accounts, guided by the prescribed processes in the abovementioned NFA rules and regulations.	Partially Implemented.  In NCR, information on the TIN and ITR requirements of the BIR was included in a meeting with accredited retailers.
49. The inability to exercise the mandated regulatory and monitoring functions paved the way for grains businessmen to continue to operate and/or receive 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.	Partially Implemented.  In Camarines Norte PO, to ensure strict implementation of the NFA Rules on Grains Business particularly on the enforcement of the existence of store and its facilities, Management issued Office Order No. 2015-F-12 assigning its truck driver in addition to his duties, to assist its Mechanical Plant Operator (MPO) III in the monitoring and inspection of NFA accredited outlets.
We recommended that Management fully undertake its regulatory and monitoring functions by requiring all concerned personnel to 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.	
50. 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.	

Observations and Recommendations	Actions Taken/Comments
<p>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.</p>	<p>Not Implemented.</p> <p>In Infanta PO, there is an unavailability of metal plates due to problem in the public bidding.</p>
<p>We also recommended that the Provincial Managers and PISOs ensure that metal plates are available before collection of payment is made.</p>	<p>In Quezon PO, the NFA RO and the CO were not able to deliver fully the requested metal plates.</p> <p>Not Implemented.</p> <p>In Infanta PO, there is a continuous collection of payments for metal plates, resulting in additional undelivered metal plates as of December 31, 2016.</p>
<p>51. 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.</p>	<p>Not Implemented.</p> <p>RO No. VI – Negros Occidental PO buying price of palay is within NFA CO's assessment and approved by the Council.</p>
<p>52. 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.</p>	<p>Partially Implemented.</p>
<p>We recommended that Management require the Palawan PO to instruct the WS</p>	

Observations and Recommendations	Actions Taken/Comments
to monitor the WSIs and withhold issuances of rice pending payment of storage fees.	Management gave instruction to WS with regard to monitoring the WSIs. However, to withhold the issuance of rice pending payment of storage fees is no longer possible as the concerned PO opted for non-imposition of storage fee.
53. 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.	Partially Implemented.  The NFA Council through then Secretary of the Office of the Presidential Assistant for Food Security and Agricultural Modernization approved the construction of NFA-HO Building at Visayas Avenue with estimated budget of P476 million and expected completion within 692 days.
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.	

#### **CY 2013 AAR**

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

Observations and Recommendations	Actions Taken/Comments
<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>Partially Implemented.</p> <p>In RO No. VI-Antique PO, lot containing an area of 17,313 sqm. is under court litigation handled by LAD while the remaining area of 4,056 sqm. is subdivision survey.</p> <p>In RO No. VII-Negros Oriental PO, supporting documents for the request for the Decree of Confirmation and Registration have been submitted to the Land Registration Authority thru NFA's LAD on July 18, 2013. NFA Negros Oriental PO Management is still waiting for LRA's compliance on the matter.</p>
<p>55. 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>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.</p> <p>In Nueva Ecija PO, for CY 2015, Management had procured palay which far exceeded the target by almost 300 per cent. Due to this unusual procurement and the procurement of storm damaged palay, this issue had been the audit focus of the COA-Fraud Audit Office.</p>
<p>b. Assess the low NFA buying price in order to determine the appropriate</p>	<p>Partially Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
increase and additional incentives that can level up or compete with local traders;	In Negros Occidental PO, recommendation is not yet implemented as Management explained that the buying price of palay is within NFA HO's assessment and approved by NFA Council.
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; and	Partially Implemented.  Per inquiry with the Inventory Management Division of GMOD, in general, low accomplishment on palay procurement was mainly attributed to high ex-farm price above the procurement price of P17 per kg. This situation in the market is beyond the control of Management.
d. Formulate strategies to increase the procurement of palay and encourage participation from farmers, among others:	Partially Implemented.
d.1 Intensify information dissemination on palay procurement before the start of main crop season to encourage farmers to sell their produce to NFA;	In Pagadian PO, Management informed that Ugnayan meetings with farmers were religiously conducted before harvest seasons to update them on NFA's palay procurement.
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;	In Regional Office No. VIII, Management also informed that procurement strategies were undertaken by the POs which included, among others: (1) regular quarterly meetings of Provincial Farmers Action Council (PFAC); (2) conduct of monthly Ugnayan meetings with farmers; and (3) extensive encouragement with farmers-friends to sell their palay to NFA.
d.3 Ensure that NFA's assistance are accessible to farmers like the post-harvest facilities that they can use to minimize post-harvest losses; and	
d.4 Regularly monitor extent of utilization of available funds based on the palay production during the period to meet or even exceed the targeted	

Observations and Recommendations	Actions Taken/Comments
palay procurement.	
<p>56. 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>Partially Implemented.</p> <p>La Union PO fully complied with the requirements and had adjusted the entries in its books for the grant of CDIF incentive of concerned FOs.</p> <p>Eastern Pangasinan PO had reviewed and strictly implemented the pertinent SOPs.</p> <p>Ilocos Norte PO submitted the lacking documentary requirements and issued demand letters to two concerned suppliers for the uncollected taxes.</p> <p>Partially Implemented.</p> <p>Region IX-Pagadian PO monitored CDIF balances in compliance to OAAMO-2K16-H-001.</p> <p>In Region I, some of the lacking documentary requirements are not yet submitted.</p>
<p>We recommended that the POs concerned 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>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>57. 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</p>	<p>Fully Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
unaccounted stocks to establish accountability and pinpoint responsibility; and thereafter, hold the responsible personnel accountable for the lost stocks.	The unaccounted 565 bags (3,807-3,242) were due to re-bagging in the course of inter-province/inter-region stock transfers. As per Summary of Receipts and Issues from MV Vihn Hung Vessel, 2,523 bags having a net weight of 97,844.80 kgs were issued to rebagging which yielded to 1,958 bags, still having a net weight of 97,844.80 kgs. Losses incurred in this stock transfer operation which exceeded beyond the TOLA were charged to Alfredo Ong Trucking Services, the contracted hauler, as evidenced in its claims.
58. The causes of the total variance of 449,696.58 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.	
We recommended that Management:	
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;	Fully Implemented.  Reconciliation of Warehouse Stock records and the Accounting records of NFA Northern Leyte, Biliran, Southern Leyte, Eastern Samar, Western Samar and Northern Samar POs was already made and the dispersal loss was recorded in the books.
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;	Partially Implemented.  Stock Examination Committee was already created/convened. Stock examination was already conducted on the stock accountabilities of the



Observations and Recommendations	Actions Taken/Comments
	SGOOs of NFA Leyte, Biliran, Southern Leyte, Eastern Samar and Northern Samar POs and is still on-going as at present, except for the Western Samar SGOO whose stock accountabilities for CYs 2008-2014 due to incomplete documentation.
c. Require all the Dispersal Committees to conduct monitoring of dispersal activities to ensure that similar weaknesses are acted upon; and	Fully Implemented.  Monitoring of dispersal activities was already being done and similar weaknesses were regularly acted upon/corrected.
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.	Partially Implemented.  Reconciliation of warehouse stock records and accounting records were already conducted and Monthly Statement of Reconciliation of Stocks were already prepared, but despite the conduct of the monthly reconciliation, still there occurred variances between books and stocks inventory reports during CY 2016.
59. Same individuals appeared to have withdrawn and received rice on behalf of several retailers of NCR- CDO and NCR- 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.	
We recommended that Management:	
a. Require the Enforcement and Investigation Section (EIS) to conduct investigation to determine whether the	Partially Implemented.  In NCR-CDO, withdrawals of rice by

Observations and Recommendations	Actions Taken/Comments
<p>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>retailers were made by legitimate truckers licensed by the Office. They were legally authorized recipients. Also, CDO has reminded the WS IIs to implement the conventional way of requiring a black and white authority from the retailers in adherence to existing SOPs.</p>
<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>Fully Implemented.</p> <p>NCR-CDO strictly requires the persons who receive the stocks to legibly print their names as well as fill all the required information clearly on the WSIs and delivery reports.</p>
<p>60. 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>Partially Implemented.</p> <p>For CY 2016, Management has conducted open sale so that all grains businessmen including non-retailers were allowed to purchase without quantity limitation due to abundance of aging stocks.</p>
<p>We recommended that the NCR-NDO and NCR-Cavite PO Management closely monitor the distribution activities to accredited retailers, and establish effective controls, such as:</p>	
<p>i. 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>ii. Validate/ confirm if the stocks, under similar circumstances, were</p>	

Observations and Recommendations	Actions Taken/Comments
indeed bought by accredited retailers and delivered to their registered business locations and made available for sale as NFA rice to the consumers.	
61. 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.	
We recommended that the CDO and SDO Management see to it that the control procedures on complete documentation and proper authorization in the delivery of stocks for relief operations are properly implemented by enjoining the responsible officials and personnel to:	
a. Prepare the contracts on credit sales for DSWD's conforme on the actual issuances based on WSIs and DRs; and, thereafter, immediately bill and/or promptly reconcile with their records, as appropriate, to enable immediate collection; and	Partially Implemented.  In NCR-CDO, all billing statements related to Typhoon Yolanda were already submitted to DSWD/DND.  Billings were already settled except that of DND-NDRRMC.
b. 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.	Fully Implemented.  In CDO, the required documents pertaining to stocks issuances for Typhoon Yolanda relief operation including Terminal Report were already submitted.
We further recommended that Management devise 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.	Fully Implemented.  NCR-CDO commented that at the time of emergency operation, its main concern is the effective and efficient delivery of services. In this case, it would be able to respond immediately for the release of rice for relief operations in the affected areas, but it is cautious as well in the delivery of

Observations and Recommendations	Actions Taken/Comments
<p>62. 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>	<p>stocks to avoid possible losses.</p>
<p>We recommended that Management 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.</p>	<p>Partially Implemented.</p> <p>Collections for inter-branch account are being made at HO. Efforts had been made thru follow-up letters to ASD-HO regarding the status of these receivables.</p>
<p>63. 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.</p>	<p>Fully Implemented.</p> <p>Demand letters were issued to LGUs Guiuan and Dolores, Eastern Samar and the deficient amounts of P40,000 and P30,000, respectively, were collected from the concerned LGUs.</p>
<p>64. 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</p>	

Observations and Recommendations	Actions Taken/Comments
<p>warehouse in Cavite, can already be considered more than sufficient to build own facility, thereby reducing storage expenses.</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>Partially Implemented.</p> <p>NCR Management is awaiting instruction from HO on the implementation of proposed purchase of land and construction of office building and warehouses to be funded by proceeds from sale of Uniden property to DOTC.</p>
<p>65. 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>	
<p>We 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.</p>	<p>Fully Implemented.</p> <p>Management informed that its SGOO or the Regional Engineer conducts inspection prior to occupying warehouses to be leased or for every extension of leases. Also, a monthly warehouse utilization report is prepared as basis in the evaluation of the efficiency in the utilization of all warehouses that are NFA-owned or leased.</p>
<p>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.</p>	<p>Not Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>66. 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>We recommended that Management:</p> <p>a. Require the CDF Committee to strictly implement the provisions of NFA SOP No. TS-ES22 and the terms and conditions of the Loan Agreements particularly on the remedies available in case of delayed/non-payment of loans on due dates; and</p> <p>b. Oblige the groups entrusted with the duties of monitoring, reporting and assessing the implementation of projects to immediately report to the CDF Committee the problems encountered by the loan grantees in order that these can be timely and properly addressed so as not to affect the loan amortization payments and the attainment of the purpose of the projects.</p>	<p>Fully Implemented.</p> <p>Cases were filed against those debtors who were not able to pay their amortizations. In addition, approved amendments to SOP have been submitted, awaiting approval thereof.</p> <p>Fully Implemented.</p> <p>The existing structure consists of Secretariat, TWG and Provincial Support Group (PSG) to take charge of monitoring, evaluation and assessment of project implementation which immediately report to the CDF Committee.</p>
<p>67. 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 NFA.</p>	

Observations and Recommendations	Actions Taken/Comments
<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>In the case of NCFFCI, the CDF 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>Awaiting signature of the amendments to SOP which have been approved by the NFA Council in its meeting.</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>Fully Implemented</p> <p>Grace period is dependent on the nature of project being implemented according to the terms to be approved by the CDF Committee.</p>
<p>68. 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>Partially Implemented.</p> <p>Reconciliation of accounts was just completed and adjusting entries were prepared. Final liquidation report and voucher likewise are being prepared for the return of the unused/ remaining balance.</p>
<p>69. The procurement of Dust Collection System (DCS) in Infanta, Quezon for the improvement of mechanical dryers</p>	

Observations and Recommendations	Actions Taken/Comments
<p>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>Efforts to gather documents to settle the inconsistencies are being made to justify the procurement and reasonableness of the price.</p> <p>Management obtained certification from the Municipality of Infanta that there is no available dealer in the area.</p>
<p><b><u>CY 2012 AAR</u></b></p>	
<p>70. The balances of Assets, Liabilities, and Capital Deficiency in the balance sheet differed from the totals of the regional balances by P15.381 million, P250.550 million, and P265.931 million, respectively, which affected the accuracy and completeness of the balances presented in the financial statements; and affected the fair view of the financial condition of NFA as a whole.</p>	
<p>We recommended that Management verify and account for the noted differences, and adjust accordingly to come up with reliable financial statements of NFA.</p>	<p>Partially Implemented.</p> <p>Verification is on-going.</p>
<p>We further recommended that Management:</p>	
<p>a. Continuously verify and monitor the reversal of the temporary entries in the books of the regional offices; and</p>	<p>Partially Implemented.</p> <p>Verification is on-going.</p>



Observations and Recommendations	Actions Taken/Comments
<p>b. Perform backward analysis to determine the variances before the mechanization of financial reports, as well as the variances in Region VIII where records were destroyed by fire to determine the amounts that can be considered for possible write-off in accordance with COA Circular No. 97-001 dated February 5, 1997.</p>	<p>Partially Implemented.</p> <p>Analysis of accounts is on-going.</p>
<p>71. 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.</p>	
<p>We recommended that Management:</p>	
<p>a. Require the immediate reconciliation of the balance of Merchandise Inventory and Raw Materials Inventory with warehouse stock records, and effect the necessary adjustments where appropriate; and</p>	<p>Not Implemented.</p> <p>In Region II – Allacapan PO, as at audit date, the report of the PQAR does not reconcile with the stock and accounting reports.</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>Not Implemented.</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>In Region VIII-Northern Leyte PO, Inventory variance has already been trimmed down to 84 per cent as of December 31, 2016. Efforts will be exerted to continue reconciling the variances between the books and stocks reports.</p>
<p>72. 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</p>	

Observations and Recommendations	Actions Taken/Comments
<p>Subsidy, resulting in forgone revenues of P43.512 million for the government.</p> <p>We recommended that a monitoring procedure be put in place to check the actual importation and the tax subsidy availed of by the private importers against the approved volume allocation granted by NFA to ensure that only the authorized allocated volume is given the equivalent tax subsidy in order to prevent unauthorized importation, and contribute in the collection of tax revenues. Moreover, for policy direction and input in the improvement of the implementation of PSF program thru TES, we also recommended that NFA look into the excess shipments of 5,796.75 MT of 14 private importers that were also granted tax subsidy.</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>73. Food and Grocery Incentive (FGI) was granted to NFA employees at P20,000 each totaling P84.868 million, without the authorization from the Office of the President.</p> <p>To substantiate the probity of expenses, we recommended that NFA support the payment of FGI with an Administrative Order or any issuance from the Office of the President authorizing the grant of the incentive, otherwise the transaction will be disallowed in audit.</p>	<p>Partially Implemented.</p> <p>Management has 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>

National Food Authority  
Month-end Rice Stock Levels in CY 2016

Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
NATIONAL CAPITAL REGION								
CENTRAL DISTRICT OFFICE with DCR of 28,440 bags								
January	995,540	35.00	426,600	15	568,940	20.00	133.37	Excess
February	1,450,912	51.02	426,600	15	1,024,312	36.02	240.11	Excess
March	1,939,905	68.21	426,600	15	1,513,305	53.21	354.74	Excess
April	1,899,008	66.77	426,600	15	1,472,408	51.77	345.15	Excess
May	1,841,882	64.76	426,600	15	1,415,282	49.76	331.76	Excess
June	1,658,364	58.31	853,200	30	805,164	28.31	94.37	Excess
July	1,079,780	37.97	426,600	15	653,180	22.97	153.11	Excess
August	761,116	26.76	426,600	15	334,516	11.76	78.41	Excess
September	514,210	18.08	426,600	15	87,610	3.08	20.54	Excess
October	417,849	14.69	426,600	15	(8,751)	(0.31)	(2.05)	Below
November	683,411	24.03	426,600	15	256,811	9.03	60.20	Excess
December	533,630	18.76	426,600	15	107,030	3.76	25.09	Excess
NORTH DISTRICT OFFICE with DCR of 16,720 bags								
January	1,459,536	87.29	250,800	15	1,208,736	72.29	481.95	Excess
February	1,550,075	92.71	250,800	15	1,299,275	77.71	518.05	Excess
March	1,563,769	93.53	250,800	15	1,312,969	78.53	523.51	Excess
April	1,571,502	93.99	250,800	15	1,320,702	78.99	526.60	Excess
May	1,490,854	89.17	250,800	15	1,240,054	74.17	494.44	Excess
June	1,261,915	75.47	501,600	30	760,315	45.47	151.58	Excess
July	1,051,450	62.89	250,800	15	800,650	47.89	319.24	Excess
August	732,697	43.82	250,800	15	481,897	28.82	192.14	Excess
September	552,257	33.03	250,800	15	301,457	18.03	120.20	Excess
October	569,003	34.03	250,800	15	318,203	19.03	126.88	Excess
November	767,602	45.91	250,800	15	516,802	30.91	206.06	Excess
December	589,068	35.23	250,800	15	338,268	20.23	134.88	Excess
SOUTH DISTRICT OFFICE with DCR of 22,320 bags								
January	1,228,185	55.03	334,800	15	893,385	40.03	266.84	Excess
February	1,467,414	65.74	334,800	15	1,132,614	50.74	338.30	Excess
March	1,633,468	73.18	334,800	15	1,298,668	58.18	387.89	Excess
April	1,496,465	67.05	334,800	15	1,161,665	52.05	346.97	Excess
May	1,348,267	60.41	334,800	15	1,013,467	45.41	302.71	Excess
June	1,231,437	55.17	669,600	30	561,837	25.17	83.91	Excess
July	1,201,023	53.81	334,800	15	866,223	38.81	258.73	Excess
August	1,028,732	46.09	334,800	15	693,932	31.09	207.27	Excess
September	834,528	37.39	334,800	15	499,728	22.39	149.26	Excess
October	649,815	29.11	334,800	15	315,015	14.11	94.09	Excess
November	649,997	29.12	334,800	15	315,197	14.12	94.14	Excess
December	561,554	25.16	491,040	22	70,514	3.16	14.36	Excess
EAST DISTRICT OFFICE with DCR of 22,440 bags								
January	557,022	24.82	336,600	15	220,422	9.82	65.48	Excess
February	565,719	25.21	336,600	15	229,119	10.21	68.07	Excess
March	562,581	25.07	336,600	15	225,981	10.07	67.14	Excess
April	545,477	24.31	336,600	15	208,877	9.31	62.05	Excess
May	533,482	23.77	336,600	15	196,882	8.77	58.49	Excess
June	410,805	18.31	673,200	30	(262,395)	(11.69)	(38.98)	Below
July	376,318	16.77	336,600	15	39,718	1.77	11.80	Excess

Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
August	338,258	15.07	336,600	15	1,658	0.07	0.49	Excess
September	284,172	12.66	336,600	15	(52,428)	(2.34)	(15.58)	Below
October	516,455	23.01	336,600	15	179,855	8.01	53.43	Excess
November	625,610	27.88	336,600	15	289,010	12.88	85.86	Excess
December	538,788	24.01	336,600	15	202,188	9.01	60.07	Excess
<b>CAVITE PROVINCIAL OFFICE with DCR of 19,360 bags (Very Critical Level)</b>								
January	696,394	35.97	290,400	15	405,994	20.97	139.81	Excess
February	597,460	30.86	290,400	15	307,060	15.86	105.74	Excess
March	632,867	32.69	290,400	15	342,467	17.69	117.93	Excess
April	644,393	33.28	290,400	15	353,993	18.28	121.90	Excess
May	649,430	33.54	290,400	15	359,030	18.54	123.63	Excess
June	541,873	27.99	580,800	30	(38,927)	(2.01)	(6.70)	Below
July	425,578	21.98	290,400	15	135,178	6.98	46.55	Excess
August	375,116	19.38	290,400	15	84,716	4.38	29.17	Excess
September	338,879	17.50	290,400	15	48,479	2.50	16.69	Excess
October	386,662	19.97	290,400	15	96,262	4.97	33.15	Excess
November	453,933	23.45	290,400	15	163,533	8.45	56.31	Excess
December	418,549	21.62	290,400	15	128,149	6.62	44.13	Excess
<b>REGION III</b>								
<b>BATAAN with DCR of 4,220 bags</b>								
January	133,583	31.65	63,300	15	70,283	16.65	111.03	Excess
February	149,857	35.51	63,300	15	86,557	20.51	136.74	Excess
March	136,837	32.43	63,300	15	73,537	17.43	116.17	Excess
April	111,866	26.51	63,300	15	48,566	11.51	76.72	Excess
May	107,726	25.53	63,300	15	44,426	10.53	70.18	Excess
June	100,805	23.89	63,300	15	37,505	8.89	59.25	Excess
July	149,347	35.39	63,300	15	86,047	20.39	135.94	Excess
August	119,253	28.26	63,300	15	55,953	13.26	88.39	Excess
September	98,759	23.40	63,300	15	35,459	8.40	56.02	Excess
October	78,099	18.51	63,300	15	14,799	3.51	23.38	Excess
November	63,721	15.10	63,300	15	421	0.10	0.67	Excess
December	50,120	11.88	63,300	15	(13,180)	(3.12)	(20.82)	Below
<b>BULACAN with DCR of 21,200 bags</b>								
January	722,032	34.06	318,000	15	404,032	19.06	127.05	Excess
February	796,656	37.58	318,000	15	478,656	22.58	150.52	Excess
March	800,455	37.76	318,000	15	482,455	22.76	151.72	Excess
April	793,858	37.45	318,000	15	475,858	22.45	149.64	Excess
May	793,551	37.43	318,000	15	475,551	22.43	149.54	Excess
June	735,343	34.69	318,000	15	417,343	19.69	131.24	Excess
July	543,489	25.64	636,000	30	(92,511)	(4.36)	(14.55)	Below
August	295,854	13.96	318,000	15	(22,146)	(1.04)	(6.96)	Below
September	263,593	12.43	318,000	15	(54,407)	(2.57)	(17.11)	Below
October	235,688	11.12	318,000	15	(82,312)	(3.88)	(25.88)	Below
November	303,435	14.31	318,000	15	(14,565)	(0.69)	(4.58)	Below
December	238,312	11.24	318,000	15	(79,688)	(3.76)	(25.06)	Below
<b>PAMPANGA with DCR of 17,340 bags</b>								
January	371,950	21.45	260,100	15	111,850	6.45	43.00	Excess
February	400,126	23.08	260,100	15	140,026	8.08	53.84	Excess
March	380,323	21.93	260,100	15	120,223	6.93	46.22	Excess
April	374,179	21.58	260,100	15	114,079	6.58	43.86	Excess
May	371,167	21.41	260,100	15	111,067	6.41	42.70	Excess

Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
June	347,393	20.03	260,100	15	87,293	5.03	33.56	Excess
July	295,180	17.02	520,200	30	(225,020)	(12.98)	(43.26)	Below
August	219,295	12.65	520,200	30	(300,905)	(17.35)	(57.84)	Below
September	185,909	10.72	520,200	30	(334,291)	(19.28)	(64.26)	Below
October	189,977	10.96	260,100	15	(70,123)	(4.04)	(26.96)	Below
November	185,959	10.72	260,100	15	(74,141)	(4.28)	(28.50)	Below
December	135,111	7.79	260,100	15	(124,989)	(7.21)	(48.05)	Below
<b>ZAMBALES with DCR of 5,880 bags</b>								
January	150,522	25.60	88,200	15	62,322	10.60	70.66	Excess
February	146,081	24.84	88,200	15	57,881	9.84	65.62	Excess
March	147,721	25.12	88,200	15	59,521	10.12	67.48	Excess
April	121,910	20.73	88,200	15	33,710	5.73	38.22	Excess
May	115,123	19.58	88,200	15	26,923	4.58	30.52	Excess
June	107,643	18.31	88,200	15	19,443	3.31	22.04	Excess
July	96,998	16.50	88,200	15	8,798	1.50	9.98	Excess
August	82,655	14.06	88,200	15	(5,545)	(0.94)	(6.29)	Below
September	58,940	10.02	88,200	15	(29,260)	(4.98)	(33.17)	Below
October	53,511	9.10	88,200	15	(34,689)	(5.90)	(39.33)	Below
November	61,541	10.47	88,200	15	(26,659)	(4.53)	(30.23)	Below
December	55,884	9.50	88,200	15	(32,316)	(5.50)	(36.64)	Below
<b>REGION IV - A</b>								
<b>ROMBLON with DCR of 2,100 bags</b>								
January	15,821	7.53	31,500	15	(15,679)	(7.47)	(49.77)	Below
February	7,543	3.59	31,500	15	(23,957)	(11.41)	(76.05)	Below
March	25,680	12.23	31,500	15	(5,820)	(2.77)	(18.48)	Below
April	16,625	7.92	31,500	15	(14,875)	(7.08)	(47.22)	Below
May	35,681	16.99	31,500	15	4,181	1.99	13.27	Excess
June	26,914	12.82	31,500	15	(4,586)	(2.18)	(14.56)	Below
July	18,558	8.84	63,000	30	(44,442)	(21.16)	(70.54)	Below
August	9,002	4.29	31,500	15	(22,498)	(10.71)	(71.42)	Below
September	28,326	13.49	31,500	15	(3,174)	(1.51)	(10.08)	Below
October	19,125	9.11	31,500	15	(12,375)	(5.89)	(39.29)	Below
November	39,687	18.90	31,500	15	8,187	3.90	25.99	Excess
December	31,432	14.97	31,500	15	(68)	(0.03)	(0.22)	Below
<b>QUEZON PROVINCIAL OFFICE with DCR of 13,560 bags</b>								
January	163,139	12.03	203,400	15	(40,261)	(2.97)	(19.79)	Below
February	176,758	13.04	203,400	15	(26,642)	(1.96)	(13.10)	Below
March	202,149	14.91	203,400	15	(1,251)	(0.09)	(0.62)	Below
April	231,386	17.06	203,400	15	27,986	2.06	13.76	Excess
May	273,386	20.16	203,400	15	69,986	5.16	34.41	Excess
June	265,292	19.56	203,400	15	61,892	4.56	30.43	Excess
July	219,650	16.20	406,800	30	(187,150)	(13.80)	(46.01)	Below
August	197,075	14.53	203,400	15	(6,325)	(0.47)	(3.11)	Below
September	150,836	11.12	203,400	15	(52,564)	(3.88)	(25.84)	Below
October	162,172	11.96	203,400	15	(41,228)	(3.04)	(20.27)	Below
November	115,284	8.50	203,400	15	(88,116)	(6.50)	(43.32)	Below
December	51,606	3.81	203,400	15	(151,794)	(11.19)	(74.63)	Below
<b>REGION IV - B</b>								
<b>PALAWAN PROVINCIAL OFFICE with DCR of 7,900 bags</b>								
January	232,538	29.44	118,500	15	114,038	14.44	96.23	Excess
February	236,241	29.90	118,500	15	117,741	14.90	99.36	Excess

Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
March	224,329	28.40	118,500	15	105,829	13.40	89.31	Excess
April	232,862	29.48	118,500	15	114,362	14.48	96.51	Excess
May	185,094	23.43	118,500	15	66,594	8.43	56.20	Excess
June	159,945	20.25	118,500	15	41,445	5.25	34.97	Excess
July	189,815	24.03	118,500	15	71,315	9.03	60.18	Excess
August	148,355	18.78	118,500	15	29,855	3.78	25.19	Excess
September	123,598	15.65	118,500	15	5,098	0.65	4.30	Excess
October	153,968	19.49	118,500	15	35,468	4.49	29.93	Excess
November	153,643	19.45	118,500	15	35,143	4.45	29.66	Excess
December	149,829	18.97	118,500	15	31,329	3.97	26.44	Excess
<b>REGION V</b>								
<b>CAMARINES NORTE PROVINCIAL OFFICE with DCR of 3,680 bags</b>								
January	73,581	19.99	110,400	30	(36,819)	(10.01)	(33.35)	Below
February	85,637	23.27	110,400	30	(24,763)	(6.73)	(22.43)	Below
March	88,215	23.97	110,400	30	(22,185)	(6.03)	(20.10)	Below
April	96,175	26.13	110,400	30	(14,225)	(3.87)	(12.88)	Below
May	96,403	26.20	110,400	30	(13,997)	(3.80)	(12.68)	Below
June	80,076	21.76	110,400	30	(30,324)	(8.24)	(27.47)	Below
July	66,952	18.19	110,400	30	(43,448)	(11.81)	(39.36)	Below
August	49,385	13.42	110,400	30	(61,015)	(16.58)	(55.27)	Below
September	27,976	7.60	110,400	30	(82,424)	(22.40)	(74.66)	Below
October	52,756	14.34	110,400	30	(57,644)	(15.66)	(52.21)	Below
November	45,157	12.27	110,400	30	(65,243)	(17.73)	(59.10)	Below
December	28,358	7.71	110,400	30	(82,042)	(22.29)	(74.31)	Below
<b>REGION VI</b>								
<b>ANTIQUE PROVINCIAL OFFICE with DCR of 4,800 bags (Surplus Category)</b>								
January	55,345	11.53	9,600	2	45,745	9.53	476.51	Excess
February	57,852	12.05	9,600	2	48,252	10.05	502.63	Excess
March	70,557	14.70	9,600	2	60,957	12.70	634.97	Excess
April	68,284	14.23	9,600	2	58,684	12.23	611.29	Excess
May	66,603	13.88	9,600	2	57,003	11.88	593.78	Excess
June	65,252	13.59	144,000	30	(78,748)	(16.41)	(54.69)	Below
July	63,765	13.28	9,600	2	54,165	11.28	564.22	Excess
August	65,045	13.55	9,600	2	55,445	11.55	577.55	Excess
September	61,541	12.82	9,600	2	51,941	10.82	541.05	Excess
October	67,853	14.14	9,600	2	58,253	12.14	606.80	Excess
November	76,650	15.97	9,600	2	67,050	13.97	698.44	Excess
December	78,553	16.37	9,600	2	68,953	14.37	718.26	Excess
<b>AKLAN PROVINCIAL OFFICE with DCR of 4,340 bags (Self-sufficient Category)</b>								
January	31,798	7.33	21,700	5	10,098	2.33	46.53	Excess
February	32,672	7.53	21,700	5	10,972	2.53	50.56	Excess
March	38,287	8.82	21,700	5	16,587	3.82	76.44	Excess
April	37,593	8.66	21,700	5	15,893	3.66	73.24	Excess
May	34,340	7.91	21,700	5	12,640	2.91	58.25	Excess
June	33,439	7.70	21,700	5	11,739	2.70	54.10	Excess
July	32,162	7.41	21,700	5	10,462	2.41	48.21	Excess
August	31,545	7.27	21,700	5	9,845	2.27	45.37	Excess
September	12,473	2.87	21,700	5	(9,227)	(2.13)	(42.52)	Below
October	14,706	3.39	21,700	5	(6,994)	(1.61)	(32.23)	Below
November	17,807	4.10	21,700	5	(3,893)	(0.90)	(17.94)	Below
December	15,144	3.49	21,700	5	(6,556)	(1.51)	(30.21)	Below


Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
NEGROS OCCIDENTAL PROVINCIAL OFFICE with DCR of 22,580 bags								
January	444,142	19.67	338,700	15	105,442	4.67	31.13	Excess
February	428,989	19.00	338,700	15	90,289	4.00	26.66	Excess
March	412,332	18.26	338,700	15	73,632	3.26	21.74	Excess
April	355,589	15.75	338,700	15	16,889	0.75	4.99	Excess
May	291,087	12.89	338,700	15	(47,613)	(2.11)	(14.06)	Below
June	274,274	12.15	677,400	30	(403,126)	(17.85)	(59.51)	Below
July	284,738	12.61	338,700	15	(53,962)	(2.39)	(15.93)	Below
August	244,412	10.82	338,700	15	(94,288)	(4.18)	(27.84)	Below
September	283,859	12.57	338,700	15	(54,841)	(2.43)	(16.19)	Below
October	330,484	14.64	338,700	15	(8,216)	(0.36)	(2.43)	Below
November	363,962	16.12	338,700	15	25,262	1.12	7.46	Excess
December	350,874	15.54	338,700	15	12,174	0.54	3.59	Excess
REGION VII								
NEGROS ORIENTAL PROVINCIAL OFFICE with DCR of 6,320 bags								
January	47,611	7.53	94,800	15	(47,189)	(7.47)	(49.78)	Below
February	27,655	4.38	94,800	15	(67,145)	(10.62)	(70.83)	Below
March	41,081	6.50	94,800	15	(53,719)	(8.50)	(56.67)	Below
April	57,504	9.10	94,800	15	(37,296)	(5.90)	(39.34)	Below
May	53,247	8.43	94,800	15	(41,553)	(6.57)	(43.83)	Below
June	20,332	3.22	94,800	30	(74,468)	(11.78)	(78.55)	Below
July	49,143	7.78	189,600	15	(140,457)	(22.22)	(74.08)	Below
August	23,601	3.73	94,800	15	(71,199)	(11.27)	(75.10)	Below
September	38,726	6.13	94,800	15	(56,074)	(8.87)	(59.15)	Below
October	49,664	7.86	94,800	15	(45,136)	(7.14)	(47.61)	Below
November	35,008	5.54	94,800	15	(59,792)	(9.46)	(63.07)	Below
December	20,161	3.19	94,800	15	(74,639)	(11.81)	(78.73)	Below
SIQUIJOR PROVINCIAL OFFICE with DCR of 500 bags								
January	21,205	42.41	7,500	15	13,705	27.41	182.73	Excess
February	16,295	32.59	7,500	15	8,795	17.59	117.27	Excess
March	22,384	44.77	7,500	15	14,884	29.77	198.45	Excess
April	17,624	35.25	7,500	15	10,124	20.25	134.99	Excess
May	10,860	21.72	7,500	15	3,360	6.72	44.80	Excess
June	14,912	29.82	7,500	15	7,412	14.82	98.83	Excess
July	14,667	29.33	15,000	30	(333)	(0.67)	(2.22)	Below
August	11,980	23.96	7,500	15	4,480	8.96	59.73	Excess
September	21,273	42.55	7,500	15	13,773	27.55	183.64	Excess
October	18,463	36.93	7,500	15	10,963	21.93	146.17	Excess
November	14,780	29.56	7,500	15	7,280	14.56	97.07	Excess
December	11,257	22.51	7,500	15	3,757	7.51	50.09	Excess
REGION VIII								
SAMAR PROVINCIAL OFFICE with DCR of 5,080 bags								
January	116,900	23.01	76,200	15	40,700	8.01	53.41	Excess
February	104,870	20.64	76,200	15	28,670	5.64	37.62	Excess
March	90,094	17.74	76,200	15	13,894	2.74	18.23	Excess
April	98,890	19.47	76,200	15	22,690	4.47	29.78	Excess
May	111,020	21.85	76,200	15	34,820	6.85	45.70	Excess
June	117,417	23.11	76,200	15	41,217	8.11	54.09	Excess
July	108,542	21.37	76,200	15	32,342	6.37	42.44	Excess
August	107,754	21.21	76,200	15	31,554	6.21	41.41	Excess

Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
September	102,893	20.25	76,200	15	26,693	5.25	35.03	Excess
October	78,402	15.43	76,200	15	2,202	0.43	2.89	Excess
November	67,694	13.33	76,200	15	(8,506)	(1.67)	(11.16)	Below
December	73,195	14.41	76,200	15	(3,005)	(0.59)	(3.94)	Below
<b>REGION IX</b>								
<b>ZAMBOANGA CITY PROVINCIAL OFFICE with DCR of 5,760 bags</b>								
January	278,551	48.36	86,400	15	192,151	33.36	222.40	Excess
February	450,576	78.23	86,400	15	364,176	63.23	421.50	Excess
March	487,907	84.71	86,400	15	401,507	69.71	464.71	Excess
April	376,148	65.30	86,400	15	289,748	50.30	335.36	Excess
May	325,508	56.51	86,400	15	239,108	41.51	276.75	Excess
June	258,423	44.87	86,400	15	172,023	29.87	199.10	Excess
July	167,716	29.12	86,400	15	81,316	14.12	94.12	Excess
August	84,463	14.66	86,400	15	(1,937)	(0.34)	(2.24)	Below
September	46,520	8.08	86,400	15	(39,880)	(6.92)	(46.16)	Below
October	210,271	36.51	86,400	15	123,871	21.51	143.37	Excess
November	516,718	89.71	86,400	15	430,318	74.71	498.05	Excess
December	398,860	69.25	86,400	15	312,460	54.25	361.64	Excess
<b>REGION XII</b>								
<b>NORTH COTABATO PROVINCIAL OFFICE with DCR of 9,140 bags (Surplus Category)</b>								
January	115,030	12.59	91,400	10	23,630	2.59	25.85	Excess
February	126,206	13.81	109,680	12	16,526	1.81	15.07	Excess
March	150,661	16.48	100,540	11	50,121	5.48	49.85	Excess
April	105,334	11.52	82,260	9	23,074	2.52	28.05	Excess
May	69,081	7.56	118,820	13	(49,739)	(5.44)	(41.86)	Below
June	42,625	4.66	100,540	11	(57,915)	(6.34)	(57.60)	Below
July	59,131	6.47	109,680	12	(50,549)	(5.53)	(46.09)	Below
August	39,969	4.37	100,540	11	(60,571)	(6.63)	(60.25)	Below
September	44,997	4.92	100,540	11	(55,543)	(6.08)	(55.24)	Below
October	50,301	5.50	100,540	11	(50,239)	(5.50)	(49.97)	Below
November	63,131	6.91	100,540	11	(37,409)	(4.09)	(37.21)	Below
December	57,728	6.32	91,400	10	(33,672)	(3.68)	(36.84)	Below
<b>SULTAN KUDARAT PROVINCIAL OFFICE with DCR of 6,280 bags (Surplus Category)</b>								
January	233,467	37.18	150,720	24	82,747	13.18	54.90	Excess
February	228,922	36.45	163,280	26	65,642	10.45	40.20	Excess
March	295,533	47.06	144,440	23	151,093	24.06	104.61	Excess
April	250,161	39.83	113,040	18	137,121	21.83	121.30	Excess
May	183,081	29.15	113,040	18	70,041	11.15	61.96	Excess
June	138,639	22.08	94,200	15	44,439	7.08	47.18	Excess
July	87,092	13.87	94,200	15	(7,108)	(1.13)	(7.55)	Below
August	48,427	7.71	81,640	13	(33,213)	(5.29)	(40.68)	Below
September	71,406	11.37	81,640	13	(10,234)	(1.63)	(12.54)	Below
October	103,790	16.53	87,920	14	15,870	2.53	18.05	Excess
November	131,415	20.93	81,640	13	49,775	7.93	60.97	Excess
December	136,797	21.78	75,360	12	61,437	9.78	81.52	Excess
<b>REGION XV- CARAGA</b>								
<b>AGUSAN DEL SUR PROVINCIAL OFFICE with DCR of 4,580 bags (Surplus Category)</b>								
January	59,445	12.98	9,160	2	50,285	10.98	548.96	Excess
February	68,995	15.06	9,160	2	59,835	13.06	653.22	Excess
March	78,887	17.22	9,160	2	69,727	15.22	761.21	Excess




Month	Available Stock at Month-end		Required Buffer Stock (15 and 30 days)		Excess/(Below)		Percentage of Variance Over Required Buffer Stocks	STATUS
	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days	No. of Bags	Equivalent No. of Days		
April	86,113	18.80	9,160	2	76,953	16.80	840.10	Excess
May	45,288	9.89	9,160	2	36,128	7.89	394.41	Excess
June	93,501	20.42	9,160	2	84,341	18.42	920.75	Excess
July	90,939	19.86	9,160	2	81,779	17.86	892.78	Excess
August	87,381	19.08	9,160	2	78,221	17.08	853.94	Excess
September	76,913	16.79	9,160	2	67,753	14.79	739.66	Excess
October	76,917	16.79	9,160	2	67,757	14.79	739.71	Excess
November	75,431	16.47	9,160	2	66,271	14.47	723.48	Excess
December	54,067	11.81	9,160	2	44,907	9.81	490.25	Excess
<b>SURIGAO DEL NORTE PROVINCIAL OFFICE with DCR of 4,080 bags (Under Very Critical Category)</b>								
January	229,073	56.15	122,400	30	106,673	26.15	87.15	Excess
February	209,512	51.35	122,400	30	87,112	21.35	71.17	Excess
March	195,007	47.80	122,400	30	72,607	17.80	59.32	Excess
April	169,764	41.61	122,400	30	47,364	11.61	38.70	Excess
May	144,945	35.53	122,400	30	22,545	5.53	18.42	Excess
June	108,946	26.70	122,400	30	(13,454)	(3.30)	(10.99)	Below
July	90,543	22.19	122,400	30	(31,857)	(7.81)	(26.03)	Below
August	71,697	17.57	122,400	30	(50,703)	(12.43)	(41.42)	Below
September	54,452	13.35	122,400	30	(67,948)	(16.65)	(55.51)	Below
October	54,467	13.35	122,400	30	(67,933)	(16.65)	(55.50)	Below
November	52,102	12.77	122,400	30	(70,298)	(17.23)	(57.43)	Below
December	49,590	12.15	122,400	30	(72,810)	(17.85)	(59.49)	Below

## Accounting/COA Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse <b>NPES/ARPNP/R 4</b> CODE <b>011411171</b>							
Issued To: <b>LGU DENIS CALASIAO</b> TIN <b>CALASIAO</b> Address: <b>CALASIAO</b> Recipient's Name/Signature: <b>ADELA H. DELA CAÑA</b> Bags: <b>172</b>   <b>3,606.4</b>   <b>8640</b> Transaction: <b>SALES</b>		Mo: <b>10</b> Day: <b>10</b> Yr: <b>16</b> At No: <b>24241720</b> OR No: <b>0781250</b> Scale Serial No: <b>100210</b> Capacity: <b>1000</b> Brand: <b>CENTURY</b> Variety Code: <b>VCN61</b> Age: <b>C</b> % MC: <b>1.50</b> % Purity: Stock Condition: <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> RF <input type="checkbox"/> PD <input type="checkbox"/> TD							
Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms
10	495	10	496	ONE THOUSAND					
10	495	10	497	SEVENTEEN TWO BAGS					
10	497	10	498	EIGHT THOUSAND					
10	496	10	497	SIX THOUSAND					
10	498	10	497	FOURTY NINE					
10	497	10	497						
10	497	10	497						
10	496	2	96						
10	497	1	120.64	←					
10	497								
Checked/Weighed by: <b>H</b>		Name of Carrier:		Truck No: <b>NO RATE AVAILABLE</b>					
Classified by: <b>H</b>		Inspected by:		Remarks:					
Certified Correct: <b>H</b>		Received Stocks for Delivery (Driver's Name/Signature): <b>H</b>		WSI B-23970692					


AUDITING COPY

## Carrier Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse <b>NPES/ARPNP/R 4</b> CODE <b>011411171</b>					
Issued To: <b>LGU DENIS CALASIAO</b> TIN <b>CALASIAO</b> Address: <b>CALASIAO</b> Recipient's Name/Signature: <b>ADELA H. DELA CAÑA</b> Bags: <b>172</b>   <b>3,606.4</b>   <b>8640</b> Transaction: <b>SALES</b>		Mo: <b>10</b> Day: <b>10</b> Yr: <b>16</b> At No: <b>24241720</b> OR No: <b>0781250</b> Scale Serial No: <b>100210</b> Capacity: <b>1000</b> Brand: <b>CENTURY</b> Variety Code: <b>VCN61</b> Age: <b>C</b> % MC: <b>1.50</b> % Purity: Stock Condition: <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> RF <input type="checkbox"/> PD <input type="checkbox"/> TD					
Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms
10	500	10	500	ONE THOUSAND			
10	500	10	501	SEVENTEEN TWO BAGS			
10	500	10	500	EIGHT THOUSAND			
10	500	10	500	SIX THOUSAND			
10	500	10	501	FOURTY NINE			
10	500	10	500				
10	500	10	501				
10	500	2	100				
10	500	1	50.64	←			
10	500						
Checked/Weighed by:		Name of Carrier:		Truck No: <b>NO RATE AVAILABLE</b>			
Classified by:		Inspected by:		Remarks:			
Certified Correct:		Received Stocks for Delivery (Driver's Name/Signature): <b>H</b>		WSI B-23970692			

CARRIER COPY  
(TEAM OFF-HOURS)

## Accounting/COA Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse <b>WPGS/KADUNBAR 4</b>							
Issued To: <b>LG-11 STA. BARBARA</b> TN: <b>STA. BARBARA</b> Address: <b>STA. BARBARA</b> Recipient's Name/Signature: <b>VADDY C. SANTHAKO</b> Bags: <b>240</b>   <b>12028.80</b>   <b>12.00</b> Transaction: <b>SALES</b>		CODE: <b>07911171</b> Mo: <b>10</b> Day: <b>21</b> Yr: <b>16</b> AI No: <b>24242208</b> Off No: <b>0781492</b> Scale Serial No: <b>100210</b> Capacity: <b>1000</b> Brand: <b>CEMILAK</b> Variety Code: <b>VCENG1</b> Age: <b>C</b> % MC: <b>11.20</b> % Purity: Stock Condition: <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> SF <input type="checkbox"/> PD <input type="checkbox"/> TD							
Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms
10	495	10	497	10	498	10	498	10	498
10	496	10	498	10	498	10	498	10	498
10	497	10	497	10	497	10	497	10	497
10	498	10	498	10	498	10	498	10	498
10	498	10	497	F	94.80				
10	497	10	496						
10	498	10	498						
10	497	10	498						
10	497	10	497						
10	498	10	496						
Checked/Weighed by: <b>[Signature]</b>		Name of Carrier: <b>SHN 891</b>		Truck No.: <b>SHN 891</b>					
Classified by: <b>[Signature]</b>		Inspected by: <b>[Signature]</b>		Remarks: <b>WSI B-23971434</b>					
Certified Correct: <b>[Signature]</b>		Received Stocks for Delivery (Driver's Name/Signature): <b>[Signature]</b>		Remarks: <b>WSI B-23971434</b>					

AUDITING COPY


## Carrier Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse <b>WPGS/KADUNBAR 4</b>							
Issued To: <b>LG-11 STA. BARBARA</b> TN: <b>STA. BARBARA</b> Address: <b>STA. BARBARA</b> Recipient's Name/Signature: <b>VADDY C. SANTHAKO</b> Bags: <b>240</b>   <b>12028.80</b>   <b>12.00</b> Transaction: <b>SALES</b>		CODE: <b>07911171</b> Mo: <b>10</b> Day: <b>21</b> Yr: <b>16</b> AI No: <b>24242208</b> Off No: <b>0781492</b> Scale Serial No: <b>100210</b> Capacity: <b>1000</b> Brand: <b>CEMILAK</b> Variety Code: <b>VCENG1</b> Age: <b>C</b> % MC: <b>11.20</b> % Purity: Stock Condition: <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> SF <input type="checkbox"/> PD <input type="checkbox"/> TD							
Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms	Bags	Kilograms
10	500	10	501	10	500	10	500	10	500
10	500	10	500	10	500	10	500	10	500
10	501	10	500	10	500	10	500	10	500
10	500	10	500	10	500	10	500	10	500
10	500	10	500	F	24.80				
10	500	10	501						
10	500	10	501						
10	500	10	500						
10	500	10	500						
10	500	10	500						
10	500	10	500						
Checked/Weighed by: <b>[Signature]</b>		Name of Carrier: <b>SHN 891</b>		Truck No.: <b>SHN 891</b>					
Classified by: <b>[Signature]</b>		Inspected by: <b>[Signature]</b>		Remarks: <b>WSI B-23971434</b>					
Certified Correct: <b>[Signature]</b>		Received Stocks for Delivery (Driver's Name/Signature): <b>[Signature]</b>		Remarks: <b>WSI B-23971434</b>					

CARRIER COPY  
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## Accounting/COA Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse WPGS/CID 2 MANGATAPU CODE 9/9/2/1	
Issued To: TN LGU MANGATAPU Address: MANGATAPU C/O J. PERAZO Recipient's Name/Signature: <i>[Signature]</i>		Mo: 02 Day: 12 Yr: 2019 Scale Serial No: 8461 Capacity: 1000 Brand: CENTURY Variety Code: VCGMS/1 Age: C % MC: 10.90 % Purity: Stock Condition: <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> NF <input type="checkbox"/> PD <input type="checkbox"/> TD	
Bags: 40 12019.80 12015 Transaction: SALES (115)			
Bags	Kilograms	Bags	Kilograms
10	498	10	498
10	499	10	499
10	498	10	498
10	498	10	498
F	18.80		
FOR SUPPLEMENTAL RECORDING PRMSO/N/O.12 Pg - 2 moadz			
Checked/Weighed by: <i>[Signature]</i> Classified by: <i>[Signature]</i> Certified Correct: <i>[Signature]</i>		Name of Carrier: TOYOTA-THAMMAN FX Inspected by: <i>[Signature]</i> Remarks: SDT 668 PILE GA WSI B-23248830	


AUDITING COPY

## Carrier Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse WPGS/CID 2 MANGATAPU CODE 9/9/2/1	
Issued To: TN LGU MANGATAPU Address: MANGATAPU C/O J. PERAZO Recipient's Name/Signature: <i>[Signature]</i>		Mo: 02 Day: 12 Yr: 2019 Scale Serial No: 8461 Capacity: 1000 Brand: CENTURY Variety Code: VCGMS/1 Age: C % MC: 10.90 % Purity: Stock Condition: <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> NF <input type="checkbox"/> PD <input type="checkbox"/> TD	
Bags: 40 12019.80 12015 Transaction: SALES (115)			
Bags	Kilograms	Bags	Kilograms
10	500	10	500
10	500	10	500
10	501	10	501
10	500	10	500
F	18.80		
FOR SUPPLEMENTAL RECORDING PRMSO/N/O.12 Pg - 2 moadz			
Checked/Weighed by: <i>[Signature]</i> Classified by: <i>[Signature]</i> Certified Correct: <i>[Signature]</i>		Name of Carrier: TOYOTA-THAMMAN FX Inspected by: <i>[Signature]</i> Remarks: SDT 668 PILE GA WSI B-23248830	


CARRIER COPY  
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## Accounting/COA Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse <b>WPGC - CAMINDI GID</b> CODE <b>011911011</b>	
Issued To: <b>LGU ANDA / SUPPLIMENTAL FEEDING</b> Address: <b>ANDA PANGASINAN</b> Recipient's Name/Signature: <i>[Signature]</i>		Mo. Day Yr. AI No. OR No. <b>02 02 2016 23643301 024344A</b> Scale Serial No. Capacity Brand <b>110 20A 1111 0</b> Variety Code Age % MC % Purity <b>1 SCWS 0 11%</b> Stock Condition <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> INF <input type="checkbox"/> PD <input type="checkbox"/> TD	
Bags ▶ <b>600 3007.2 2.00</b> Transaction: <b>SMWS</b>			
Bags	Kilograms	Bags	Kilograms
10	496	44	SIXTY THREE THOUSAND NET KG
10	497	44	THREE THOUSAND NET KG
10	495		
10	496		
10	498		
10	495		
f	30.20		
<b>77</b>			
Checked/Weighed by: <i>[Signature]</i> Classified by: <i>[Signature]</i> Certified Correct: <i>[Signature]</i>		Name of Carrier: <b>Denise</b> Inspected by: <i>[Signature]</i> Received Stocks for Delivery (Driver's Name/Signature): <i>[Signature]</i> Truck No.: <b>ELG 644</b> Remarks: <b>GA</b> WSI B-23336888	

AUDITING COPY

## Carrier Copy

 <b>National Food Authority</b> NON-VAT Reg. TIN 001-031-151-000 Warehouse Stock Issue		Province/Warehouse <b>WPGC - CAMINDI GID</b> CODE <b>011911011</b>	
Issued To: <b>LGU ANDA / SUPPLIMENTAL FEEDING</b> Address: <b>ANDA PANGASINAN</b> Recipient's Name/Signature: <i>[Signature]</i>		Mo. Day Yr. AI No. OR No. <b>02 02 2016 23643301 024344A</b> Scale Serial No. Capacity Brand <b>110 20A 1111 0</b> Variety Code Age % MC % Purity <b>1 SCWS 0 11%</b> Stock Condition <input checked="" type="checkbox"/> GO <input type="checkbox"/> TRD <input type="checkbox"/> INF <input type="checkbox"/> PD <input type="checkbox"/> TD	
Bags ▶ <b>600 3007.2 2.00</b> Transaction: <b>SMWS</b>			
Bags	Kilograms	Bags	Kilograms
10	500y	44	SIXTY THREE THOUSAND NET KG
10	501	44	THREE THOUSAND NET KG
10	502		
10	502		
10	502		
10	500.20		
<b>77</b>			
Checked/Weighed by: <i>[Signature]</i> Classified by: <i>[Signature]</i> Certified Correct: <i>[Signature]</i>		Name of Carrier: <b>Denise</b> Inspected by: <i>[Signature]</i> Received Stocks for Delivery (Driver's Name/Signature): <i>[Signature]</i> Truck No.: <b>ELG 644</b> Remarks: <b>GA</b> WSI B-23336888	

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**National Food Authority**  
**Details and Status of Unsettled Audit Suspensions, Disallowances and Charges**  
As of December 31, 2016

**I. Notices of Suspension (NSs)**

<b>NS No./Date</b>	<b>Nature/Particulars</b>	<b>Persons Responsible</b>	<b>Amount</b>	<b>Status</b>
<b>Head Office</b>				
16-001(14)/ 3/28/16	Reimbursement of expense of Council	Proceso J. Alcala, et al. of NFA	P 2,067,467	For issuance of Notice of Settlement of Suspensions, Disallowances and Charges (NSSDC).
16-003 (2012 to 2015)	Reimbursement expenses -IRPEP	of Tessie Osuan, et al.	405,074	For issuance of NSSDC.
			<b>2,472,541</b>	
<b>Region III</b>				
<b>Bulacan PO</b>				
No details provided.	No details provided	No details provided	<b>39,102</b>	No details provided.
<b>Region V</b>				
<b>RO</b>				
	No details provided.	No details provided	<b>2,387,316</b>	No details provided.
<b>Region VII</b>				
<b>RO</b>				
No details provided	No details provided	No details provided	<b>675,000</b>	No details provided.
<b>Region VIII</b>				
<b>RO</b>				
No details provided	No details provided	No details provided	137,714	No details provided.
<b>Northern Leyte</b>				
No details provided	No details provided	No details provided	975,850	No details provided.
<b>Biliran</b>				
No details provided	No details provided	No details provided	20,030	No details provided.
<b>Southern Leyte</b>				
No details provided	No details provided	No details provided	41,761	No details provided.
<b>Northern Samar</b>				
No details provided	No details provided	No details provided	593,514	No details provided.
<b>Western Samar</b>				
No details provided	No details provided	No details provided	61,146	No details provided.
<b>Eastern Samar</b>				
No details provided	No details provided	No details provided	166,833	No details provided.
			<b>1,996,848</b>	
<b>Region IX</b>				
<b>Ipil PO</b>				
10-003-101-(10)/ 12/30/10	Traveling expenses	Provincial Manager (PM), Senior Accounting Specialist (SAS) and payee	6,649	Unsettled as of 12/31/16.
11-001-101-(10)/ 01/28/11	Traveling expenses	PM, SAS and payee	9,423	Unsettled as of 12/31/16.
11-011-101-(10)/ 02/9/11	No details provided	SAS and various payees	61,785	Unsettled as of 12/31/16.

NS No./Date	Nature/Particulars	Persons Responsible	Amount	Status
11-005-101 (11)/ 06/7/11	No details provided	PM, SAS and Provident Fund	55,570	Unsettled as of 12/31/16.
11-021-101 (11)/ 06/29/11	CNAI	Various NFA officials and employees	201,513	Unsettled as of 12/31/16.
12-006-101/ 06/20/11	No details provided	SAS and various	455	Unsettled as of 12/31/16.
12-009-101 (11)/ 06/22/12	No details provided	SAS and various NFA officials and employees	458	Unsettled as of 12/31/16.
12-012-101/ 06/25/12	No details provided	Various	11,568	Unsettled as of 12/31/16.
12-015-101/ 06/27/12	No details provided	Various	11,537	Unsettled as of 12/31/16.
12-016-101 (12)/ 10/17/12	No details provided	SAS, Employees Association, Provident Fund	20,399	Unsettled as of 12/31/16.
12-017-101 (12)/ 10/29/12	No details provided	SAS, PRLO and various	13,312	Unsettled as of 12/31/16.
12-020-101/ 11/7/12	No details provided	SAS and various	1,680	Unsettled as of 12/31/16.
12-021-101/ 11/7/12	No details provided	SAS and various	3,400	Unsettled as of 12/31/16.
12-024-101/ 11/7/12	No details provided	SAS and various	11,234	Unsettled as of 12/31/16.
12-027-101/ 11/13/12	No details provided	Various NFA officials and employees	333,298	Unsettled as of 12/31/16.
			742,281	
<b>Zamboanga del Norte PO</b>				
2011-001(10)/ 08/17/11	CNAI 2009	Various NFA officials and employees	345,000	Waiting for the submission of required documents.
01-001-101(12)/ 02/1/12	Rapid Seed Supply Financing Project (RaSSFIP)	Various NFA officials and employees	222,000	Waiting for the submission of required documents.
			567,000	
			<b>1,309,281</b>	
<b>Region X</b>				
<b>Misamis Oriental PO</b>				
No details provided	No details provided	No details provided	141,853	Unsettled as of 12/31/16.

NS No./Date	Nature/Particulars	Persons Responsible	Amount	Status
<b>Misamis Occidental PO</b>				
No details provided	No details provided	No details provided	10,352	With Partial Settlement of P675,748 for CY 2016.
<b>Lanao del Norte PO</b>				
No details provided	No details provided	No details provided	23,913	Unsettled as of 12/31/16.
			<b>176,118</b>	
<b>CARAGA</b>				
<b>Agusan del Norte</b>				
No details provided	No details provided	No details provided	13,000	Unsettled as of 12/31/16.
			<b>P 9,069,206</b>	

## II. Notices of Disallowance (NDs)

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b>Head Office</b>				
10-02-101-05/05/17/10	Payment of salaries and allowances	DA; Department Managers - LAD and HRMD; and the payees.	P 183,604	Under Appeal.
12-02-501 (11 & 12)/11/7/12	Payment of Honoraria FTYs 2011-2012	Administrator and various NFA officials and employees as payees.	507,998	With CGS Decision No. 2015-017 dated Dec. 8, 2015 denying the Appeal.
12-01-501 (11 & 12)/10/19/12	Payment of Honoraria FTYs 2011-2012.	Administrator, Assistant Administrator (AA), DA, Special Assistant; Department Manager, Assistant Director, Division Chief - ASD; and Payee Department Manager – GMOD	98,845	Under Appeal.
14-01-501 (2012)/02/3/14	Payment of Food and Grocery Incentives (FGI) FTY 2012	Deputy Administrator (DA) and various NFA officials and employees as payees.	13,275,000	Under Appeal.
16-002 (2012 and 2013)/12/12/16	Reimbursement of meal expenses	Mary Ann R. Culala, et al.	20,000	NS 16-002 (2012 & 2013) matured to disallowance, due non submission of documents
			<b>14,085,447</b>	
<b>NCR</b>				
<b>RO</b>				
14-01-501(12)/01/24/14	Payment of FGI FTY 2012	Reg. Manager (RM), Reg. Accountant and various NFA officials & employees as payees	3,475,000	Notice of Disallowance was affirmed under CGS-5 Decision No. 2015-018 dated Dec. 9, 2015



ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2015-03-501(2010)/NCR/CPO/01/27/15	Payment of FGI FTY 2010	RM, Accountant, AO, and various NFA officials and employees as payees	3,340,000	-do-
2015-02-501(2011)/NCR/CPO/01/27/15	Payment of FGI FTY 2011	RM, Assistant RM, SAS and various NFA officials and employees	3,635,000	-do-
			10,450,000	
<b>CDO</b>				
14-01-788-03-(12)/05/6/14	Payment of FGI FTY 2012	Provincial Manager (PM), Accountant and various NFA officials and employees as payees	2,020,000	With CGS Decision No. 2014-006 dated Aug. 11, 2014 which was subject of a Petition for Review.
16-01-(2010)/2/26/16		Marciano A. Alvarez, et.al.	2,280,000	With Petition for Review dated Dec. 27, 2016
16-02 (2008) 2/26/16		Marciano A. Alvarez, et.al	1,955,000	-do-
			6,255,000	
<b>NDO</b>				
2014-001 (2012)/02/20/14	Payment of FGI FTY 2012	PM, Assistant PM, Senior Accounting Specialist (SAS), Administrative Officer (AO) and various NFA officials and employees as payees	3,340,000	Under Appeal.
2014-002 (2010)/12/18/14	Payment of FGI FTY 2010	PM, Assistant PM, SAS, AO, and various NFA officials and employees as payees	3,500,000	Under Appeal.
2014-003 (2011)/12/18/14	Payment of FGI FTY 2011	PM, Assistant PM, SAS, AO and various NFA officials and employees as payees	3,450,000	Under Appeal.
2014-004 (2008)/12/18/14	Payment of FGI FTY 2008	PM, Assistant PM, SAS, AO and various NFA officials and employees as payees	2,850,000	Under Appeal.
			13,140,000	
<b>EDO</b>				
14-01-001 (2012)/02/14/14	Payment of FGI FTY 2012	Acting PM, SAS, Assistant PM, AO, Cashier and various NFA officials and employees as payees	1,360,000	Notice of Disallowance was affirmed under CGS-5 Decision No. 2015-003 dated Jan. 27, 2015.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
14-01-002 (2010)/ 12/18/14	Payment of FGI FTY 2010	Acting PM, SAS, Assistant PM, AO, Cashier and various NFA officials and employees as payees.	1,340,000	With Answer to the Petition for Review per COA CP Case No. 2016-967 dated Oct. 18, 2016.
14-01-003 (2011)/ 12/18/14	Payment of FGI FTY 2011	Acting PM, SAS, Assistant PM, AO, Cashier and various NFA officials and employees as payees.	1,460,000	-do-
14-01-004 (2009)/ 12/18/14	Payment of FGI FTY 2009	Acting PM, SAS, Assistant PM, AO, Cashier and various NFA officials and employees as payees.	1,380,000	-do-
			5,540,000	
<b><u>SDO</u></b>				
2014-001 (2012)/ 05/15/14	Payment of FGI FTY 2012	PM, Assistant PM, SAS, and various NFA officials and employees as payees.	1,100,000	Petition for review submitted to CP on Feb. 12, 2015.
<b><u>Batanes PU</u></b>				
2015-01- 501(2010)/BPU/ 01/28/15	Payment of FGI	OIC, Acting Accountant and various NFA officials and employees as payees	200,000	With CGS-5 Decision No. 2016-004 dated April 28, 2016.
			36,685,000	
<b><u>CAR</u></b>				
<b><u>Benguet PO</u></b>				
BPO-14-01- (2013)/ 01/24/14	FGI Incentives (FGI) FTY 2012	PM, SAS, and various NFA officials and employees as payees.	480,000	With Petition for Review.
<b><u>Ifugao PO</u></b>				
2014-01-101/ 03/31/14	Payment of FGI	PM, SAS, and various NFA officials and employees as payees	300,000	ND was affirmed under CGS- 5 Decision No. 2015-018 dated Dec. 9, 2015.  With Petition for Review before the COA Commission Proper.
<b><u>Kalinga PO</u></b>				
2014-01-101/ 03/31/14	Payment of FGI	PM, SAS, and various NFA officials and employees as payees	545,000	ND was affirmed under CGS- 5 Decision No. 2015-001 dated 1/8/15.  With Petition for Review before the Commission Proper.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Mt. Province PO</u></b>				
2014-01-101	Payment of FGI	PM, SAS, and various NFA officials and employees as payees	240,000	ND was affirmed under CGS-5 Decision No. 2015-018 dated Dec. 09, 2015.  With Petition for Review before the Commission Proper.
			<b>1,565,000</b>	
<b><u>Region I RO</u></b>				
14-001-106(2012)/02/10/14	Payment of FGI FTY 2012	RM, SAS and various NFA officials and employees as payees	610,000	With Petition for Review before the Commission Proper..
15-002-106(2015)/07/31/15	Liquidated damages	Various NFA officials/employees and supplier.	6,024	Unsettled as of Dec. 31, 2016
15-003-106(2014)/08/10/15	Result of technical evaluation	Various NFA officials/employees and supplier.	69,857	Under Appeal.
16-001-106(2015)/1/07/16	No details provided	The New India Assurance Company LTD as payee/payor	536,005	Under Appeal.
16-002-106(2015)/1/07/16	No details provided	Asianlife and General Assurance Corp. as payee/payor	8,960	Under Appeal.
16-003-106(2015)/5/27/16	No details provided	H.G. Lopez as payee/payor	146,495	Unsettled as of Dec. 31, 2016
16-004-106(2015)/6/07/16	No details provided	Elvira R. Fieldad as payee/payor	2,100	Matured audit suspension under NS No. 15-002-106 dated Dec. 09, 2015.
			<b>1,379,441</b>	
<b><u>La Union PO</u></b>				
14-001-106(2012)/02/10/14	Payment of FGI	PM, SAS and various NFA officials and employees as payees	620,000	With COA CP Decision No. 2016-461 dated Dec. 28, 2016. A Motion for Reconsideration was subsequently filed.
No details provided	No details provided	No details provided	9,392	Unsettled as of 12/31/16
			<b>629,392</b>	
<b><u>Ilocos Norte PO</u></b>				
14-001-106 (2012)/02/10/14	Payment of FGI FTY 2012	PM, SAS and various NFA officials and employees as payees	720,000	With Petition for Review.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Ilocos Sur PO</u></b>				
14-001-106 (2012)/ 02/10/14	Payment of FGI FTY 2012	PM, SAS and various NFA officials and employees as payees	580,000	With Petition for Review.
2016-01/ 8/24/16	Erroneous computation of terminal leave	A.F. Asuncion, B.P. Peralta, E.T. Kal and M.J. Ablaza	6,334	Unsettled as of Dec. 31, 2016
2016-02 8/24/16	Erroneous computation of terminal leave	F.R. Tacata, B.P. Peralta, E.T. Kal and M.J. Ablaza	20,502	Unsettled as of Dec. 31, 2016
			606,836	
<b><u>Abra PO</u></b>				
14-001-106 (2012)/ 02/10/14	Payment of FGI FTY 2012	PM, SAS and various NFA officials and employees as payees	260,000	With Petition for Review.
<b><u>Western Pangasinan PO</u></b>				
14-01-(2013)/ 0/24/14	Payment of FGI FTY 2012	PM, SAS and various NFA officials and employees as payees	760,000	With Petition for Review.
<b><u>Eastern Pangasinan PO</u></b>				
14-01-(2013)/ 01/24/14	Payment of FGI FTY 2012	PM, SAS and various NFA officials and employees as payees	800,000	With Petition for Review.
			5,155,669	
<b><u>Region II</u></b>				
<b><u>RO</u></b>				
2014-01-101(12)/ 04/10/14	Payment of FGI FTY 2012	RM, Accountant, Budget Officer and various NFA officials and employees as payees.	643,000	With Petition for review; With partial settlement of P2,000 in CY 2016.
<b><u>Isabela PO</u></b>				
2014-01-101(12)/ 04/10/14	Payment of FGI FTY 2012	PM, SAS and various NFA officials and employees as payees.	1,583,500	With Petition for review; With partial settlement of P76,500 in CY 2016.
<b><u>Nueva Vizcaya PO</u></b>				
2014-01-101(12)/ 04/10/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	560,000	Under Appeal.
<b><u>Quirino PO</u></b>				
2014-01-101(12)/ 04/10/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	490,000	Under Appeal.
<b><u>Cagayan PO</u></b>				
2010-001(04)/ 01/18/10	No details provided	No details provided	108,791	With partial settlement of P24,975 in CY 2016.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2014-01-101(12)/ 04/1/14	Payment of FGI FTY 2012	PM, SAS, and various NFA officials and employees as payees	985,000	Under Appeal.
			1,093,791	
<b>Allacapan PO</b>				
2014-01-101(12)/ 04/1/14	Payment of FGI FTY 2012	PM, SAS, and various NFA officials and employees as payees	803,000	Under Appeal.
			5,173,291	
<b>Region III</b>				
<b>RO</b>				
2014-001(2012)/ 06/30/14	Payment of FGI FTY 2012	RM, Accountant, AO, Cashier and various NFA officials and employees as payees	780,153	Under Appeal.
<b>Nueva Ecija PO</b>				
2014-001(2012)/ 06/30/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees	2,180,000	Under Appeal.
<b>Aurora PO</b>				
2014-001(2012)/ 06/30/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	660,000	With Decision No. 2015-018 dated December 9, 2015.
<b>Bataan PO</b>				
ND 2014- 001(2012)/ 05/16/14	Payment of FGI FTY 2012	Various NFA officials and employees	540,000	Under Appeal.
<b>Zambales PO</b>				
2014-001(2012)/ 05/16/14	Payment of FGI FTY 2012	Various NFA officials and employees	640,000	Under Appeal.
<b>Tarlac PO</b>				
2014-001(2012)/ 05/16/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	1,040,000	With Decision No. CGS-5- 2015-018 denying the appeal. With Petition for Review before the COA CP.
2014-002(2012)/ 07/7/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	1,040,000	-do-
			2,080,000	
<b>Pampanga PO</b>				
2014-001(2012)/ 05/16/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	820,000	With Decision No. CGS-5- 2015-018, denying the appeal. With Petition for Review before the COA CP.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Bulacan PO</u></b>				
2014-001(2-12)/ 06/27/14	Payment of FGI FTY 2012	PM, SAS, AO and various NFA officials and employees as payees.	1,615,000	Under Appeal.
			<b>9,315,153</b>	
<b><u>Region IV-A</u></b>				
<b><u>RO</u></b>				
2010-01-(2008)/ 01/7/2010	Payment of FGI FTY 2008	RM, Regional Accountant and various NFA officials and employees as payees.	835,000	Under Appeal.
2010-02-(2009)/ 04/6/10	Payment of FGI FTY 2009	RM, Regional Accountant and various NFA officials and employees as payees.	700,000	Under Appeal.
2011-01-(2010)/ 10/12/11	Payment of FGI FTY 2010	RM, Regional Accountant and various NFA officials and employees as payees.	652,500	Under Appeal. With partial settlement of P127,500 under NSSDC No. 2016-01 dated 12/1/2016
2012-01-(2011)/ 05/7/12	Payment of FGI FTY 2011	RM, Regional Accountant and various NFA officials and employees as payees.	760,000	Under Appeal.
2013-01-(2012)/ 04/12/13	Payment of FGI FTY 2012	RM, Regional Accountant and various NFA officials and employees as payees.	705,000	Under Appeal.
2003-137-101 (02)	Unsettled balance and remaining ND issued prior to the implementation of the 2009 RRSA covered by COA Circular No. 2009- 006.	No details provided	8,610	Unsettled as of Dec. 31, 2016
			<b>3,661,110</b>	
<b><u>Batangas PO</u></b>				
2010-01-(2008)/ 01/7/10	Payment of FGI FTY 2008	PM, Assistant PM and various NFA officials and employees, as payees.	1,050,000	With NFD and COE but with Supreme Court Decision dated May 31, 2016 that NFA employees need not refund the FGI for the year 2009.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2010-03-(2009)/ 12/3/10	Payment of FGI 2009	FTY PM, SAS and various NFA officials and employees, as payees.	1,020,000	With NFD and COE but with Supreme Court Decision dated May 31, 2016 that NFA employees need not refund the FGI for the year 2009.
2013-02-(2012)/ 04/12/13	Payment of FGI 2012	FTY PM, SAS and various NFA officials and employees as payees.	1,080,000	Under Appeal.
2015-001(2010)/ 08/25/15	Payment of FGI 2010	FTY Various NFA officials and employees.	1,160,000	Under Appeal.
2015-002(2011)/ 08/25/15	Payment of FGI 2011	FTY Various NFA officials and employees.	1,160,000	Under Appeal.
			5,470,000	
<b><u>Laguna PO</u></b>				
2011-001-101 (2009)/ 07/24/11	Payment of FGI 2009	FTY PM, Assistant PM and various NFA officials and employees as payees.	680,000	With Petition for Review before the COA Commission Proper.
2011-005-101 (2010)/ 07/24/11	Payment of FGI 2010	FTY PM, Assistant PM and various NFA officials and employees as payees.	700,000	-do-.
2012-001-101 (2011)/ 07/24/11	Payment of FGI 2011	FTY PM, Assistant PM and various NFA officials and employees as payees.	740,000	Under Appeal.
2013-003-101 (2012)/ 08/23/13	Payment of FGI 2012	FTY Various NFA officials and employees	760,000	ND affirmed by the COA Commission Proper with pending request for reconsideration.
			2,880,000	
<b><u>Quezon PO</u></b>				
11-001(10)/ 08/2/11	Payment of FGI 2010	FTY Various NFA officials and employees	620,000	Appeal submitted to COA Region IV-A.
12-001(08)/ 07/17/12	Payment of FGI 2008	FTY Various NFA officials and employees	615,000	Petition for Review submitted to the COA CP.
12-002(09)/ 07/18/12	Payment of FGI 2009	FTY Various NFA officials and employees	580,000	-do-
12-003(11)/ 07/19/12	Payment of FGI 2011	FTY Various NFA officials and employees	640,000	-do-
2013-004(2012)/ 08/29/13	Payment of FGI 2012	FTY Various NFA officials and employees	640,000	Under Appeal.
			3,095,000	

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Infanta PO</u></b>				
2013-005(12)/ 08/29/13	Payment of FGI FTY 2012	Various NFA officials and employees	360,000	Under Appeal.
14-001-101(09)/ 09/10/14	Payment of FGI FTY 2009	Various NFA officials and employees	400,000	Under Appeal.
14-002-101(10)/ 09/10/14	Payment of FGI FTY 2010	Various NFA officials and employees	420,000	Under Appeal.
2005-001 (2008)/ 12/14/15	Payment of FGI FTY 2008	Various NFA officials and employees	425,000	Unsettled as of Dec. 31, 2016
2005-002 (2011)/ 12/15/15	Payment of FGI FTY 2011	Various NFA officials and employees	380,000	Unsettled as of Dec. 31, 2016
			1,985,000	
			<b>17,091,110</b>	
<b><u>Region IV-B</u></b>				
<b><u>Calapan Oriental Mindoro PO</u></b>				
2010-01 (2008)/ 01/7/10	Payment of FGI FTY 2008	Various NFA officials and employees	820,000	Under Appeal.
13-001-GOF(12)/ 10/25/13	Payment of FGI FTY 2012	Various NFA officials and employees	621,224	With COE; With partial settlement of P238,766 in CY 2016
15-001- GOF (09)/ 10/22/15	Payment of FGI FTY 2009	Various NFA officials and employees	695,000	Under Appeal.
15-002- GOF (10)/ 10/22/15	Payment of FGI FTY 2010	Various NFA officials and employees	840,000	Under Appeal.
15-001- GOF (11)/ 10/22/15	Payment of FGI FTY 2011	Various NFA officials and employees	840,000	Under Appeal.
			3,816,224	
<b><u>Marinduque PO</u></b>				
10-001-101-(08)/ 03/2/10	Payment of FGI FTY 2008	Various NFA officials and employees	330,000	Under Appeal.
10-002-101-(09)/ 03/2/10	Payment of FGI FTY 2009	Various NFA officials and employees	290,000	Under Appeal.
11-001-101-(10)/ 05/25/11	Payment of FGI FTY 2010	Various NFA officials and employees	280,000	Under Petition for Review.
13-001-(11)/ 01/9/13	Payment of FGI FTY 2011	Various NFA officials and employees	280,000	Under Appeal.
14-001-(12)/ 02/25/14	Payment of FGI FTY 2012	Various NFA officials and employees	315,000	Under Appeal.
			1,495,000	



ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Occidental Mindoro PO</u></b>				
2010-01-(2008)/ 01/7/10	Payment of FGI FTY 2008	Various NFA officials and employees	940,276	With COE dated 1/11/13; With Partial Settlement of P274,724 in CY 2016
11-001-GOF(10)/ 09/12/11	Payment of FGI FTY 2010	Various NFA officials and employees	941,264	With COE dated 1/11/13; With Partial Settlement of P298,736 in CY 2016
12-001-GOF(11)/ 05/29/12	Payment of FGI FTY 2011	Various NFA officials and employees	1,175,000	Unsettled as of Dec. 31, 2016
13-001-GOF(12)/ 03/22/13	Payment of FGI FTY 2012	Various NFA officials and employees	1,210,000	Under Appeal.
15-001-GOF (09)/ 10/19/15	Payment of FGI FTY 2009	Various NFA officials and employees	1,160,000	Unsettled as of Dec. 31, 2016
			5,426,540	
<b><u>Mamburao Provincial Office</u></b>				
2009-002-101/ 01/7/10	Payment of FGI FTY 2009	Various NFA officials and employees	740,000	Unsettled as of Dec. 31, 2016
11-001-GOF-(10)/ 10/5/11	Payment of FGI FTY 2010	Various NFA officials and employees	800,000	Under Appeal.
13-001-GOF-(12)/ 01/10/13	Payment of FGI FTY 2012	Various NFA officials and employees	745,000	Under Appeal.
15-001-GOF (08)/ 09/15/15	Payment of FGI FTY 2008	Various NFA officials and employees	775,000	Unsettled as of Dec. 31, 2016
15-002-GOF (11)/ 10/19/15	Payment of FGI FTY 2011	Various NFA officials and employees	780,000	Unsettled as of Dec. 31, 2016
			3,840,000	
<b><u>Palawan PO</u></b>				
09-001-101 (09)/ 12/28/09	Payment of FGI FTY 2008	RM, PM, SAS and various NFA officials and employees as payees	253,570	With COE dated 3/19/12. Partially settled.
2011-001 (2009)/ 09/6/11	Payment of FGI FTY 2009	PM, SAS and various NFA officials and employees as payees	178,688	With Motion to set aside COE implementation; Answer to Appeal submitted per Director's Order; With partial settlement of P139,277 in CY 2016
2011-002 (2010)/ 10/26/11	Payment of FGI FTY 2010	PM, SAS and various NFA officials and employees as payees	596,596	With COE. With partial settlement of P123,404 in CY 2016.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2012-001 (2011)/ 01/18/13	Payment of FGI FTY 2011	PM, SAS and various NFA officials and employees as payees	680,000	With Appeal dated 5/2/12. Partially settled.
			1,708,854	
<b><u>Romblon PO</u></b>				
09-02-101/ 10/23/09	Payment of FGI	Various NFA officials and employees	375,000	Under Appeal.
12-001 to 016- 101-(09)/ 05/11/09	Payment of FGI	Various NFA officials and employees	320,000	Under Appeal.
12-017-101-(10)/ 05/11/12	Payment of FGI	PM, Accountant and various NFA officials and employees as payees	420,000	Under Appeal.
13-001-GOF(12)/ 07/16/13	Payment of FGI	Various NFA officials and employees	420,000	Under Appeal.
			1,535,000	
			17,821,618	
<b><u>Region V</u></b>				
<b><u>RO</u></b>				
No details provided	No details provided	No details provided	605,000	
<b><u>Albay PO</u></b>				
12-002-GOF-(11)/ 11/26/12	Payment of FGI	PM and various NFA officials and employees as payees	900,000	Under Appeal.
12-002-GOF-(10)/ 11/26/12	Payment of FGI	PM and various NFA officials and employees as payees	880,000	Under Appeal.
14-001-GOF-(12) 9/05/14	Payment of FGI	PM and various NFA officials and employees as payees	930,000	Unsettled as of Dec. 31, 2016
			2,710,000	
<b><u>Catanduanes PO</u></b>				
14-001-101-(12)/ 05/23/14	Payment of FGI	PM and various NFA officials and employees as payees	440,000	With COA RO 5 Decision 2014-C-001 dtd. 1/4/2014.
<b><u>Sorsogon PO</u></b>				
2014-09-001/ 09/11/14	Payment of FGI	PM, SAS, Cashier and various NFA officials and employees as payees	630,000	Under Appeal.
No details provided	No details provided	Various employees	11,086	Payees are no longer connected with NFA.
			641,086	

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b>Camarines Sur PO</b>				
14-001-101-(12)/ 05/23/14	Payment of FGI	PM, Assistant PM, SAS, AO and various NFA officials and employees	946,545	Under Appeal
<b>Camarines Norte PO</b>				
14-001-101-(12)/ 05/23/14	Payment of FGI	PM and various NFA officials and employees	410,000	Unsettled as of Dec. 31, 2016
<b>Masbate PO</b>				
2012-05-001(11)/ 05/21/12	Payment of FGI	PM, SAS, AO and various NFA officials and employees as payees.	440,000	Under Appeal.
ND No.14-001-101-(12)/ 05/23/14	Payment of FGI	PM, SAS, AO and various NFA officials and employees as payees	480,000	Under Appeal.
			920,000	
			<b>6,672,631</b>	
<b>Region VI RO</b>				
13-001-GOF (12)/ 01/4/13	Housing allowance	No details provided.	3,000	Under Appeal.
13-002-GOF (11)/ 01/4/13	Payment of FGI FTY 2011	No details provided.	685,000	Adjusted from P700,000; With COA RO VI Decision No. 2016-053 dated August 17, 2016 and received by Appellants on August 26, 2016.
13-003-GOF (10)/ 01/4/13	Payment of FGI FTY 2010	No details provided.	690,000	With COA RO VI Decision No. 2016-053 dated August 17, 2016 and received by Appellants on August 26, 2016.
12-004-GOF (12)/ 11/22/12	Housing allowance	No details provided.	6,000	Under Appeal.
14-001-GOF (2012)/ 09/9/14	Payment of FGI FTY 2012	No details provided.	625,000	With CGS-5 Decision No. 2015-018 dated Dec. 9, 2015. Decision received by the Appellants on 1/28/16.
			2,009,000	
<b>Iloilo PO</b>				
14-001-GOF- (2011)/ 09/9/14	Payment of FGI FTY 2011	PM, SAS, and various NFA officials and employees as payees.	1,460,000	With CGS-5 Decision No. 2015-018 dated Dec. 9, 2015. Decision received by the Appellants on 1/21/16.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
14-002-GOF-(2012)/09/09/14	Payment of FGI FTY 2011	PM, SAS, and various NFA officials and employees as payees	1,440,000	With CGS-5 Decision No. 2015-018 dated Dec. 9, 2015. Decision received by the Appellants on 1/21/16.
			2,900,000	
<b>Capiz PO</b>				
14-001-GOF-(2010)/09/9/14	Payment of FGI FTY 2010	PM, SAS, and various NFA officials and employees as payees	880,000	With CGS Decision No. 2015-018 dated Dec. 9, 2015. Decision received by the Appellants on 1/29/16.
14-002-GOF-(2011)/09/9/14	Payment of FGI FTY 2011	PM, SAS, and various NFA officials and employees as payees	920,000	-do-
14-003-GOF-(2012)/09/9/14	Payment of FGI FTY 2012	PM, SAS, and various NFA officials and employees as payees	880,000	-do-
			2,680,000	
<b>Aklan PO</b>				
2012-001-GOF(10)/06/26/12	Payment of FGI FTY 2010	PM, SAS, and various NFA officials and employees as payees	505,000	Under Appeal.
2012-002-GOF(11)/06/26/12	Payment of FGI FTY 2011	PM, SAS, and various NFA officials and employees as payees	520,000	Under Appeal.
2014-001-GOF-(12)/09/16/14	Payment of FGI FTY 2012	PM, SAS, and various NFA officials and employees as payees	520,000	Under Appeal.
			1,545,000	
<b>Antique PO</b>				
ND No. 11-001-101-(09)/06/30/11	Payment of FGI FTY 2009	PM, SAS, and various NFA officials and employees as payees	580,000	Under Appeal.
ND No. 11-002-101-(10)/06/30/11	Payment of FGI FTY 2010	PM, SAS, and various NFA officials and employees as payees	670,000	Under Appeal.
ND No. 2012-001-101-(11)/12/13/12	Payment of FGI FTY 2011	PM, SAS, and various NFA officials and employees as payees	700,000	Under Appeal.
ND No. 2012-002-101-(12)/01/7/13	Payment of FGI FTY 2011	PM, SAS, and various NFA officials and employees as payees.	20,000	Under Appeal.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
ND No. 2014-001- GOF-(12)/ 09/16/14	Payment of FGI FTY 2012	PM, SAS, and various NFA officials and employees as payees	720,000	Under Appeal.
			2,690,000	
<b>Negros Occidental PO</b>				
ND No. 2014-001 (2010)/ 06/30/14	Payment of FGI FTY 2010	Assistant PM, SAS, and various NFA officials and employees as payees	910,000	With CGS Decision No. 2015- 018 dated Dec. 9, 2015. Decision received by the Appellants on 3/17/16.
ND No. 2014-001 (2011)/ 06/30/14	Payment of FGI FTY 2011	Assistant PM, SAS, and various NFA officials and employees as payees	940,000	-do-
ND No. 2014-001 (2012)/ 06/30/14	Payment of FGI FTY 2012	Assistant PM, SAS, and various NFA officials and employees as payees	920,000	-do-
			2,770,000	
			<b>14,594,000</b>	
<b>Region VII</b>				
<b><u>RO</u></b>				
2014-001(12)/ 06/25/14	Payment of FGI	RM, Accountant, AO and various NFA officials and employees as payees.	660,000	Under Appeal.
<b><u>Cebu PO</u></b>				
2014-001(12)/ 06/25/14	Payment of FGI	PM, SAS, AO and various officials and employees as payees.	1,530,000	Under Appeal.
<b><u>Siquijor PO</u></b>				
2014-001(12)/ 06/25/14	Payment of FGI	PM, SAS, and various officials and employees as payees.	320,000	Under Appeal.
<b><u>Negros Oriental PO</u></b>				
2014-001(12)/ 06/25/14	Payment of FGI	PM, SAS, and various officials and employees as payees.	540,000	Under Appeal.
<b><u>Bohol PO</u></b>				
2014-001(12)/ 06/25/14	Payment of FGI	PM, SAS, and various officials and employees as payees	680,000	Under Appeal.
			<b>3,730,000</b>	
<b>Region VIII</b>				
<b><u>RO</u></b>				
2012-001- GOF(12)/ 11/14/12	No details provided.	No details provided.	240	Unsettled as of Dec. 31, 2016

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2012-002-GOF(12)/11/14/12	No details provided.	No details provided.	240	Unsettled as of Dec. 31, 2016
2012-002-GOF(11)/06/5/12	Payment of FGI	RM and various NFA officials and employees.	665,000	Under Appeal.
2012-001-GOF(10)/05/8/12	Payment of FGI	RM and various NFA officials and employees.	610,000	Under Appeal.
2013-001-GOF(2012)/08/29/13	Payment of FGI	RM and various NFA officials and employees	680,000	Under Appeal.
2015-10-01(15)/10/13/15	No details provided	No details provided	418	Justification submitted not considered by the Auditor.
2015-010-02(15)/10/19/15	No details provided	No details provided	800	Unsettled as of Dec. 31, 2016
2016-08-007/8/31/2016	No details provided	Richmark Construction as payee	253,401	Unsettled as of Dec. 31, 2016
			2,210,099	
<b>Eastern Samar PO</b>				
2012-001(11)/03/5/12	Payment of FGI	PM and various NFA officials and employees as payees	470,501	Under Appeal.
2013-001-GOF(2012)/08/29/13	Payment of FGI	PM and various NFA officials and employees as payees	530,000	Under Appeal.
			1,000,501	
<b>Northern Leyte PO</b>				
2012-001-GOF(10)/05/9/12	Payment of FGI	PM and various NFA officials and employees as payees	920,000	Under Appeal.
2012-002-GOF(11)/05/11/12	Payment of FGI	PM and various NFA officials and employees as payees	960,000	Under Appeal.
2013-001-GOF(2012)/08/29/13	Payment of FGI	PM and various NFA officials and employees as payees	995,000	Under Appeal.
2015-02-GOF(15)/10/21/15	No details provided.	No details provided.	100	Unsettled as of Dec. 31, 2016
2015-01-GOF(15)/10/21/15	No details provided.	No details provided.	518	Unsettled as of Dec. 31, 2016

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2016-09-03/ 9/26/2016	No details provided	Jobet Atienza as payee	480	Unsettled as of Dec. 31, 2016
			2,876,098	
<b><u>Southern Leyte PO</u></b>				
2012-005 to 0032 (11)/ 8/17/12	Payment of FGI	PM and various NFA officials and employees as payees	535,000	Under Appeal.
2013-001- GOF(2012)/ 8/28/13	Payment of FGI	PM and various NFA officials and employees as payees	560,000	Under Appeal.
2016-09-001(2016)/ 9/05/16	No details provided	No details provided	1,680	Unsettled as of Dec. 31, 2016
2016-09-002(2016)/ 9/05/16	No details provided	No details provided	3,520	Unsettled as of Dec. 31, 2016
2016-09-003(2016)/ 9/05/16	No details provided	No details provided	2,560	Unsettled as of Dec. 31, 2016
2016-09-004(2016)/ 9/05/2016	No details provided	No details provided	3,640	Unsettled as of Dec. 31, 2016
2016-09-005/ 9/07/16	No details provided	Schubert Basco, as payee	720	Unsettled as of Dec. 31, 2016
2016-09-006(2016)/ 9/07/16	No details provided	Rolito Plaza, as payee	3,640	Unsettled as of Dec. 31, 2016
2016-09-0072016)/ 9/08/16	No details provided	Lorna S. Ordiz, as payee	800	Unsettled as of Dec. 31, 2016
2016-09-008(2016)/ 9/08/16	No details provided	Mariestela Sedan, as payee	320	Unsettled as of Dec. 31, 2016
2016-09-009/ 9/30/16	No details provided	Mark Hatayna, as payee	160	Unsettled as of Dec. 31, 2016
2016-09-010/ 9/30/16	No details provided	Charon Paloma, as payee	160	Unsettled as of Dec. 31, 2016
2016-10-011/ 10/04/16	No details provided	Lorna S. Ordiz, as payee	400	Unsettled as of Dec. 31, 2016
2016-10-012/ 10/04/16	No details provided	Lorna S. Ordiz, as payee	640	Unsettled as of Dec. 31, 2016
2016-10-013/ 10/18/16	No details provided	Cresente Maganda, as payee	960	Unsettled as of Dec. 31, 2016
2016-10-014/ 10/19/16	No details provided	Charon Paloma, as payee	480	Unsettled as of Dec. 31, 2016

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2016-10-015/ 10/19/16	No details provided	Asuncion Gaviola, as payee	800	Unsettled as of Dec. 31, 2016
2016-10-016/ 10/25/16	No details provided	Lorna S. Ortiz, as payee	480	Unsettled as of Dec. 31, 2016
			1,115,960	
<b><u>Northern Samar PO</u></b>				
2012-001-101(10)/ 02/01/12	Payment of FGI	PM and various NFA officials and employees as payees	600,000	Under Appeal.
2012-002-101(11)/ 2/6/12	Payment of FGI	PM and various NFA officials and employees as payees	675,000	Under Appeal
2013-001- GOF(2012)/ 08/29/13	Payment of FGI	PM and various NFA officials and employees as payees	680,000	Under Appeal.
ND No.14-001- GOF(2012)/ 12/1/14	No details	No details	8,547	Under Appeal.
ND No.14-001- GOF-(2012)/ 12/1/14	No details	No details	6,200	Under Appeal.
2015-11-01(2015)/ 11/16/15	No details	No details	3,180	Unsettled as of Dec. 31, 2016
			1,972,927	
<b><u>Biliran PO</u></b>				
2012-001- COB(12)/ 05/31/12	Payment of FGI	PM and various NFA officials and employees as payees	405,000	Under Appeal.
2012-002- COB(11)/ 05/31/12	Payment of FGI	PM and various NFA officials and employees as payees	455,000	Under Appeal.
2013-001- GOF(2012)/ 08/29/13	Payment of FGI	PM and various NFA officials and employees as payees	440,000	Under Appeal.
2016-05-006/ 5/18/2016	No details	Renato Crisostomo as payee	800	Under Appeal.
2016-05-007/ 5/19/2016	No details	Renato Crisostomo as payee	160	Under Appeal.
2016-05-008/ 5/19/2016	No details	Geralyn Blancaflor	240	Under Appeal.



ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
2016-05-010/ 5/25/2016	No details	Geralyn Blancaflor	1,280	Under Appeal.
2016-05-012/ 5/25/2016	No details	Geralyn Blancaflor	640	Under Appeal.
			1,303,120	
<b><u>Western Samar PO</u></b>				
2012-001(11)/ 04/26/12	Payment of FGI	PM and various NFA officials and employees as payees	640,000	Under Appeal.
2013-001- GOF(2012)/ 08/28/13	Payment of FGI	PM and various NFA officials and employees as payees	620,000	Under Appeal.
			1,260,000	
			11,738,705	
<b><u>Region IX RO</u></b>				
NFA-RO-11-002- GOF(11)/ 09/1/11	No details provided.	Asialife & Gen. Assurance Corp. as payee	527,959	Petition for Review was filed with the Commission Proper. With partial settlement of P5,983 in CY 2016 thru salary deduction.
NFA-RO-11-003- GOF (10)/ 09/13/11	Payment of FGI	Assistant RM, SAS and various NFA officials and employees as payees.	555,264	With Petition for Certiorari.  With partial settlement of P44,736 in CY 2016 thru claims deduction.
NFA-RO-12- 001(11)/ 05/11/12	Payment of FGI	RM, Accountant and various NFA officials and employees as payees.	287,304	With Petition for Certiorari.  With partial settlement of P233,702 in CY 2016 thru salary/claims deduction.
NFA-RO-14- 001(12)-RO/ 12/2/14	Payment of FGI	RM, Accountant and various NFA officials and employees as payees	484,020	With NFD and COE; With Petition for Certiorari; and With partial settlement of P65,980 in CY 2016 thru deduction from claims.
			1,854,547	
<b><u>Zamboanga City PO</u></b>				
NFA-ZCPO-11- 001-GOF(10)/ 10/3/11	Payment of FGI	PM, Assistant PM, SAS and various NFA officials and employees as payees.	335,200	NFD and COE; With Petition for Certiorari; With partial settlement of P121,750 in CY 2016 thru salary/claims deductions.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
NFA-ZCPO-12-001(11)/04/30/12	Payment of FGI	PM, Assistant PM, SAS and various NFA officials and employees as payees.	541,216	No appeal was made. NFD and COE already issued. With partial settlement thru salary/claims deductions.
NFA-ZCPO-14-001(12)-PO/12/2/14	Payment of FGI	PM, Assistant PM, SAS and various NFA officials and employees as payees.	580,000	No appeal was made. NFD and COE already issued. With partial settlement thru one-time refund.
			1,456,416	
<b><u>Ipil PO</u></b>				
11-004-101(10)/04/19/11	Traveling allowance	SAS and PRLO	160	PRLO retired. With Notice of Finality of Decision dated 3/20/15.
11-001-101(10)/02/4/11	Payment of FGI	PM, SAS, Cashier, and various NFA officials and employees.	480,000	With Notice of Finality of Decision dated 3/20/15.
11-002-101(10)/02/11/11	CNAI	Various NFA officials and employees.	284,586	With Notice of Finality of Decision dated 3/20/15. Salary deduction started March 2015.
15-001-101(13)/07/7/15	Payment of FGI	Various NFA officials and employees.	540,000	Unsettled as of Dec. 31, 2016
15-002-101(13)/07/7/15	Payment of FGI	Various NFA officials and employees.	520,000	Unsettled as of Dec. 31, 2016
			1,824,746	
<b><u>Zamboanga del Norte PO</u></b>				
12-003-GOE 0912(09)/12/29/11	Payment of FGI	Various NFA officials and employees	625,000	With COA RO IX Decision No. 2012-34 dated 07/9/2012 denying the appeal of the Provincial Manager with dispositive portion stating, "This decision is not final and is subject to automatic review by Commission Proper pursuant to Section 7, Rule V of 2009 RRPC of the Commission on Audit."
12-001-GOE 1012(10)/12/21/11	Payment of FGI	Various NFA officials and employees	580,000	-do-

<b>ND No./Date</b>	<b>Nature/Particulars</b>	<b>Persons Liable</b>	<b>Amount</b>	<b>Status</b>
12-002-GOE 1112(11)/ 12/21/11	Payment of FGI	Various NFA officials and employees	640,000	With COA RO IX Decision No. 2012-34 dated 07/9/2012 denying the appeal of the Provincial Manager with dispositive portion stating "This decision is not final and is subject to automatic review by Commission Proper pursuant to Section 7, Rule V of 2009 RRPC of the Commission on Audit."
12-005 GOE 1005(12)/ 05/15/12	CNAI	Various NFA officials and employees	13,000	NFDs were already issued and received by the persons liable on Jan. 6, 2015.
12-004 GOE 1005(10)/ 05/28/12	CNAI	Various NFA officials and employees	15,000	Issued NFDs which was received by persons liable either by personal service or through registered mail.
12-004 GOE 1012(10)/ 09/22/12	Cash advance for travel	Various NFA officials and employees	13,000	Issued NFDs which was received by persons liable either by personal service or through registered mail.
13-001 GOE 1212(12)/ 01/4/13	Payment of FGI	Various NFA officials and employees	60,000	Issued NFDs which was received by persons liable either by personal service or through registered mail.
13-002 GOE 1212(12)/ 01/11/13	Payment of FGI	No details	570,000	Issued NFDs which was received by persons liable either by personal service or through registered mail.
			2,516,000	
<b><u>Zamboanga del Sur PO</u></b>				
2012-01-(2010- 2011)/ 12/3/12	Payment of FGI	PM, SAS and various NFA officials and employees as payees.	1,720,000	With Notice of Finality of Decision dated Sept. 29, 2015.
15-001-101(12)/ 09/29/15	Payment of FGI	Various NFA officials and employees as payees.	620,000	With appeal or motion for reconsideration.
15-002-101(12)/ 09/29/15	Payment of FGI	Various NFA officials and employees as payees.	240,000	Unsettled as of Dec. 31, 2016
			2,580,000	
			<b>10,231,709</b>	
<b><u>Region X</u></b>				
<b><u>RO</u></b>				
No details provided	No details provided.	Various payees.	2,143,831	Waiting for final decision.

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Misamis Oriental PO</u></b>				
No details provided	No details provided.	Various payees.	1,620,000	Waiting for final decision.
<b><u>Camiguin PO</u></b>				
No details provided	No details provided.	Various payees.	549,900	Waiting for final decision.
<b><u>Bukidnon PO</u></b>				
No details provided	No details provided.	Various payees.	1,235,000	Waiting for final decision.
<b><u>Lanao del Norte PO</u></b>				
No details provided	No details provided.	Various payees.	840,552	Waiting for final decision.
<b><u>Misamis Occidental</u></b>				
No details provided	No details provided.	Various payees.	1,168,094	Waiting for final decision.
No details provided	No details provided	No details provided	21,716	
			1,189,810	
			<b>7,579,093</b>	
<b><u>Region XI</u></b>				
<b><u>RO</u></b>				
ND No. 2014-001 (2012)/ 09/10/14	Payment of FGI	RM, Accountant, Budget Officer and various NFA officials & employees as payees	580,000	Under Appeal.
<b><u>Davao City PO</u></b>				
Davao 2014- 001(2012)/ 09/11/14	Payment of FGI	PM, Accountant and various NFA officials & employees as payees.	780,000	Under Appeal.
<b><u>Davao del Sur</u></b>				
<b><u>PO</u></b>				
DDS 2014- 001(2012)/ 09/11/14	Payment of FGI	PM, Accountant, AO and various NFA officials & employees as payees.	700,000	Under Appeal.
<b><u>Davao del Norte PO</u></b>				
ND No. 2014-001 (2012)/ 10/13/14	Payment of FGI	Various NFA officials and employees	680,000	Under Appeal.
<b><u>COMVAL PO</u></b>				
ND No. 2014-001 (2012)/ 10/13/14	Payment of FGI	Various NFA officials and employees	340,000	Under Appeal.
<b><u>Davao Oriental PO</u></b>				
2014-001(2012)/ 09/10/14	No details	Various NFA officials and employees	580,000	Under Appeal.
<b><u>General Santos PO</u></b>				
ND 2014-001 (2012)/ 09/1/14	Payment of FGI	Assistant RM, SAS and various NFA officials & employees	860,000	With Partial Settlement of P60,000 in CY 2015.
			<b>4,520,000</b>	

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b>Region XII</b>				
<b><u>RO</u></b>				
2014-001-501(2012)/04/2/14	Payment of FGI	Assistant RM, Accountant and various NFA officials & employees as payees	660,000	Under Appeal.
<b><u>Marbel PO</u></b>				
2014-004-501(2012)/04/2/14	Payment of FGI	Assistant RM, PM and various NFA officials & employees as payees	840,000	Under Appeal.
<b><u>Sultan Kudarat PO</u></b>				
2014-002-501(2012)/4/3/14	Payment of FGI	Assistant RM, PM and various NFA officials & employees as payees	1,440,000	Unsettled as of Dec. 31, 2016
<b><u>North Cotabato PO</u></b>				
2014-003-501(2012)/4/4/14	Payment of FGI	Assistant RM, PM and various NFA officials & employees as payees	960,000	Unsettled as of Dec. 31, 2016
			<b>3,900,000</b>	
<b><u>CARAGA</u></b>				
<b><u>RO</u></b>				
08-0013-CAR/10/1/14	No details	No details	133,141	With COE dated Sept. 21, 2014. With Partial Settlement of P24,000 in CY 2016.
2014-01(12)/10/1/14	Payment of FGI	RM, Acting Assistant RM, Accountant, and various NFA officials and employees	493,000	Under Appeal.
			626,141	
<b><u>Agusan del Norte</u></b>				
2014-01 (12)/02/6/14	Payment of FGI	PM, SAS and various NFA officials and employees as payees	480,000	Under Appeal.
<b><u>Agusan del Sur</u></b>				
2011-001/06/29/11	Payment of FGI	No details	166,050	With CP Decision. With Partial Settlement of P518,950 in CY 2016
2012-001/04/16/12	Payment of FGI	PM, SAS and various NFA officials and employees as payees.	740,000	Under Appeal.
2014-01(12)/02/6/14	Payment of FGI	PM, SAS and various NFA officials and employees as payees	720,000	Under Appeal.
			<b>1,626,050</b>	

ND No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Surigao del Norte</u></b>				
10-01-101-(10)/09/9/10	No details	No details	600,000	Motion for Reconsideration on CP Decision No. 2014-219 denied on June 11, 2015.
11-001-GOF(10)/06/13/11	No details	No details	640,000	Under Appeal.
12-001-GOF-(11)/06/27/12	No details	No details	640,000	Under Appeal.
2014-01(12)/02/6/14	Payment of FGI	PM, SAS and various officials and employees.	560,000	Under Appeal.
			2,440,000	
<b><u>Surigao del Sur</u></b>				
11-001-11102GOF(09)(10)/03/30/11	Payment of FGI	Various NFA officials and employees	1,050,000	CP en banc issued Resolution dismissing the Motion for Reconsideration. With NFD.
12-001-11102GOF(11)/04/10/12	Payment of FGI	PM, Acting SAS, AO and various officials and employees as payees.	532,500	With NFD. With Partial Settlement of P27,500 in CY 2016
2014-01(12)/02/6/14	Payment of FGI	PM, Acting SAS, AO and various officials and employees as payees.	460,000	Under Appeal.
			2,042,500	
			7,214,691	
<b><u>ARMM</u></b>				
2014-01(2012)/12/2/14	No details provided	Various employees NFA	690,800	Unsettled as of Dec. 31, 2016
2014-01-(2012)/12/2/14	No details provided	Various employees NFA	984,650	Unsettled as of Dec. 31, 2016
16-001-1019/30/16	No details provided	Abdul Hakim B. Balindong, et al.	1,200	Unsettled as of Dec. 31, 2016
			1,676,650	
			P 178,749,767	

### III. Notices of Charge (NCs)

NC No./Date	Nature/Particulars	Persons Liable	Amount	Status
<b><u>Region I</u></b>				
<b><u>La Union PO</u></b>				
15-009-MSC (2014)/02/12/15	Undercollection of application/license fee	Various officials/employees and payer Retailer NFA	3,740	Unsettled as of Dec. 31, 2016

NC No./Date	Nature/Particulars	Persons Liable	Amount	Status
15-011-MSC (2014)/ 02/12/15	Undercollection of application/license Fee	Various officials/employees and payer Retailer	880	Unsettled as of Dec. 31, 2016
15-012-MSC (2014)/ 02/12/15	Undercollection of application/license Fee	Various officials/employees and payer Retailer	880	Unsettled as of Dec. 31, 2016
15-013-MSC (2014)/ 02/12/15	Undercollection of application/license Fee	Various officials/employees and payer Retailer	880	Unsettled as of Dec. 31, 2016
15-022-MSC (2014)/ 02/12/15	Undercollection of application/license Fee	Various officials/employees and payer Retailer	990	Unsettled as of Dec. 31, 2016
15-031-MSC (2014)/ 03/9/15	Undercollection of application/license Fee	Various officials/employees and payer Retailer	110	Unsettled as of Dec. 31, 2016
15-032-MSC (2014)/ 10/26/15	Undercollection of application/license Fee	Various officials/employees and payer Retailer	440	Unsettled as of Dec. 31, 2016
15-033-RCA (2015)/ 12/4/15	Undercollection of rice sales	Various officials/employees and payer Retailer	147,100	Unsettled as of Dec. 31, 2016
15-034-RCA (2015)/ 12/4/15	Undercollection of rice sales	Various officials/employees and payer Retailer	191,200	Unsettled as of Dec. 31, 2016
15-035-RCA (2015)/ 12/4/15	Undercollection of rice sales	Various officials/employees and payer Retailer	80,300	Unsettled as of Dec. 31, 2016
15-036-RCA (2015)/ 12/4/15	Undercollection of rice sales	Various officials/employees and payer Retailer	29,800	Unsettled as of Dec. 31, 2016
15-037-RCA (2015)/ 12/4/15	Undercollection of rice sales	Various officials/employees and payer Retailer	33,800	Unsettled as of Dec. 31, 2016
15-038-RCA (2015)/ 12/4/15	Undercollection of rice sales	Various officials/employees and payer Retailer	100,500	Unsettled as of Dec. 31, 2016
			590,620	
<b><u>Ilocos Norte PO</u></b>				
2015-01 (2014)/ 2/9/15	FAIR Program	Beverly P. Peralta, et al.	9,100	Under Appeal

NC No./Date	Nature/Particulars	Persons Liable	Amount	Status
2015-02 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	8,900	-do-
2015-03 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	2,400	-do-
2015-04 (2014)/ 2/9/15	-do-	Imelda R. Valdez, et al.	41,100	-do-
2015-05 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	7,800	-do-
2015-06 (2014)/ 2/9/15	FAIR Program	Beverly P. Peralta, et al.	12,300	-do-
2015-07 (2014)/ 2/9/15	-do-	Henry H. Tristeza, et al.	56,900	-do-
2015-08 (2014)/ 2/9/15	-do-	Veralew DG. De Vera, et al	2,500	-do-
2015-09 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	20,800	-do-
2015-10 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	18,600	-do-
2015-11 (2014)/ 2/9/15	-do-	Imelda R. Valdez, et al.	8,900	-do-
2015-12 (2014)/ 2/9/15	-do-	Roshel G. Ilacas, et al.	5,000	-do-
2015-13 (2014)/ 2/9/15	-do-	Henry H. Tristeza, et al.	400	-do-
2015-14 (2014)/ 2/9/15	-do-	Veralew DG. De Vera, et al	8,000	-do-
2015-15 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	20,000	-do-
2015-16 (2014) 2/9/15	-do	Beverly P. Peralta, et al.	28,000	-do
2015-17 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	1,200	-do-
2015-18 (2014)/ 2/9/15	-do	Veralew DG. De Vera, et al	200	-do
2015-19 (2014)/ 2/9/15	-do-	Veralew DG. De Vera, et al	20,000	-do-
2015-20 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	21,200	-do-
2015-21 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	8,600	-do-



NC No./Date	Nature/Particulars	Persons Liable	Amount	Status
2015-22 (2014)/ 2/9/15	-do-	Veralew DG. De Vera, et al	900	-do-
2015-23 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	4,400	-do-
2015-24 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	14,400	-do-
2015-25 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	3,400	-do-
2015-26 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	4,000	-do-
2015-27 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	6,300	-do-
2015-28 (2014)/ 2/9/15	-do-	Beverly P. Peralta, et al.	14,300	-do-
2015-29 (2014)/ 2/9/15	-do-	Veralew DG. De Vera, et al	8,000	-do-
			357,600	
			<b>948,220</b>	
<b>Region III</b>				
<b><u>Bulacan PO</u></b>				
09-12-02/ 12/14/09	Unremitted collections on registration and license fees.	Former Registration and Licensing Officer	877,804	With Admin Case No. 10-02- 002.
09-12-02(A)/ 12/22/09	Unremitted collections on registration and license fees.	Former Registration and Licensing Officer	864,843	With Admin Case No. 10-02- 002.
			<b>1,742,647</b>	
<b>Region IV-A</b>				
<b><u>Batangas PO</u></b>				
No details	Uncollected charges	storage Tower Corporation	Feeds <b>27,055</b>	Partially settled. Demand letters were sent to the other person/s liable.
			<b>2,717,922</b>	