

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

**Annual Audit Report**  
on the

**Department of Agriculture**

**For the Year Ended December 31, 2006**

## EXECUTIVE SUMMARY

### *A. Introduction*

The Department of Agriculture (DA) is the main agency of the Philippine Government responsible for the promotion of agricultural development. Reorganized under Executive Order No. 116 dated January 30, 1987, the DA is mandated to provide the policy framework and help direct public investments. In partnership with Local government Units (LGUs), it provides the support services necessary to make agriculture and agri-based enterprises profitable, and helps spread the benefits of development to the poor, particularly those in the rural areas.

The DA is composed of the Office of the Secretary (OSEC) headed by Secretary Arthur C. Yap, Offices of four Undersecretaries and four Assistant Secretaries for Operations, Finance and Administration, Fisheries and Livestock, and Policy, Planning, Research and Regulation (**Annexes 1, 2 and 2a**). As of December 31, 2006 the DA, including its attached agencies, bureaus and regional field units had a personnel complement of 12,591 (**Annex 3**)

### *B. Financial Highlights*

The DA's consolidated financial condition and funds received and expended for calendar years 2005 and 2006 follow:

Account	(In thousand pesos)		
	CY 2006	CY 2005	Increase(Decrease)
<b>Financial Condition</b>			
Assets	₱73,219,210	₱67,697,997	5,521,213
Liabilities	4,836,226	5,335,008	(498,782)
Government Equity	68,382,984	62,362,988	6,019,996
Sources and Application of Funds			
Allotments Received	16,982,155	12,263,226	4,718,929
Obligations Incurred	15,606,976	9,736,226	5,870,750

### *C. Operational Highlights*

The DA implements three banner programs under the Agriculture and Fisheries Modernization Act (AFMA), such as the Ginintuang Masaganang Ani (GMA) – Rice and Corn, GMA-High Value Commercial Crops and GMA-Livestock. For Calendar Year 2006, the DA reported to have accomplished most of its targets. The department major activities are shown in detail in **Annex 4**.

#### ***D. Scope of Audit***

Financial and compliance audit was conducted on the transactions and operations for Calendar Year 2006, including some funds transferred in 2005 but which were used for project implementation in 2006. Audit included analysis of account balances in the financial statements, review of transactions using the Modified Simplified Sampling Scheme and test of compliance with applicable financial rules and regulations.

Value for money audit was conducted on the implementation of the Livelihood Programs and GMA Rice Program by the Regional Field Units and on the other projects implemented by DA – OSEC, ATI and BAS.

#### ***E. Auditor's Report***

The Auditor rendered an adverse opinion on fairness of the Financial Report rendered by DA for CY 2006 because of various significant accounting errors and deficiencies noted in audit, some of which are herein summarized. Details are discussed in Part II of the report.

#### ***F. Observations and Recommendations***

As a result of financial audit, the following errors were noted:

<b>Errors</b>	<b>Account Affected</b>	<b>Over (Under) Statement (in million pesos)</b>
Overstatement of Cash-Disbursing Officer due to unliquidated but expended advances for payroll and operating expenses	Cash - Disbursing Officers	156.123
Net Overstatement of cash accounts due to unrecorded transactions and other errors	Various Accounts	20.495
Long outstanding but expended advances for travels and other receivables	Due from Officers and Employees	133.935
Unliquidated fund transfer expended for project implementation	Various Due from Accounts	5,035.352
Understatement due to error in recording	Various Receivable Accounts	(36.189)
Net understatement due to error in recording transactions	Various Inventory Accounts	(129.291)
Understatement due to error in recording	Various PPE Accounts	(311.947)
Inclusion of Unserviceable/transferred equipment	Equipment Accounts/Other Assets	26.403 (26.403)
<b><i>Net Effect to Total Assets</i></b>		<b><i>(4,868.48)</i></b>
<b><i>Percent to Total Assets</i></b>		<b><i>6.88%</i></b>
Dormant Payables aged 2-10 years	Payable Accounts	1,265.177
Net understatement of payable accounts due to accounting errors	Payable Accounts	(49.277)
Overstatement of Equity accounts due to long outstanding advances for project	Equity Account	5,035.352

implementation		
<b>Net Effect to Total Liabilities &amp; Equity</b>		<b>6,251.25</b>
<b>Percent to Total Liabilities &amp; Equity</b>		<b>8.54%</b>
Understatement of expense due to outstanding but expended advances for travels	Traveling Expense	(133.935)
Net understatement of various expense due to various errors	Various Expense Accounts	(40.966)
<b>Net Effect to Expenses</b>		<b>(174.90)</b>
<b>Percent to Total Expenses</b>		<b>2.97%</b>

Other accounting deficiencies found are as follows:

<b>Deficiency</b>	<b>Account Affected</b>	<b>Amount</b>
Unreconciled difference between books and bank balances	Cash Accounts	117.942
Dormant Cash Accounts	Cash Accounts	103.052
Undocumented Loans Receivables	Loan Receivables-LGUs Loans Receivables - Others	769.804
Unreconciled Balance between books and the available inventory reports	Various Inventory Accounts	1,134.188
Unreconciled balances between books and the inventory reports	Various PPE Accounts	3,571.753
Misclassification between PPE Accounts	Various PPE Accounts	1.871
Misclassification between Payable Accounts	Accounts Payable Due to Officers & Employees	2.820 (2.820)
Undocumented or with no Subsidiary Ledger	Accounts Payable Due to Officers & Employees Due to Other NGAs Other Payables	32.136 0.336 0.730 0.591

Other significant compliance issues are as follows:

1. Management of Priority Development Assistance Fund (PDAF) covered by various Special Allotment Release Orders (SAROs) totaling ₱691.02 million is wanting of control that defines accountability and responsibility from the release of funds by the DA OSEC to the receipt by the RFUs. Notices of Transfer of Allocation (NTAs) totaling ₱146.15 million for PDAF were received late resulting in unexpended balance of ₱40.76 million at the end of the year. There were NTAs for PDAF and regular funds totaling ₱1.32 billion released without the required Advice of Sub-Allotment (ASA) and therefore treated as common fund by the recipient bureaus/units. Releases were made to RFU XII over and above their allotment limit affecting the cash position of the RFU and the department as the case may be (**Observation No. 3**).
2. Priority Development Assistance Fund (PDAF) Advices of Sub-Allotments (ASA) amounting to ₱76.30 million were cancelled and transferred to other agencies while SAROs totaling ₱151 million were withdrawn by DBM resulting in misinformation affecting the funds of the OSEC and/or concerned RFUs (**Observation No. 4**).
3. Fund transfers totaling ₱616.8 million were unnecessary since DA agencies/units

are capable of carrying out the intended purposes. The MOAs covering such transfers did not require submission of liquidation documents or project details for monitoring. Moreover, NABCOR and PADCC charged administrative costs from the transferred funds of ₱32.11 million and ₱.84 million respectively, while PCA charged ₱6.39 million and the TLRC an undetermined amount equivalent to .5% to 1% of the project cost, which amounts could have been utilized instead for project implementation (**Observation No. 6**).

4. Funds amounting to ₱53.980 million transferred by RFU II to DA-CVIARC, Ilagan, Isabela, a research station, were disbursed by the Station Manager and Cashier, beyond their limits of authority in violation of DA General Memorandum Order No. 1, series of 2005 (**Observation No. 7**).
5. There were excessive costs totaling ₱49.80 million noted in the (a) purchases made by RFUs V, VII, and IX amounting to ₱38.14 million; and (b) contract entered into by OSEC with Geospatial Solutions, Inc. by ₱11.67 million because of (i) RFU V practiced of direct contracting; (ii) procurement by NGO/PO in RFU VII; and (iii) limited canvass/bidding adopted by RFU IX and OSEC. Likewise, overpayment of subsidy for Hybrid Rice Seeds of ₱0.477 million was noted in RFU III due to double and undocumented payments (**Observation No. 12**).
6. The payments of the CNA Incentives and other allowances by OSEC, RFUs II, III, IV, VI, VII, XI and XII amounting to ₱85,094,496.85 were not in compliance with DBM Circular No. 2006-1 dated February 1, 2006, PSLMC No. 4, Series of 2002, and other issuances on the grant of allowances (**Observation No. 13**).

The more significant Value for Money audit observations include:

1. Priority Development Assistance Fund (PDAF) totaling ₱74.740 million in DA-RFUs CAR, III, V, VII, XI, & XIII were expended for agricultural supplies and equipment and administrative cost, instead of utilizing the funds for livelihood projects thereby hindering the attainment of increase diversified income generating opportunities for the poor and decrease poverty incidence (**Observation No. 19**).
2. PDAF released to RFU VII of ₱1,939,920.00 for livelihood project was utilized for the purchase of fertilizers for the 2<sup>nd</sup> District of Negros Oriental but were not used during the planting season it was intended for. The late delivery, the non-conduct of crash training program on its application and the poor quality of the fertilizers contributed to the non attainment of the purpose of the farm input assistance. Similarly, fertilizers and polybag amounting to ₱429,513.00 bought out of the PDAF for livelihood were not distributed on time to intended beneficiaries in Region IX, thus depriving them of its immediate use (**Observation No. 20**).
3. The implementation of the PDAF project worth ₱10 million for Input Assistance and Capability Building Program (IACBP) of the 1,200 targeted indigent farmers of Kalinga Province is not effectively carried out by Bukid-Tanglaw Livelihood

Foundation, Inc., the proponent NGO in DA-RFU CAR,. The input assistance in the form of Mega BIO-Organic Liquid Fertilizer was not fully appreciated by the farmers and the implementation of the Capability Building Program was limited to the briefing on the application of fertilizer but failed to include modules on livelihood projects as provided in the MOA (**Observation No. 23**).

4. A total of ₱266.00 million were spent in the purchased of fertilizers thru transfer of funds to NGO during the year ₱172.00 million of which was sourced from PDAF and ₱94.00 million from GMA Rice and Corn Program fund but did not improve farmer's yield as only total yield of 408,774 metric tons of rice and 86,434 metric tons were achieved for an area of 55,057 hectares (**Observation No. 24**).
5. Support for Emergency Livelihood Assistance Program (SELAP) funds of ₱2,099,196.66 intended for socio-economic upliftment was used instead to pay various expenses depriving the intended farmer beneficiaries of availing the benefits of the program (**Observation No. 25**).

Briefly, some of the recommendations made by the team to correct the foregoing deficiencies mentioned are:

*a.) Financial audit issues*

1. To reconcile variances and correct accounting errors affecting the accounts;
2. To enforce liquidation of outstanding cash advances and fund transfers to agencies particularly NGOs/POs;
3. To remit cash balances totaling P374million to the National Treasury;
4. To adjust all the deficiencies and understatement/overstatement noted in the audit of accounts;
5. To stop the practice of transferring regular funds and PDAF related projects to other agencies if the funds will again be transferred to other agencies;
6. To perform a careful screening of the NGOs and suppliers to whom government funds are entrusted ensuring that only those with legitimate existence and relevant purposes are selected; and
7. To intensify collection of receivables.

*b.) Compliance Issues*

1. To take caution in releasing ASA/NTA to avoid untimely withdrawal and double issuances of NTA;
2. To submit inventory reports for both supplies and PPE
3. To revert long outstanding payables
4. To institute measures to recover excessive payments
5. To require the refund of all benefits given to personnel and officials of the DA without legal basis;
6. To require FRU VII to stop the practice of entering into contract where consideration is in kind; and

7. To reconsider the policy on rice seed subsidy by establishing reasonable cost of seeds to reduce government subsidy and farmer's equity.

c.) *VFM Issues*

1. To establish better coordination between DA and legislators to align projects with agency's priority program;
2. To monitor program implementation whether the source of funds is from PDAF or regular releases of DA; to ensure that benefits reaches the farmer beneficiaries; and
3. To continue to improve the policies and procedures in the implementation of the different programs of the DA to attain mandated goals.

***G. Implementation of Prior Years' Audit Recommendations***

Out of last year's 225 audit recommendations, 40 or 18% were fully implemented, 105 or 47% were partially implemented while 52 or 23% were not implemented, and 16 or 7% are in the process of implementation and 12 or 5% were not acted upon by management.

The observations which were unimplemented are herein reiterated. Details of the status of implementation of prior years recommendations are shown in **Annex 5**.

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Republic of the Philippines  
**COMMISSION ON AUDIT**  
**NATIONAL GOVERNMENT SECTOR**  
**CLUSTER VI – AGRICULTURE AND ENVIRONMENT**  
Commonwealth Avenue, Quezon City

## **AUDIT CERTIFICATE**

**The Honorable Secretary**  
Department of Agriculture  
Quezon City

Pursuant to Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree No. 1445, we have audited the accompanying balance sheet of the Department of Agriculture as of December 31, 2005 and the related statements of income and expenses and cash flows for the year ended. These financial statements are the responsibility of the Auditee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted state auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement/s. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also included assessing the accounting principles used and significant estimates made by the Auditee, as well as, evaluating the overall financial statement. We believe that our audit provides a reasonable basis for our opinion.

There is reason to believe that the financial statements are not free of material misstatements due to the following:

1. There are unreconciled differences totaling ₱118.085 million between the books and the bank balances of various cash accounts and errors totaling ₱176.727 million arising from (a) overstatement of ₱156.123 million of the Cash-DO balance due to unliquidated but expended advances for payroll and operating expenses; and (b) a net overstatement of ₱20.604 million resulting from unrecorded transactions and other errors (**Observation No. 1**).
2. Total reported receivables of ₱12.008 billion include (a) long outstanding but expended advances for travels and other receivables from officers and employees totaling ₱133.935 million; (b) loans receivable of ₱5.002 billion from GOCCs/LGUs, of which ₱769.804 million are either unsupported, disputed as grants or NFA receivables, etc.; (c) unliquidated fund transfers to NGAs/ GOCCs/ LGUs/ NGOs expended for project implementation totaling ₱5.035 billion; and (d) various accounting errors resulting in a total net understatement of ₱36.189 million of the receivable accounts (**Observation No. 5**).
3. There is a net understatement of ₱129.291 million in the books due to errors and unreconciled difference of ₱1.134 billion between the books and the physical count reports of Inventory account balances (**Observation No. 8**).

4. The net book value of Property, Plant and Equipment (PPE) accounts amounting to ₱55.795 billion are unreliable because of (a) unreconciled difference of ₱3.572 billion between the balances per books and the inventory reports; (b) various errors in recording PPE accounts resulted in a net understatement of ₱311.947 million; (c) inclusion of unserviceable/transferred PPE valued at ₱26.403 million; (d) misclassification of accounts totaling ₱1.871 million; and (e) insufficient provision of allowance for depreciation for depreciable assets totaling ₱29.701 billion, of which only ₱1.546 billion or 5.21% was provided as accumulated depreciation (**Observation No. 9**).
5. Reported current liabilities totaling ₱4.730 billion are doubtful because of (a) long outstanding accounts payable aged more than two years totaling ₱1.265 billion which should have been reverted to the unappropriated surplus of the government; (b) errors found in various payable accounts resulting in a net understatement of ₱49.277 million; (c) payables of ₱33.794 million which are undocumented and without subsidiary ledger; and (d) misclassification of some payable accounts totaling ₱5.639 million (**Observation No. 10**).
6. There was a net understatement of various expense accounts amounting to ₱20.466 million due to various errors in recording transactions affecting expenses (**Observation No. 11**).
7. There were excessive costs totaling ₱49.80 million noted in the (a) purchases made by RFUs V, VII, and IX amounting to ₱38.14 million; and (b) contract entered into by OSEC with Geospatial Solutions, Inc. by ₱11.67 million because of (i) RFU V practice of direct contracting; (ii) procurement by NGO/PO in RFU VII; and (iii) limited canvass/bidding adopted by RFU IX and OSEC. Likewise, overpayment of subsidy for Hybrid Rice Seeds of ₱0.477 million was noted in RFU III due to double and undocumented payments (**Observation No. 12**).

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly in conformity with generally accepted accounting principles the financial position of the Department of Agriculture as of December 31, 2006 and the results of its operations and its cash flows for the year then ended.

#### COMMISSION ON AUDIT

By:

**WINNIE ROSE H. ENCALLADO**  
Director IV

April 13, 2007

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

The management of DEPARTMENT OF AGRICULTURE is responsible for all information and representations contained in the accompanying Consolidated Balance Sheet of the Regular Agency Book as of December 31, 2006 and the Related Consolidated Statement of Income and Expenses for the quarter then ended. The Financial Statements have been prepared in conformity with generally accepted state accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains 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.

**OPHELIA P. AGAWIN**

Director

Financial and Management Services

**BELINDA A. GONZALES**

Undersecretary for

Admin. and Finance

### **Part III - Status of Implementation of Prior Year's Audit Recommendation**

Out of last year's 225 audit recommendations, 40 or 18% were fully implemented, 105 or 47% were partially implemented while 52 or 23% were not implemented, and 16 or 7% are in the process of implementation and 12 or 5% were not acted upon by management.

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Republic of the Philippines  
**DEPARTMENT OF AGRICULTURE**  
**Office of the Secretary**  
 Elliptical Road, Diliman, Quezon City

**COMPARATIVE DETAILED BALANCE SHEET**  
**AS OF DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (P '000)**

Account Name	2006	2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
<b>CASH (Note 6)</b>		
Cash - Collecting Officers	7,159	4,539
Cash - Disbursing Officers	238,201	244,322
Petty Cash Fund	1,670	1,291
Cash - National Treasury, Modified Disbursements System (MDS)	750,774	453,854
Cash - Local Currency, Bangko Sentral ng Pilipinas	2	2
Cash in Bank-Local Currency, Current Account	1,453,758	1,481,329
Cash in Bank-Local Currency, Savings Account	5,938	6,864
Cash in Bank-Local Currency, Time Deposit	182,049	182,099
Cash in Bank-Foreign Currency, Savings Account	62,116	101,681
<b>Total Cash</b>	<b>2,701,667</b>	<b>2,475,981</b>
<b>RECEIVABLES (Note 7)</b>		
Accounts Receivable	19,598	18,234
<i>Less: Allowance for Doubtful Accounts - Accounts Receivable</i>	4,852	4,852
Accounts Receivable - Net	14,746	13,383
Due from Officers and Employees	167,872	171,278
Loans Receivable - GOCCs	2,517,566	2,589,958
Loans Receivable - LGUs	243,528	254,411
Loans Receivable - Others	2,241,032	2,173,236
<i>Less: Allowance for Doubtful Accounts - LR - Others</i>	53,867	43,715
Loans Receivables - Others - Net	2,187,165	2,129,521
Due from National Treasury	99,102	92,714
Due from NGAs	1,891,456	1,863,245
Due from GOCCs	1,922,666	1,398,897
Due from LGUs	1,424,495	883,655
Due from NGOs/POs	1,132,415	1,309,362
Due from Central Office	126	-
Due from Regional Offices/Staff Bureaus	78,701	104,762
Due from Operating Units	42,698	630
Due from Other Funds	20,878	35,351
Receivables-Disallowances/Charges	169,341	145,014
Other Receivables	35,870	21,213
<b>Total Receivables</b>	<b>11,948,626</b>	<b>11,013,393</b>

**COMPARATIVE DETAILED BALANCE SHEET**  
**AS OF DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (₹ '000)**

Account Name	2006	2005
<b>INVENTORIES (Note 8)</b>		
Raw Materials Inventory	646	646
Work-In-Process Inventory	185	178
Finished Goods Inventory	182	122
Merchandise Inventory	174	174
Office Supplies Inventory	211,024	240,088
Accountable Forms Inventory	2,360	1,615
Animal/Zoological Supplies Inventory	5,452	3,646
Drugs and Medicines Inventory	3,983	3,914
Medical, Dental And Laboratory Supplies Inventory	43,254	42,452
Gasoline, Oil and Lubricants Inventory	3,893	5,649
Agricultural Supplies Inventory	80,911	87,147
Textbooks and Instructional Materials Inventory	233	233
Military & Police Supplies	-	37
Other Supplies Inventory	42,975	42,740
Spare Parts Inventory	4,307	6,141
Construction Materials Inventory	11,013	8,586
Livestock Inventory	985,643	1,016,340
Crops and Fruits Inventory	13,384	12,468
Other Agricultural, Fishery and Forestry Products Inventory	6,147	6,963
<b>Total Inventories</b>	<b>1,415,765</b>	<b>1,479,137</b>
<b>PREPAYMENTS (Note 9)</b>		
Prepaid Rent	166	799
Prepaid Insurance	2,751	2,173
Deposit on Letters of Credit	139,860	139,860
Advances to Contractors	916,867	837,967
Deferred Charges	1,139	-
Other Prepaid Expenses	118,426	102,575
<b>Total Prepayments</b>	<b>1,179,210</b>	<b>1,083,375</b>
<b>OTHER CURRENT ASSETS</b>		
Guaranty Deposits	6,495	6,820
Other Current Assets	19,355	19,311
<b>Total Other Current Assets</b>	<b>25,849</b>	<b>26,131</b>
<b>Total Current Assets</b>	<b>17,271,117</b>	<b>16,078,016</b>
<b>INVESTMENTS</b>		
Investments in Treasury Bills	-	18,030
Investments in Stocks	606	606
Other Investments and Marketable Securities	122,490	121,201
<b>Total Investments</b>	<b>123,096</b>	<b>139,837</b>

**COMPARATIVE DETAILED BALANCE SHEET**  
**AS OF DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (₹ '000)**

Account Name	2006	2005
<b>PROPERTY, PLANT &amp; EQUIPMENTS (Note 10)</b>		
Land	599,840	730,732
Land Improvements	22,711,851	22,601,792
Electrification, Power and Energy Structures	192	143
Office Buildings	2,148,594	2,164,064
Markets and Slaughterhouses	7,177	7,177
Other Structures	407,828	355,073
Leasehold Improvements, Buildings	1,525	600
Office Equipment	651,083	637,266
Furniture and Fixtures	233,570	216,075
IT Equipment and Software	392,545	330,390
Library Books	2,913	2,856
Machineries	147,525	90,833
Agricultural, Fishery and Forestry Equipment	869,553	299,426
Communication Equipment	65,142	56,925
Construction and Heavy Equipment	11,134	57,663
Firefighting Equipment and Accessories	1,078	946
Medical, Dental and Laboratory Equipment	72,089	63,300
Military and Police Equipment	146	146
Technical and Scientific Equipment	386,770	368,826
Other Machineries and Equipment	463,848	437,361
Motor Vehicles	685,847	670,878
Aircraft and Aircraft Ground Equipment	23,366	23,366
Watercrafts	19,529	19,639
Other Transportation Equipment	1,666	470
Other Property, Plant and Equipment	397,766	472,183
Construction in Progress - Agency Assets	1,591,327	1,589,860
Construction in Progress - Roads, Highways and Bridges	85,710	70,750
Construction in Progress - Artesian wells, Reservoirs, Pump. Sta. & Con.	7,615	7,510
Construction in Progress - Irrigation, Canals and Laterals	24,982,498	21,068,522
Construction in Progress - Waterways, Aqueducts, Seawalls, Riverwalls, etc.	1,843	436
Construction in Progress - Other Public Infrastructures	159,447	159,920
Work/Other Animals	68,050	64,669
Breeding Stocks	76,157	67,008
Items in Transit	67,710	75,991
Total Property, Plant and Equipment	57,342,935	52,712,795
<i>Less : Accumulated Depreciations</i>	1,546,229	1,257,562
<b>Total Property, Plant and Equipment - NET</b>	<b>55,796,706</b>	<b>51,455,233</b>
<b>OTHER ASSETS (Note 11)</b>		
Other Assets	30,699	26,340
<i>Accumulated Depreciation - Other Assets</i>	1,262	1,429
<b>Total Other Assets - Net</b>	<b>29,437</b>	<b>24,911</b>
<b>TOTAL ASSETS</b>	<b>73,220,357</b>	<b>67,697,997</b>



**COMPARATIVE DETAILED BALANCE SHEET**  
**AS OF DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (P'000)**

Account Name	2006	2005
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES (Note 12)</b>		
Accounts Payable	2,966,860	3,448,554
Due to Officers and Employees	24,731	21,670
Due to National Treasury	7,333	4,096
Due to BIR	156,764	132,484
Due to GSIS	13,708	26,854
Due to PAG-IBIG	3,676	4,516
Due to PHILHEALTH	3,124	4,076
Due to Other NGAs	568,084	667,659
Due to Other GOCCs	422,649	350,636
Due to LGUs	158,581	27,283
Due to Central Office	31,630	52,343
Due to Regional Offices/Staff Bureaus	3,821	1,030
Due to Other Funds	28,077	35,335
Guaranty Deposits Payable	144,316	195,962
Performance/Bidders/Bail Bonds Payable	14,714	14,044
Tax Refund	-	30
Other Payables	186,352	254,458
<b>Total Current Liabilities</b>	<b><u>4,734,422</u></b>	<b><u>5,241,031</u></b>
<b>LONG TERM LIABILITIES</b>		
Bonds Payable - Domestic	15	2
Loans Payable - Domestic	10,955	6,075
<b>Total Long-Term Liabilities</b>	<b><u>10,970</u></b>	<b><u>6,077</u></b>
<b>DEFERRED CREDITS</b>		
Other Deferred Credits	95,031	87,900
<b>Total Deferred Credits</b>	<b><u>95,031</u></b>	<b><u>87,900</u></b>
<b>TOTAL LIABILITIES</b>	<b><u>4,840,423</u></b>	<b><u>5,335,009</u></b>
<b>EQUITY</b>		
Government Equity (Note 15)	<b><u>68,379,934</u></b>	<b><u>62,362,989</u></b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b><u><u>73,220,357</u></u></b>	<b><u><u>67,697,997</u></u></b>



Republic of the Philippines  
**DEPARTMENT OF AGRICULTURE**  
**Office of the Secretary**  
Elliptical Road, Diliman, Quezon City

**COMPARATIVE DETAILED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (P '000)**

<b>Account Name</b>	<b>2006</b>	<b>2005</b>
<b>INCOME</b>		
Subsidy Income from National Government ( <i>Note 13</i> )	12,574,089	11,077,588
Subsidy from Central Office	14,534	87,518
Subsidy from Regional Office/Staff Bureau	2,454	0
Subsidy from Other Funds	0	140
Subsidy from Subsidiaries/Affiliates	6,837	0
Registration Fees	552	625
Clearance and Certification Fees	1,540	1,146
Inspection Fees	68,337	46,362
Medical, Dental and Laboratory Fees	1,877	1,526
Seminar Fees	811	100
Other Service Income	493	1,616
Fines and Penalties - Service Income	1	4
Income from Dormitory Operations	496	405
Rent Income	455	175
Sales Revenue	7,970	7,345
<i>Less Cost of Good Sold</i>	<i>(21)</i>	0
Other Business Income	3,471	8,075
Income from Grants & Donations	89,042	6,203
Interest Income	176	178
Miscellaneous Income	3,707	1,777
Other Fines and Penalties	422	121
Gain on Foreign Exchange (FOREX)	14,374	0
Gain on Sales of Disposed Assets	9	0
<b>TOTAL INCOME (<i>Note 14</i>)</b>	<b>12,791,626</b>	<b>11,240,905</b>
<b>Less: EXPENSES</b>		
<b><i>Personal Services</i></b>		
Salaries & Wages-Regular pay	1,165,703	1,180,362
Salaries & Wages-Casual	26,417	31,242
Salaries & Wages-Contractual	22,672	28,027
Personnel Economic Relief Allowance (PERA)	52,559	51,831
Additional Compensation (ADCOM)	148,879.26	51,902
Representation Allowance (RA)	10,938	10,720
Transportation Allowance (TA)	6,453	6,160
Clothing/Uniform Allowance	35,752	34,081
Subsistence, Laundry and Quarter Allowance	754	360
Productivity Incentive Allowance	16,950	18,841

**COMPARATIVE DETAILED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (P '000)**

<b>Account Name</b>	<b>2006</b>	<b>2005</b>
Overseas Allowance	33,599	33,735
Other Bonuses and Allowances	23,117	32,635
Honoraria	399	361
Hazard pay	702	191
Longevity Pay	3,009	2,199
Overtime and Night Pay	103	536
Cash Gift	42,621	49,994
Year End Bonus	98,201	98,869
Life and Retirement Insurance Contributions	144,083	143,804
PAG-IBIG Contributions	10,696	10,885
PHILHEALTH Contributions	12,562	11,197
ECC Contributions	9,394	8,391
Retirement Benefits - Civilian	2,808	3,592
Terminal Leave benefits	47,227	72,726
Health Workers' Benefits	79	74
Other Personnel Benefits	154,838	134,595
<b>Total Personal Services</b>	<b>2,070,515</b>	<b>2,017,312</b>
 <b>Maintenance and Operating Expenses</b>		
Traveling Expenses-Local	221,295	156,088
Traveling Expenses-Foreign	11,541	6,905
Training Expenses	124,060	75,029
Scholarship Expenses	3,017	13,891
Office Supplies Expenses	121,346	78,492
Accountable Forms Expenses	728	531
Animal/Zoological Supplies Expenses	26,761	18,490
Food Supplies Expenses	65	246
Drugs and Medicines Expenses	2,997	5,492
Medical, Dental And Laboratory Supplies Expenses	32,168	15,233
Gasoline, Oil and Lubricants Expenses	95,611	65,757
Agricultural Supplies Expenses	730,567	564,131
Textbooks and Instructional Materials Expenses	62	25
Other Supplies Expenses	50,241	32,272
Water Expenses	19,418	17,655
Electricity Expenses	114,849	85,938
Cooking Gas Expenses	137	118
Postage and Deliveries	2,208	2,391
Telephone Expenses - Landline	52,874	39,174
Telephone Expenses - Mobile	12,178	10,580
Internet Expenses	4,477	4,071
Cable, Satellite, Telegraph, and Radio Expenses	12,715	14,667
Membership Dues and Contributions to Organizations	474	494
Awards & Indemnities	4,398	917
Advertising Expenses	6,102	5,356
Printing and Binding Expenses	7,880	7,497
Rent Expenses	26,048	22,991
Representation Expenses	14,874	15,758

**COMPARATIVE DETAILED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (₹ '000)**

<u>Account Name</u>	<u>2006</u>	<u>2005</u>
Transportation and delivery Expenses	3,819	2,845

**COMPARATIVE DETAILED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (₹ '000)**

Account Name	2006	2005
Storage Expenses	0	1
Subscription Expenses	1,946	1,802
Survey Expenses	10	600
Rewards and Other Claims	46,535	14,689
Legal Services	3,036	1,164
Auditing Services	5,403	3,201
Consultancy Services	129,149	72,898
Environment/Sanitary Services	14	45
General Services	55,426	35,132
Janitorial Services	16,832	15,331
Security Services	47,557	39,221
Other Professional Services	89,671	70,899
Repairs and Maintenance - Land Improvements	2,968	1,979
Repairs and Maintenance - Electrification, Power and Energy Structures	79	100
Repairs and Maintenance - Office Buildings	35,843	14,578
Repairs and Maintenance - Markets and Slaughterhouses	0	0
Repairs and Maintenance - Other Structures	6,850	4,212
Repairs and Maintenance - Office Equipment	4,819	3,650
Repairs and Maintenance - Furniture and Fixtures	608	426
Repairs and Maintenance - IT Equipment and Software	6,093	3,907
Repairs and Maintenance - Machineries	155	245
Repairs and Maintenance - Agricultural, Fishery and Forestry Equipment	457	525
Repairs and Maintenance - Communication Equipment	235	357
Repairs and Maintenance - Construction and Heavy Equipment	0	47
Repairs and Maintenance - Firefighting Equipment and Accessories	22	112
Repairs and Maintenance - Medical, Dental and Laboratory Equipment	729	542
Repairs and Maintenance - Technical and Scientific Equipment	841	432
Repairs and Maintenance - Other Machineries and Equipment	1,505	652
Repairs and Maintenance - Motor Vehicles	66,214	39,583
Repairs and Maintenance - Other Property, Plant and Equipment	198	128
Repairs and Maintenance - Roads, Highways and Bridges	121	0
Repairs and Maintenance - Ports, Lighthouses and Harbors	55	14
Repairs and Maintenance - Artesian Wells, Reservoirs, Pumping Stations & Con.	123	128
Repairs and Maintenance - Irrigation, Canals and Laterals	4,318	1,012
Repairs and Maintenance - Other Public Infrastructures	1,000	5,443
Subsidy to National Government Agencies	2,190	4,001
Subsidy to Operating Units	5,567	87,518
Subsidy to Local Government Units	55,333	18,058
Subsidy to Government Owned and Controlled Corporations	0	25,000
Subsidy to NGOs/POs	2,435	19,923
Donations	857,887	998,692
Extraordinary Expenses	1,925	2,058
Miscellaneous Expenses	2,002	2,554
Taxes, Duties and Licenses	42,166	18,523
Fidelity Bond Premiums	2,543	2,792
Insurance Expenses	13,004	11,514
Bad Debts Expenses	10,269	3,193

**COMPARATIVE DETAILED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (₹ '000)**

<u>Account Name</u>	<u>2006</u>	<u>2005</u>
Depreciation - Land Improvements	15,063	38,049

**COMPARATIVE DETAILED STATEMENT OF INCOME AND EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (₹ '000)**

<b>Account Name</b>	<b>2006</b>	<b>2005</b>
Depreciation - Electrification, Power and Energy Structures	10	8
Depreciation - Office Buildings	27,801	24,785
Depreciation - Markets and Slaughterhouses	476	34
Depreciation - Other Structures	6,648	2,925
Depreciation - Leasehold Improvements, Buildings	0	38
Depreciation - Office Equipment	63,598	17,196
Depreciation - Furniture and Fixtures	4,879	3,310
Depreciation - IT Equipment and Software	22,244	16,476
Depreciation - Library Books	64	100
Depreciation - Machineries	81	45
Depreciation - Agricultural, Fishery and Forestry Equipment	8,398	14,370
Depreciation - Communication Equipment	3,308	2,893
Depreciation - Construction & Heavy Equipment	0	0
Depreciation - Firefighting Equipment and Accessories	39	40
Depreciation - Medical, Dental and Laboratory Equipment	4,348	3,004
Depreciation - Military and Police Equipment	0	14
Depreciation - Technical and Scientific Equipment	16,480	15,329
Depreciation - Other Machineries and Equipment	6,795	5,642
Depreciation - Motor Vehicles	12,069	13,824
Depreciation - Aircraft and Aircraft Ground Equipment	0	213
Depreciation - Other Transportation Equipment	7	22
Depreciation - Other Property, Plant and Equipment	633	1,749
Depreciation - Other Assets	0	50
Tax refunds	1	0
Remittance to National Treasury from Asset Disposal	95	27
Loss of Assets	1,227	83,691
Other Maintenance and Operating Expenses	396,942	268,079
Loss on Foreign Exchange (FOREX)	1,917	1,817
Loss on Sales of Disposed Assets	60	335
<b><i>Total Maintenance and Operating Expenses</i></b>	<b><u>3,820,229</u></b>	<b><u>3,303,975</u></b>
 <b><i>Financial Expenses</i></b>		
Bank Charges	582	575
Documentary Stamps Expenses	1	0
Interest Expenses	2	3
Other Financial Charges	11	302
<b><i>Total Financial Expenses</i></b>	<b><u>596</u></b>	<b><u>881</u></b>
 <b>TOTAL EXPENSES (Note 14)</b>	 <b><u>5,891,340</u></b>	 <b><u>5,322,168</u></b>
 <b>EXCESS OF INCOME OVER EXPENSES</b>	 <b>6,900,286</b>	 <b>5,918,737</b>



Republic of the Philippines  
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**COMPARATIVE STATEMENT OF GOVERNMENT EQUITY**  
**AS OF DECEMBER 31, 2006 & 2005**  
**CONSOLIDATED**  
**In (P '000)**

<u>Account Name</u>	<u>2006</u>	<u>2005</u>
<b>Government Equity, Beginning</b>	<b>62,362,989</b>	<b>59,820,841</b>
Receipt of :		
Property, Plant and Equipment	22,636	512
Transfer/Disposal of :		
Property, Plant and Equipment	(5,137)	(5,337)
Adjustments :		
Reclassification of various equipment charge against account 416	2,913	
Erroneous transfer of account balances to BPI (Fund 163)	18,030	
Erroneous Classification	283	(437)
Erroneous Entry		546
Unrecorded CIB-FCSA-DFIMDP		8,444
Adjustment by UDP	1,013	
Adjustment by BAI	(108,052)	8,093
Adjustment by Region 10 (Other Asset)	(159)	(23)
Adjustment by ATI	1,572	
Adjustment by Region 4 (Other Asset)	165	
Adjustment by Region 3	858	
Adjustment by Region 2	44,449	(221,408)
Total	<u>62,341,559</u>	<u>59,611,231</u>
Retained Operating Surplus		
Current Operations	6,900,286	5,918,928
Prior Years' Adjustment	(774,443)	(2,593,240)
	<u>6,125,843</u>	<u>3,325,688</u>
Property, Plant and Equipment - Public Infrastructure	<u>(87,468)</u>	<u>(573,928)</u>
<b>Government Equity, End</b>	<b><u>68,379,934</u></b>	<b><u>62,362,991</u></b>





Republic of the Philippines  
**DEPARTMENT OF AGRICULTURE**  
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 Elliptical Road, Diliman, Quezon City

**COMPARATIVE CONSOLIDATED CASH FLOWS**  
**AS OF DECEMBER 31, 2006 & 2005**  
**In (P '000)**

<b>Account Name</b>	<b>2006</b>	<b>2005</b>
<b>Cash Flow from Operating Activities:</b>		
<i>Cash Inflows:</i>		
Receipt of Notice of Cash Allocation (NCA)	11,182,592	8,131,504
Receipt of Notice of Transfer Allocation (NTA) from CO/RO	3,300,692	2,929,496
Receipt of Inter-Agency cash/fund transfer	787,322	1,070,635
Receipt of Intra-Agency fund transfer	-	6,764
Receipt of Funding Check from CO/RO	260	-
Cash receipts from all sources of revenues/income	100,370	110,590
Receipt of Bid Documents	303	-
Receipt of Trust Fund from Central Office	24,722	13,530
Receipt of refunds of cash advances or excess payments	53,620	54,727
Receipt from other funds	-	1,048
Collection of Receivables	20,822	7,701
Collection of Income/Revenues	1,085	61,618
Collection of Interest Earned	264	833
Collection of Insurance	245	-
Collection of Administrative Cost	488	-
Collection of STW/Other Loan Repayments	-	760
Collection of sale of Tender Documents	1,022	-
Collection of Fees for BAI	202	197
Collection of Sales of Livestock	289	-
Cash Receipt for Long Term Payables	-	3,000
Receipt of remuneration from GSIS and HDMF	69	-
Receipt of withdrawn Treasury Bill (RF-163)	21,783	-
Cash receipts ( Incentive ) from HDMF, GSIS, Real Estate	3,742	72
Cash receipts from rendition of service	43	-
Proceeds from sale of palay seeds from Philrice(WESVIARC)	-	204
Cash Receipt from payment of HDMF, Multi-purpose Loan, GSIS Salary, Cash Advances, l	-	210
Receipt of cash prize from Livestock Development Council	30	-
Receipt of Payment from STW etc	1,938	-
Receipt from sale of Disposed Assets	3	-
Receipt of Payment of Performance/ Bidders/ Bail Bonds	3,696	4,742
Receipt of Payment of Disallowances	293	64
Receipt of funds from other Government Agency (NIA)	3,000	-
Receipt of cash advances from NGAs	49,914	-
Receipt of taxes withheld from Special Disbursing Officer	33	29
Receipt of Refund of excess of Inter-Agency fund transfers	58	72
Receipt of cash equivalent to unobligated balance of allotment to CO/RO	-	10
Receipt of Cash Dividends	-	0
Receipt of Grants and Donations	100,483	8,913
Receipt of Interest Income/Credit Advice from the Bank	325	235
Receipt of cash for Long-term Payables	710	-
Receipt of cash transfer from ACEF Loans	4,880	-

**COMPARATIVE CONSOLIDATED CASH FLOWS**  
**AS OF DECEMBER 31, 2006 & 2005**  
**In (P '000)**

<u>Account Name</u>	<u>2006</u>	<u>2005</u>
Receipt of cash transfer from ATI-CO	4,558	-
Receipt of Interest Income for funds held in trust	-	135
Fund Transfer to Research Stations	-	82,484
Transfer of Cash to Disbursing Officer	76,311	166
Receipt of Income for Revolving Trust Fund	6,212	8,878
Restoration of cash for cancelled/stale for current operating expenses	197,876	206,742
Restoration of cash for unreleased checks for current operating expenses	509,770	-
Restoration of cash for bank charges in December 2005	0	-
Receipt of cash for transfer to LGUs	24,314	-
Receipt of cash transfer from other funds	7,591	-
Restoration of cash due to adjustment of erroneous recording of prior years' collections	0	72
Adjustment for prior years' cash receipt of bidders bond	-	132
Adjustment for prior years' collection of sale of bid documents deposited with AGDB	-	3
Adjustment in recording of cash	31,509	115,486
Cash Transfer from dollar account	-	2,077
<b>Total Cash Inflows</b>	<b>16,523,435</b>	<b>12,823,132</b>
<b>Cash Outflows:</b>		
Cash payment of operating expenses	4,652,762	4,103,207
Payments for Prior Year Accounts Payable		
Cash payment of payables incurred in operation	464,408	686,494
Cash payment of other payables	-	10,714
Cash purchase of inventories	355,108	295,667
Cash Payment of Retirement/Terminal Leave	15,136	15,414
Cash Payment of Prepaid Expenses	31,337	10,667
Granting of cash advances/petty cash fund	604,393	612,816
Granting of cash advances to contractors (mobilization)	-	500
Granting of Loans/Other NAFC LEAD	5,214	-
Refund of Performance/Bidders/Bail Bonds	5,378	3,061
Refund of loans	10,355	-
Refund of Fund transfers	-	3,489
Refund of Guaranty Deposit Payable	17,889	-
Remittance of withholding taxes except thru TRA	8,200	4,253
Remittance of GSIS/Pag-Ibig/Philhealth Payable	322,649	367,189
Deposit/Remittance to National/Bureau of Treasury	32,962	61,060
Remittance of Fees collected/fund transfer to BAI	981	606
Remittance of various salary deductions	38,219	7,543
Deposit/Remittance to NSICs account	733	964
Deposit/Remittance to NAFC account	8	-
Cash Payment of funds held in trust	33,054	33,888
Cash Payment of SVLF Loans/Insurance	4,434	-
Payment out of received inter-agency fund transfer	954,159	-
Cash Payment Prior Years reverted claims	32,044	-
Prepayments made for operating expenses	23,193	-
Liquidation of CA granted in Prior Year to Cash Disbursing Officer	55,280	80,877
Unliquidated cash advances granted to Disbursing Officer	6,656	-
Unliquidated cash advances granted during the year	96,607	13,080
Unliquidation inter-agency fund transfer during the year ( MOOE )	1,199,126	861,928
Release of funds to Operating Units	138,312	242,640
Release of fund transfer - LGUs/NGAs/Pos/GOCCs/Others	198,434	190,215

**COMPARATIVE CONSOLIDATED CASH FLOWS**  
**AS OF DECEMBER 31, 2006 & 2005**  
**In (P'000)**

<u>Account Name</u>	<u>2006</u>	<u>2005</u>
Reversing entry for the restored unreleased/stale checks	311,069	49,876
Release of funds thru funding check	16,700	-
Release of funds as inter-agency cash/fund transfers	457,697	850,814
Release of funds thru Notice of Transfer of Allocation	171,402	2,977,596
Cash advances granted/increase to Cash-Disbursing Officers Account/travel during the ye:	-	844
Return of cash equivalent to unobligated balance of allotment	5,500	35
Remittance/Payment of Interest/Bank Charges	215	305
Remittance of sales of palay seeds to Philrice	-	204
Cash Payment Prior Years reverted claims/AP)	399,023	125,643
Reversion of unused NCA/NTA	363,580	471,063
Reversion of unused Working Fund	644	-
Reversion of imprest fund	2,815	-
Reversion of unused JICA Fund	216	-
Transfer of Notice of Transfer of Allocation (NTA) to ROs	4,777,682	-
Issuance of Funding of Checks to ROs	280,788	-
Loss of Foreign Currency Deposits	839	190
Withdrawal made by bank thru Debit Memo (re:erroneous bank charges)	-	0
Conversion of foreign currency to peso currency	87	2,125
Adjustment of cash Re:reverted cash	322	-
Adjustment	34,426	174,520
<b>Total Cash Outflows</b>	<u>16,130,034</u>	<u>12,259,487</u>
<b>Cash Provided by Operating Activities</b>	<u>393,402</u>	<u>563,644</u>
<b>Cash Flow from Investing Activities:</b>		
<i>Cash Inflows:</i>		
Receipt of Notice of Cash Allocation (NCA)		3,358,138
Receipt of Notice of Transfer Allocation (NTA) from CO/RO		48,100
Receipt of Intra-Agency fund transfer		8,749
Receipt of refunds of cash advances or excess payments		36,791
Receipt of other receivables		3,887
Receipt of other funds		37,706
Receipt of other accounts		34,143
Receipt of Irrigators Association Equity		1,338
Receipt of Performamnce/Bidders/Bail Bonds		254
Adjustments		4,684
Redemption of long-term investment or repayment of long-term loans	15,000	-
Cash receipts from CIB - LC Time deposits		75,879
<b>Total Cash Inflows</b>	<u>15,000</u>	<u>3,609,670</u>
<i>Cash Outflows:</i>		
Cash payments of payables incurred in operation		310,435
Cash payments of Prepaid Expenses		172
Remittance of withholding taxes (excludes TRA)		135,295
Deposit/Remittances to National/Bureau of Treasury		1,986
Release of Funds transfers - LGUs/NGAs/POs/GOCCs/Iothers		68,619
Release of fund as inter-agency cash/fund transfers		69,660
Remittance/Payment of Interest/Bank Charges		2
Granting of cash advances/petty cash fund/other receivables		62,473

**COMPARATIVE CONSOLIDATED CASH FLOWS**  
**AS OF DECEMBER 31, 2006 & 2005**  
**In (P '000)**

<u>Account Name</u>	<u>2006</u>	<u>2005</u>
Granting of cash advances to contractors (mobilization)		21,972
Refund of Performance/Bidders/Bail Bonds		8,189
Cash purchase of Property, Plant and Equipment	123,074	2,055,265
Cash payments of Prior Year Accounts Payable for the purchase/construction of PPE	11,467	85,728
Investment in GOCC/GFI	-	577,334
Cash payment to Construction in progress	-	1,902
Cash payment of long-term investments	-	598
Payment of advances to contractors	61,632	181
Payment of refund for guaranty deposits of contractors	317	264,972
Unliquidated Inter-agency fund transfer for the purchase/construction of PPE	425	-
Release of Inter-agency fund transfer received for the purchase/construction of PPE	4,292	3
<b>Total Cash Outflows</b>	<u>201,206</u>	<u>3,664,785</u>
<b>Cash Provided by Investing Activities</b>	<u>(186,206)</u>	<u>(55,115)</u>
<b>Cash Flow from Financing Activities:</b>		
<i>Cash Inflows:</i>		
Receipt of Notice of Cash Allocation (NCA)		13,951
Increase in Cash in Bank - SA Fund 171		8,897
Receipt of cash from Domestic/Foreign Loans	18,463	441
Receipt of Interest Income	28	
<b>Total Cash Inflows</b>	<u>18,491</u>	<u>23,289</u>
<i>Cash Outflows:</i>		
Reversing entry for the unreleased/stale checks		2
Transfer of Notice of Cash Allocation (NCA)		4,115
Deposit/Remittances to National/Bureau of Treasury		3
Cash payment for current operating expenses		18,228
Unliquidated Cash Advance granted for travel during the year		8
Cash Purchase of supplies and other inventory items		8
Prepayment made for operating expenses		390
Payment for Prior Years Accounts Payable		154
Unliquidated Cash Advance/fund transfer		1,446
Loss on foreign currency deposit		319
Cash payment of operating expenses - Fund 171		2,741
Granting of cash advance - Fund 171		2,061
<b>Total Cash Outflows</b>	<u>-</u>	<u>29,474</u>
<b>Cash Provided by Financing Activities</b>	<u>18,491</u>	<u>(6,185)</u>
<b>Total Cash provided by Operating, Investing and Financing Activities</b>	<u>225,686</u>	<u>502,344</u>
<b>Add: Cash Balance, Beginning January 1, 2006</b>	<u>2,475,981</u>	<u>1,973,637</u>
<b>Cash Balance, Ending December 31, 2006</b>	<u>2,701,667</u>	<u>2,475,981</u>



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**SCHEDULE OF PUBLIC INFRASTRUCTURES  
AS OF DECEMBER 31, 2006**

Roads, Highways and Bridges	20,553,285.97
Artesian Wells, Reservoirs, Pumping Stations & Conduits	2,147,672.20
Irrigation, Canals and Laterals	51,054,165.16
Other Public Infrastructures	<u>13,713,014.72</u>
<b>TOTAL PUBLIC INFRASTRUCTURES</b>	<b><u><u>87,468,138.05</u></u></b>

## NOTES TO FINANCIAL STATEMENTS

### 1. Agency Profile

1.1 DEPARTMENT OF AGRICULTURE is the principal agency of the Philippine government responsible for the promotion of agricultural development growth. It was reorganized under Executive Order No. 116, dated January 30, 1987, and is mandated to provide the policy framework to help direct public investments and partnership with local government units (LGUs) which provide the support services necessary to make agriculture and agri-based enterprises profitable. The agency is service oriented and its primary role is to increase agricultural production to achieve national food security, create more jobs and give the farmers higher income to uplift their living conditions. The principal programs of the Department are the Agriculture and Fishery Modernization Program under which are the three banner programs, the Ginintuang Masaganang Ani (GMA) - Rice and Corn, GMA-High Value Commercial Crops and the GMA-Livestock. There is also DA-LGU Counterparting Program which provides post harvest facilities, farm-to-market roads, livelihood projects and some infrastructure projects.

1.1.1 GMA-Rice and Corn Program - This program is geared towards improving the farmers' profitability, provide adequate food supply, increase productivity and provide a favorable policy environment conducive to increased agricultural investment and global competitiveness.

1.1.2 GMA-High Value Commercial Crops Program - is one of the priority programs of the Department of Agriculture. It is designed primarily to address the priority concerns of the government in food security and poverty alleviation. Other concerns of the program include: (1) modernization of Philippine agriculture to enhance profitability and prepare the crop sector for the challenges of globalization; (2) provides the national directions and framework for harmonizing local initiatives; and (3) industry development of high value commercial crops by linking production systems with markets. It also endeavors to improve farming and processing technologies in the sub-sector in order to increase productivity and quality, while increasing access to such technologies and production scheme. It likewise seeks to improve access to local and export markets. Finally, it aims to reduce post-harvest losses through better infrastructure and distribution systems.

1.1.3 GMA - Livestock - The program is geared towards the attainment of productivity, efficiency, economic and sustainable livestock and poultry

industry. One way of achieving this is to increase the region's breeder base through direct infusion of breeder animals, production of quality stocks, maintenance of healthy and stable disease situation, and provision of technical assistance to farmer clientele.

## 1.2 Agency Vision

A modernized smallholder agriculture and fisheries; a diversified rural economy that is dynamic, technologically advanced and internationally competitive. Its transformation is guided by the sound practices of resource sustainability, the principles of social justice, and a strong private sector participation.

## 1.3 Agency Mission

To help and empower the farming and fishing communities and the private sector to produce enough, accessible and affordable food for every Filipino and a decent income for all.

## 1.4 Accomplishments

1.4.1 Agriculture recorded a 3.88 percent growth in 2006 despite the adverse effects of typhoons Milenyo, Paeng, Queenie, Reming and Seniang in the last four (4) months of the year. Except for poultry, all the subsectors registered output gains with fishery remaining as the top gainer. The sector grossed P88.6 billion at current prices of 8.62 higher than last year's level.

1.4.2 The crops subsector performed well and grew by 4.37 percent during the reference period. Its 2006 share in the total agricultural production was 47.18 percent. Palay production went up by 4.96 percent this year. Corn recovered from last year's negative growth and posted a significant 15.78 percent increase in production. The other growth contributors were coconut, sugarcane, banana, pineapple and rubber. At current prices, the gross value of crop production amounted to P458.8 billion, representing an 11.92 percent increase this year.

1.4.3 The livestock subsector posted a 2.57 percent increase in output this year. Hog production was up by 3.90 percent while dairy industry expanded by 4.29 percent. The subsector accounted for 13.28 percent of total agricultural production. The gross value of livestock output at ₱154.7 billion at current prices was 0.06 percent higher than 2005 earnings.

1.4.4 The poultry subsector which shared 14.61 percent in the total agricultural production contracted by 0.37 percent this year. Only chicken egg

registered an output increase which was estimated at 3.11 percent. The subsector grossed ₱110.7 billion at current prices or 4.18 percent more than the previous year's level.

1.4.5 The fishery subsector registered the biggest output gain at 6.31 percent. Aquaculture production grew by 10.42 percent. Output of municipal fisheries expanded by 9.07 percent. However, commercial fisheries production declined by 4.63 percent. The subsector grossed P163.4 billion, up by 11.62 percent compared to last year's record. This year's contribution of fisheries to total agricultural output was 24.92 percent.

1.4.6 On the average, farmgate prices increased by 4.56 percent in 2006. The crops subsector recorded the biggest price appreciation of 7.24 percent. In the fishery subsector, there was a 5.00 percent increase in prices. Poultry prices grew by 4.57 percent. Meanwhile, prices in the livestock subsector indicated an average cut of 2.45 percent.

## **2. Basis of Financial Statements Reporting**

### **2.1 Compliance with Generally Accepted State Accounting Principles and Standards**

The accompanying consolidated financial statements have been prepared in accordance with generally accepted state accounting principles and standards. The agency has adopted the Revised New Government Accounting System (NGAS) in Calendar Year 2003 pursuant to COA Circular No. 2003-002. Recognizing the need for a better accounting system and to adhere with the policies of the state, changes were made in policies and procedures to conform with the Revised NGAS.

### **2.2 Consolidation**

2.2.1 Included in the financial statements of the Department are the transactions of the 14 Regional Field Units, 6 Bureaus, 8 Foreign-Assisted Projects and National Irrigation Administration (NIA) which are consolidated by the central office. Five of the FAPs, the RIDP, CECAP, ERP-CASCADE, CATAG and WESAMAR are already finished projects, thus have reported dormant accounts. All government funds were consolidated except Fund 158 which is covered by a separate report.

2.2.2 A give-and-take relationship exists between the Central office and the regional Field Units and attached bureaus. The Central Office gives Notice of Transfer Allocation (NTA) and funding checks to Regional Offices and Staff Bureaus. However, the implementation of funding check was stopped beginning June, 2003. Moreover, Central Office issues



Advice of Sub-Allotment (ASA) to Regional Field Units and Letter of Authority to Disburse (LAD) to staff Bureaus for those transfers which are not covered by funding checks. The issuance of LAD was also cancelled beginning February of 2003 and all transfers now are done through the issuance of Advice of Sub-Allotment (ASA). These transfers are intended for project implementation. Likewise the Central Office also receives transfers from source bureaus and national government agencies also for project implementation. The staff bureaus, Regional Field Units and Foreign-Assisted projects of the Department are the following:

**a.) 6 Staff Bureaus**

- Bureau of Agricultural Statistics ( BAS )
- Agricultural Training Institute ( ATI )
- Bureau of Agricultural Research ( BAR )
- Bureau of Animal Industry ( BAI )
- Bureau of Plant Industry ( BPI )
- Bureau of Soils and Water Management ( BSWM )

**b.) 14 Regional Field Units**

- Cordillera Administrative Region (CAR)- Baguio City
- Regional Field Unit I - San Fernando City, La Union
- Regional Field Unit II - Tuguegaro City, Cagayan
- Regional Field Unit III - San Fernando City, Pampanga
- Regional Field Unit IV - ATI Bldg. Diliman, Quezon City
- Regional Field Unit V - San Agustin, Pili, Camarines Sur
- Regional Field Unit VI - Iloilo City
- Regional Field Unit VII - Cebu City
- Regional Field Unit VIII - Tacloban City
- Regional Field Unit IX - Zamboanga City
- Regional Field Unit X - Cagayan de Oro City
- Regional Field Unit XI - Davao City
- Regional Field Unit XII - Cotabato City
- Regional Field Unit XIII - Capitol Compound, Butuan City

**c.) 5 Foreign-Assisted Projects**

- Cordillera Highland Agricultural Resource Management Project ( CHARMP )
- Central Cordillera Agricultural Programme ( CECAP ) – finished project
- Rural Infrastructure Development project ( RIDP )- finished project
- Upland Development Programme in Southern Mindanao ( UDP )
- Mindanao Rural Development Program ( MRDP )

**d.) National Irrigation Administration ( NIA )**

### **3. Significant Accounting Policies**

#### **3.1 Change in Accounting Policies**

- 3.1.1 The accrual basis of accounting is used. All expenses are recognized when incurred and reported in the financial statements in the period to which they relate. Income is on accrual basis except for transactions where accrual basis is impractical or when other methods are required by law.
- 3.1.2 Notice of Cash Allocation (NCA) is recorded in the Regular Agency (RA) books.
- 3.1.3 The Modified Obligation System is used to record allotments received and obligations incurred. Separate registries are maintained to control allotments and obligations for each class of allotment.
- 3.1.4 Income and receipts which the agency are not authorized to use and are required to be remitted to the National Treasury are recorded in the National Government (NG) books.
- 3.1.5 Petty Cash Fund (PCF) account is maintained under the Imprest System. All replenishments are directly charged to the expense account. The PCF is not used to purchase regular inventory/items for stock.
- 3.1.6 Allowance for Doubtful Accounts is maintained at a level adequate to provide for potential uncollectibility of receivables. A review of the receivables, designed to identify accounts to be provided with allowance, is made on a regular basis. Only Bureau of Soils and Water Management and the Bureau of Plant Industry provided for Allowance for Doubtful Accounts for Accounts Receivable. Normally, only trade accounts receivable should be provided with allowance, however, COA-GAFMIS gave authority to the Department of Agriculture to provide an allowance for doubtful accounts on Loans receivable due to the reason that granting loans and credits to farmers, fisherfolks, LGUs, GOCCs and other NGAS is considered as part of its normal course of business. As a result of this, ATI, Regions I, V, VI and XI provided allowance for their Loans Receivable-Others account. The rest of the regions did not provide for allowance for doubtful accounts because a review and deeper analysis of transactions, involving their receivable is still to be made. For RFU-I, allowance for doubtful accounts is computed at 5% of loans receivable over one year.
- 3.1.7 Supplies and materials purchased for inventory purposes are recorded using the Perpetual Inventory System and the cost of ending inventory of

office supplies and materials and other inventory items are computed using the Moving Average Method.

- 3.1.8 With respect to the Property, Plant and Equipment of all RFUs, Bureaus and Foreign-Assisted Projects, it is carried at cost less accumulated depreciation and obsolescence. For assets under construction, the Construction Period Theory was applied for costing purposes. Related expenses incurred during the construction of the project were capitalized and those incurred after the construction formed part of the operating cost. Bonus paid to contractors for early completion of work was added to the total cost of the project while those projects where liquidated damages were charged and paid for by the contractor was deducted from the project cost.
- 3.1.9 The Straight Line Method of depreciation is used in depreciating the Property, Plant and Equipment over the estimated useful lives of the assets. A residual value computed at 10 percent of the cost of asset is set and depreciation starts on the second month after purchase. However some Regional Field Units did not compute and determine accumulated depreciation due to the absence of inventory list of supplies and materials, properties, plant and equipment. The said RFUs and Bureaus also stated that depreciation for their other PPEs were not computed because they could not be determine its cost and date of acquisition.
- 3.1.10 Properties of the government which are used by the general public are accounted for under the Public Infrastructures/Reforestation Projects. These are dropped from the Property, Plant and Equipment account and recorded in the Registry of Public Infrastructures/Reforestation Projects. These are not subject to depreciation.
- 3.1.11 Payable accounts are recognized and recorded in the books of accounts only upon delivery of the goods/inventory/other assets and rendition of services to the agency.
- 3.1.12 Financial expenses such as bank charges are separately classified from MOOE.
- 3.1.13 Foreign currency denominated monetary assets and liabilities at balance sheet date are restated based on BSP exchange rate at that date. Foreign exchange gains/losses are recognized in the books of accounts.

### 3.2 Change in accounting treatment

3.2.1 Accounts were reclassified to conform with the new Chart of Accounts prescribed under the Revised New Government Accounting System.

3.2.2 Transactions in foreign currencies are recorded in Philippine Peso based on the BSP rate of exchange prevailing at the date of said transactions. At the end of the year, these are revalued using the rate of exchange at Balance Sheet date. Foreign currency denominated monetary assets and liabilities at balance sheet date are restated based on BSP exchange rate at that date.

### 3.3 Correction of fundamental errors

Fundamental errors of prior years are corrected by using the Prior Years' Adjustments account. Errors affecting the current year's operation are charged to the current year's accounts.

## 4. Subsequent Events

Non-adjusting events after the balance sheet date which are so significant that non-disclosure would affect the ability of the users of the financial statements to make proper evaluation and decisions are hereby disclosed. The nature of the events consists of various adjustments and reclassification of Property, Plant and Equipment accounts which are still being worked out by the different RFUs, Bureaus and FAPs.

## 5. Allotment, Obligation and Balances

Allotment received and obligation incurred for CY 2006 amounting to ₱13,958,738,045.35 and ₱12,601,513,144.92 having a balance of ₱1,357,224,900.43. The funds augmented the continuing appropriations totaling ₱3,023,417,151.41. Breakdown of the allotment received and obligations incurred for 2006 is summarized per PPA in **Annex 6 and 6a**. The funds received augmented the continuing appropriations, a detail of which is presented in **Annex7**.

## 6. Cash and Other Cash Accounts

6.1 The balance of Cash National Treasury – represents restoration of unreleased checks in the amount of ₱750,773,538.96 pursuant to COA Circular Letter No. 2002-001 dated December 16, 2002.

6.2 The account Cash - Local Currency, Bangko Sentral ng Pilipinas amounting to ₱2,163.66 representing balance from BPI is a dormant account for the last five years.

- 6.3 The balance of the Cash in Bank – Local Currency Time Deposits amounting to ₱182,099,365.89 consists mainly of that from BAI which include Time Deposits with various Rural Cooperative Banks for the implementation of the Multi-Livestock Development Loan Program (MLDLP) this account were previously taken up under account Other Investments and Marketable Securities.
- 6.4 The balance of the Cash Disbursing Officer (CDO) Account amounting to ₱238,201,701 includes Payroll Fund and Advances to Officers and Employees. The composition of the CDO will be reclassified to the proper accounts in 2007 pursuant to Accounting Circular No. 2006-001 dated November 9, 2006.

## **7. Receivables**

- 7.1 There is a split in the account allowance for doubtful accounts because a portion of it which is ₱4,851,618.34 is for accounts receivable and ₱53,886,667.17 is the allowance for doubtful accounts for Loans Receivable - Others.
- 7.2 The account Due from Officers and Employees (DOE) consists mainly of the consolidated amount granted as cash advances for travelling expenses – Local and Foreign, Gasoline, Oil and Lubricants Expenses, Training and Seminar expenses and other operating expenses subject to liquidation and various adjustment recommended by COA. The various adjustment amounting to ₱73,316,634.11 was the result of adjustments made by BAI under various AOM's recommended by COA booking up for accountabilities of officers and employees for loss of assets as a result of the closure of conduit rural banks which were released as seed funds for the Multi-Livestock Development Loan Program (MLDLP).
- 7.3 The composition of the DOE will be reclassified to the proper accounts in 2007 pursuant to Accounting Circular No. 2006-001 dated November 9, 2006.
- 7.4 The Loans Receivable-GOCCs amounting to ₱2,517,565,679.49 consists mainly of that from DA-OSEC. This represents fund transfer to Land Bank of the Philippines and Quedan and Rural Credit Guarantee Corporation (QUEDANCOR) to cover the implementation of Financing Program for Small farmers and Fisherfolk using the Self-Reliance Team (SRT) Model and Other Schemes under the Agricultural Competitiveness Enhancement Fund (ACEF) Fund 183.

7.5 The account Loans Receivable-LGUs is composed of loan at cost granted to LGUs in the form of 4 Wheel Tractors, Irrigation Pumps and warehouses with a repayment period of 5-10 years.

7.5.1 The accounts Loans Receivable – Others with a consolidated amount of ₱2,241,031,894.95 includes the RFU VI amounting to ₱139,180,195.20. This represents loans granted to farmers in the form of Shallow Tube Wells (STW) and Farm Equipment payable in 10 equal installments or in 5 years time and loans granted to contract growers in a form of swine parent stock (gilts) payable in 3 years period. According to RFU VI, out of this amount, ₱129,324,676.30 were already accounted and with identified recipients. Reconstruction and reconciliation of the balance is on-going.

7.5.2 Due from Local Government Units ( LGUs) were for funds transferred to LGUs by DA Central Office, Regional Field Units and Bureaus for project implementation and subject to liquidation by the former.

7.5.3 Due from Central Office were for Sub-allotment Advice received by the Regional Field Units and Bureaus, as of December 31, 2004 which were not covered by funding checks. Verification and reconciliation is under process to adjust this account.

7.5.4 The account Receivables-Disallowances/Charges represents amount due from contractors resulting from audit disallowances which have become final and executory, disallowed rice allowances, food subsidy and medical allowances.

## **8. Inventories**

8.1 Drugs and Medicines Inventory consists of vaccines purchased needed for the rabies, foot and mouth disease program of the Bureau of Animal Industry.

8.2 There is a decrease in some of the inventory accounts because of reclassification or conversion of old accounts to new accounts in accordance with COA Circular No. 2003-001 dated June 17, 2003 on the Revised Chart of Accounts under the New Government Accounting System.

## **9. Prepayments**

Advances to Contactor includes DA-OSEC payment for consultancy services rendered by Pacific Consultancy International Asia, Inc. under INFRES a foreign assisted project funded by Asian Development Bank (ADB) amounting to ₱44,156,941.15

## **10. Property, Plant and Equipment**

10.1 Property, Plant and Equipment are carried at cost less accumulated depreciation. The Construction Period Theory is used for costing the assets. However, some regions did not provide or compute accumulated depreciation for some of their assets because they cannot determine their original cost and date of acquisition. However, inventory for properties and reconciliation are still on-going for some RFUs, Bureaus and FAPs to be able to reclassify and compute the necessary accumulated depreciation.

10.2 Regular maintenance, repair and minor replacements are charged against Maintenance and Other Operating Expenses (MOOE) as these were incurred.

## **11. Other Assets**

The consolidated net amount of the account Other Assets is ₱29,437,388.47. These are obsolete and unserviceable assets awaiting final disposition as well as those assets still serviceable but are no longer being used.

## **12. Current Liabilities**

12.1 The Accounts Payable includes unreleased checks and due & demandable obligations to creditors as of December 31, 2006.

12.2 The consolidated amount of Accounts Payable includes CHARMP's Accounts Payable of ₱87,304,277.60. Such amount includes accounts paid by the Asian Development Bank (ADB) under the Direct Payment Scheme. Total and actual payments made by the ADB under this scheme amounting to ₱86,732,303.82 remain outstanding in the books of DA-CHARMP due to the non-issuance of the required Notice of Non-Cash Availment Authority (NCAA) from the Department of Budget and Management (DBM) pursuant to Joint Circular 2-97.

12.3 Due to other NGAs consists mainly of transfers from source bureaus and DA attached agencies for the implementation of various projects.

12.4 Due to Officers and Employees represents claims for reimbursement of travelling expenses, training and seminar expenses, and other operating expenses that remains unpaid for the period ended.

## **13. Subsidy Income from National Government**

For this Year, the consolidated amount of Notice of Cash Allocation amounting to ₱11,182,591,734.23 was received from the Department of Budget and Management for payment of expenses for operational requirements and liabilities. The amount of ₱12,574,088,639.55 as reflected in the Detailed Income Statement is net of reversion

of unutilized NCA and remittance of tax withheld thru Tax Remittance Advice (TRA).

#### **14. Income and Expenses**

Consolidated Income and expenses recorded in the books of accounts amounted to ₱12,791,626,064.70 and ₱ 5,891,340,448.53 respectively.

#### **15. Government Equity**

The reported consolidated amount of Government Equity includes all the adjustments made for committed errors in prior years such as reclassification of accounts, wrong treatment of accounts and unrecorded transactions.



## PART II – OBSERVATIONS AND RECOMMENDATIONS

### A. Financial and Compliance Audit

#### Various Errors in Cash Balances - ₱ 176.727 M

1. There are unreconciled differences totaling **₱118.085 million** between the books and the bank balances of various cash accounts and errors totaling **₱176.727 million** arising from (a) overstatement of **₱156.123 million** of the Cash-DO balance due to unliquidated but expended advances for payroll and operating expenses; and (b) a net overstatement of **₱20.496 million** resulting from unrecorded transactions and other errors.

1.1 Audit disclosed unreconciled differences of undetermined nature and floating items totaling **₱117,941,917.83** between the books and the bank balances of OSEC, ATI and some RFUs at the end of the year due to the failure of these agencies to update bank reconciliation.

1.2 Bank reconciliation is a standard procedure in handling the cash accounts to verify the correctness of the cash balances. It was noted however, that in DA-OSEC, RFUs II, VII, XIII and ATI, the accounting division did not reconcile the variances between book and bank balances totaling **₱118,085,180.37**, summarized below, contrary to Section 74 of PD 1445. The variances are indicative of the presence of various other errors that need to be adjusted in the books of accounts.

Agency	Account	Amount per Book	Amount per Bank	Variance	Cause/s of Variance
DA-OSEC	Cash-NT, MDS	93,323,866.35	5,923,069.62	87,400,796.73	Absence/delayed submission of Bank Reconciliation Statement
	Cash in Bank, FCSA	9,538,007.80	9,748,340.06	210,332.26	
	Cash in Bank, LCCA	19,125,129.51	25,482,056.15	6,356,926.64	
RFU II	Cash in Bank, LCCA	4,055,788.45	2,484,157.18	1,571,631.27	₱1,214,159.47 was due to delayed preparation of BRS and P 357,471.80 was for adjustment.
RFU VII	Cash in Bank	11,615,744.14	96,620.17	11,519,123.97	Non- preparation /submission of BRS since October
RFU XIII	Cash in Bank, LCCA	26,743,341.64	36,646,574.78	9,903,233.14	Outstanding Checks
ATI - CO	Cash in Bank, LCCA	21,026,999.54	19,903,863.18	1,123,136.36	Non-preparation of BRS before closure of 2 bank accounts
<b>Total</b>		<b>185,428,877.43</b>	<b>100,284,681.14</b>	<b>118,085,180.37</b>	

- 1.3 In addition, analysis of the Cash - Disbursing Officer (DO) account disclosed total unliquidated cash advances for payroll and operating expenses of ₱238,201,071.66 of which ₱75,458,148.40 are aged 31 days to over one year. Section 89 of PD 1445 requires the liquidation of cash advance as soon as the purpose for which it was given has been served. It also states that no additional cash advance shall be allowed to any official or employee unless the previous cash advance is first settled or proper accounting thereof is made. Non-compliance with the above requirements resulted in huge balances of outstanding cash advances shown below:

Aging of Unliquidated Cash Advances - Disbursing Officers					
Agency	Amount	Age			
		Current	31 – 90 days	91 -365 days	Over 1 year
OSEC	1,140,563.53	-	595,000.00	525,728.85	19,834.68
RFU I	3,509,656.35	2,968,307.22	39,999.05	501,350.08	-
RFU III	3,478,195.71	2,297,577.55	-	12,670.16	1,167,948.00
RFU IV *	52,795,044.90				
RFU V ***	25,716,770.60	16,528,600.80	1,216,852.09	2,327,684.77	5,670,524.43
RFU VI	14,000.00	14,000.00	-	-	-
RFU VII	26,670,314.76	26,647,600.98	10,275.33	12,438.45	-
RFU VIII	167.00	-	-	-	167.00
RFU IX	2,656,934.78	1,192,370.95	333,858.83	473,975.00	656,730.00
RFU X	3,951,336.18	3,454,743.00	8,081.07	303,501.40	185,010.71
RFU XI	57,180,806.44	27,458,896.93	25,331,245.23	4,385,664.28	5,000.00
RFU XII	189,017.93	-	14,377.31	121,372.81	53,267.81
RFU XIII	200,392.34	200,392.34	-	-	-
ATI **	2,544,340.07	-	530,384.00	355,554.70	-
BAI	1,997,483.23	745,306.12	98,720.12	287,824.49	865,632.50
BAR	80,357.68	45,774.10	-	-	34,583.58
BAS	923,390.26	479,174.26	444,216.00	-	-
BPI ***	30,536,968.73	-	8,742,279.99	13,704,900.08	6,835,514.12
BSWM	516,920.18	45,000.00	76,315.00	86,119.12	309,486.06
NIA *	24,098,410.99				
<b>Totals</b>	<b>238,201,071.66</b>	<b>82,077,744.25</b>	<b>37,441,604.02</b>	<b>23,098,784.19</b>	<b>15,803,698.89</b>

\* No aging submitted as of date

\*\* Aging submitted is for Central Office only (Centers - ₱1,658,401.37)

\*\*\* Aging submitted not tally with the total amount per FS

- 1.4 Moreover, a net overstatement of ₱20,495,798.38 was also found in audit resulting from unrecorded transactions, misclassification of accounts and other accounting errors affecting the balances of the following accounts:

Results of Analysis of Cash Accounts			
Agency	Accounts	Amount of Over/(Understatement)	Cause/s of Misstatement
CAR	Cash, NT-MDS	9,019,616.48	Unrecorded disbursement
RFU I	Cash in Bank, LCCA	( 2,157.54)	Unrecorded interest income
RFU II	Cash in Bank-MDS	( 16,913,472.97)	Unreleased checks as of 12-31-06
	Cash, Collecting Officer	( 3,085,000.00)	Unreceipted collection
RFU III	Cash in Bank,	( 108, 477.85)	Erroneous credit to account
	LCCA	( 6,147.56)	Unrecorded Interest Income
RFU IV	Cash in Bank, LCCA	16,851.00	Unrecorded disbursements
	Cash-Collecting Officer	( 120,127.62)	Error in recording
	Cash-NT,MDS	39,260,308.22	Unrecorded disbursement
RFU V	Cash in Bank, LCCA	( 103,595.00)	Unrecorded deposits

		190,109.81	Unrecorded disbursement
		234.71	Unrecorded Debit Memo and Service charge
		( 1.86)	Unrecorded Interest Income
		( 44,590.25)	Double entry of disbursement
RFU VII	BAI Account – Fund 162	( 383,593.00)	Unrecorded collections
RFU IX	Cash-Disbursing Officers	338,500.00	Erroneous recording
RFU X	Cash in Bank, LCCA	( 177,232.00)	Unrecorded NTA
ATI - RTC 4	Cash in Bank, LCCA	( 219,470.01)	Net understatement from unrecorded deposits and disbursements of revolving fund
BAI	<i>Cash in Bank, LCCA</i>		
	Trust Receipts (LBP # 3212-1003-30-QCMC-EO)	(197,047.20)	Represents outstanding checks and unrecorded credit memos
	DFIMDP (LBP #3212-10185-50)	(36,970.70)	Outstanding checks, as of 12.31.06 and unreleased checks
	Revolving Fund (PNB # 010-840239-3)	(2,967,831.44)	Unrecorded collections deposited to revolving fund
	APHCA (PNB # 010-840-2857)	(81,032.71)	Not recorded in the books and treated as private fund
	BAI-DAR (LBP # 3212-1000-47)	290,818.97	Account already closed per bank confirmation.
BPI	Cash in Bank, LCCA	(4,173,893.10)	Unrecorded reconciling items
	<b>Net Overstatement</b>	<b>20,495,798.38</b>	

- 1.5 The ATLS recommended that concerned officials (a) strengthen the financial management system by preparing/updating/submitted the bank reconciliation statements for all bank accounts so that floating cash items can be identified and adjusted; (b) closely monitor outstanding cash balances and its immediate liquidation pursuant to Section 89 of PD 1445; (c) effect adjustments for errors.

### Unused Cash not Remitted to Treasury - ₱ 103.052 M

2. **Excess and idle cash for completed projects totaling ₱103.052 million still remain in the depository banks of four RFUs and two staff bureaus in violation of EO No. 338 and depriving the national government of the use thereof for other projects.**

- 2.1 Analysis of dormant balances of Cash in Bank, LCCA accounts totaling ₱103,052,340.42 revealed that these are unused cash remaining from fund transfers in four RFUs and two staff bureaus after project completion. Such unused cash shown below should have been remitted to the Bureau of Treasury as required under EO No. 338 dated May 17, 1996, which requires the immediate transfer of all public monies deposited with the authorized depository bank and other institution of the Bureau of Treasury.

Balances of Dormant Cash Accounts not Reverted to the National Treasury				
Agency	Account/Fund	Amount of Dormant/Idle Cash	Recorded since	Nature
RFU III	Cash-in-Bank LCCA	596,712.87	2003-2004	Excess of Funding Checks

				received
RFU IX	Cash in Bank-LCCA	304,306.77	CY 1980's	Fund Transfer from BPI
RFU X	Cash in Bank-LCCA	2,359,588.83		
RFU XI	Cash in Bank-LCCA	963,265.47	CY 2002-2005	Fund balances for implementation of various projects
BAI	Cash in Bank-LCCA	98,828,466.48		Trust Receipts and Revolving Fund
BPI	Cash in Bank, LCCA		CY 2004	Balance of completed projects
<b>Total</b>		<b>103,052,340.42</b>		

- 2.2 Had said idle cash been remitted to the BTr such amount could have been utilized to augment the national government budget.
- 2.3 The audit teams recommended that management comply with the requirements of EO 338 transferring idle cash balances to the Bureau of Treasury.

### **Questionable transfers of PDAF and Regular Fund Allocations**

**3. Management of Priority Development Assistance Fund (PDAF) covered by various Special Allotment Release Orders (SAROs) totaling ₱691.02 million is wanting of control that defines accountability and responsibility from the release of funds by the DA OSEC to the receipt by the RFUs. Notices of Transfer of Allocation (NTAs) totaling ₱146.15 million for PDAF were received late resulting in unexpended balance of ₱40.76 million at the end of the year. There were NTAs for PDAF and regular funds totaling ₱1.32 billion released without the required Advice of Sub-Allotment (ASA) and therefore treated as common fund by the recipient bureaus/units. Releases were made to RFU XII over and above their allotment limit affecting the cash position of the RFU and the department as the case may be.**

- 3.1 Internal control standards prescribed that all transactions shall be executed by persons acting within the scope of their authority. Transaction pertaining to the releases of funds is of no exception. Documented trail of transactions are features that should be built-in to the execution and recording of transaction to assure their correctness. In the trail of fund transfer, Advice of Sub-Allotment reflects the purpose while the Work and Financial Plan justify the amount of the fund transfer.
- 3.2 Analysis of the ASAs and NTAs supporting the transfer of funds to the bureaus and RFUs, showed the following deficiencies:
- a) There is no clear guideline on the authorized signing limits to the Notice of Transfer of Allocations (NTA) so that the observed approving officials namely: the Director for Finance and Management Services, Assistant Secretary and the Undersecretary for Administration and Finance either signed

the NTA without considering their limits of authority as shown by the sample NTAs below:

<b>Sample of NTAs with Various Signatories</b>				
<b>NTA #</b>	<b>Date</b>	<b>Amount</b>	<b>Signatories</b>	<b>Purpose</b>
06-02-069	02.23.06	353,000.00	Undersecretary for Finance and Admin. and Chief, Cash and Disbursement Section	Infres Projects
06-02-110	03.03.06	8,212,570.00		- do -
06-03-125	03.21.06	9,177,125.00		- do -
06-03-126	03.21.06	11,741,000.00		- do -
06-03-128	03.21.06	6,362,916.65		- do -
06-11-658	11.29.06	6,000,000.00		- do -
06-11-631	11.28.06	18,000,000.00	Assistant Secretary for Finance and Admin. and Chief, Cash and Disbursement Section	GMA Program
06-11-649	11.28.06	7,000,000.00		Regular program
06-12-711	12.18.06	96,000,000.00		Various priority
06-12-731	12.28.06	40,000,000.00		activities/interve
06-12-731A	12.28.06	40,000,000.00		ntion under the
06-12-740	12.29.06	100,000,000.00		GMA Program
06-02-025	02.10.06	20,000,000.00	Director, Finance and Management Services and Chief, Cash and Disbursement Section	PDAF
06-02-052	02.20.06	60,091,975.10		GMA Rice Drying
06-03-105	03.03.06	43,408,500.00		Season
06-10-520	10.03.06	16,000,000.00		SELAP-LEAP
06-10-571	10.23.06	19,378,700.00		SELAP-LEAP
06-11-606	11.14.06	30,000,000.00		GMA Programs

- b) It was noted that General Memorandum Order No.1 Series of 2005 on Delegation of Authority did not include authority on the signing of documents pertaining to the released of funds.
- c) Propriety and necessity of the ASAs released to the RFUs/attached bureaus could not be validated because these are not always supported by detailed Work and Financial Plan (WFP) justifying the proposed expenditures as shown in the attached sample list below:

<b>Sample ASA without complete WFP</b>				
<b>ASA #</b>	<b>Date</b>	<b>Amount</b>	<b>Requested by</b>	<b>Attachments</b>
101-2006-1074	12.28.06	1,000,000.00	Undersecretary for Operation	WFP signed by Undersecretary for Operation
101-2006-856	11.28.06	2,200,000.00	Undersecretary for Operation	WFP attached not duly signed
101-2006-990	12.12.06	6,000,000.00	Undersecretary for Operation	WFP not presented in details signed by Undersecretary for Operation
101-2006-979	12.12.06	577,110.00	Undersecretary for Operation	Unsigned Budgetary Requirements per Region
101-2006-393	05.22.06	581,648.00	Executive Director and GMA Livestock	No attachment

			Program Director	
101-2006-351	05.08.06	7,800,000.00	No request attached	List of Proposed SWIPS by Director of ITCAF
101-2006-1007	12.13.06	1,000,000.00	No request attached	SARO # ROCS-06-07767
101-2006-1023	12.22.06	1,050,000.00		SARO # BMB-E-06-0007740 and list of operating agency/unit with corresponding amount duly received by DBM
101-2006-1113	12.29.06	119,000,000.00	Assistant Secretary for Admin. and Finance	WFP not presented in details signed by the Assistant Secretary for Admin. and Finance

- d) Control over the release of funds by the department is weak and there is no monitoring of the status of their allotment. Release of NTA over and above the allotment of the concerned RFUs/attached bureaus understates the Cash, NTA, MDS maintained by the DA OSEC and overstate the Cash, NTA, MDS maintained by the Bureau/RFU.

3.3 For CY 2006, NTAs with the total amount of ₱658,635,500.00 were transferred to RFUs. Status of funds as of December 31, 2006 follows:

Status of NTA Releases (PDAF only)					
Region	January-October 2006	November-December 2006	Total	Disbursements in CY 2006	Unexpended Balance as of 12/31/06
RFU CAR	10,000,000.00	-	10,000,000.00	10,000,000.00	-
RFU I	19,700,000.00	15,500,000.00	35,200,000.00	29,200,000.00	-
RFU II	12,663,000.00	-	12,663,000.00	9,594,000.00	3,069,000.00
RFU III	26,850,000.00	-	26,850,000.00	26,850,000.00	-
RFU IV	118,510,000.00	85,700,000.00	204,210,000.00	190,341,512.43	13,868,487.57
RFU V	14,537,500.00	-	14,537,500.00	14,537,500.00	-
RFU VI	22,375,000.00	6,000,000.00	28,375,000.00	3,876,875.00	18,498,125.00
RFU VII	27,300,000.00	14,100,000.00	41,400,000.00	40,239,920.00	1,160,080.00
RFU VIII	10,000,000.00	-	10,000,000.00	10,000,000.00	-
RFU IX	23,000,000.00	3,000,000.00	26,000,000.00	25,918,850.00	81,150.00
RFU X	10,600,000.00	-	10,600,000.00	10,600,000.00	-
RFU XI	11,500,000.00	11,000,000.00	22,500,000.00	18,417,474.00	4,082,526.00
RFU XII *	18,450,000.00	0.00	18,450,000.00		
RFU XIII	187,000,000.00	10,850,000.00	197,850,000.00	197,850,000.00	0.00
<b>Total</b>	<b>512,485,500.00</b>	<b>146,150,000.00</b>	<b>658,635,500.00</b>	<b>587,426,131.43</b>	<b>40,759,368.57</b>

\* No report submitted on disbursement of fund

3.4 Out of the NTA releases of ₱658,635,500, the amount of ₱146,150,000 was dated between November and December 2006. Out of this amount, nine (9) SAROs totaling ₱40,759,368.57 million were received in January 2007, and were considered as late releases that affected the timely implementation of the program/project that explains the unexpended balance as of December 31, 2006.

- 3.5 DA intentionally did not support the release of its funds to the RFUs/attached bureaus amounting to ₱1,317,861,157.00 with the required Advice of Sub allotment (ASA) so that the amount can be treated by the RFUs/attached bureaus as common fund. The practice opens the floodgate to uncontrolled spending that may be inconsistent with the purpose of the funds as originally conceived in the SARO. Breakdown of such releases follow:

<b>Schedule of Releases without ASA</b>	
<b>Bureaus /RFUs</b>	<b>Amount</b>
ATI	₱ 2,850,000.00
BAI	18,467,254.00
BAR	5,650,000.00
BPI	2,850,000.00
BAS	9,700,000.00
BSMW	1,750,000.00
CAR	47,617,885.00
I	88,756,750.00
II	143,000,000.00
III	124,411,115.00
IV	116,776,965.00
V	225,200,250.00
VI	32,186,680.00
VII	24,290,250.00
VIII	44,728,118.00
IX	68,347,795.00
X	44,319,500.00
XI	107,918,330.00
XII	180,463,890.00
XIII	28,576,375.00
<b>Total</b>	<b><u>₱ 1,317,861,157.00</u></b>

- 3.6 In RFU XII, NTAs are issued without or deficient ASA. The practice of providing ASA to cover up NTAs which were released in advance is indicative of weak management of funds. From July to October 2006, NTA totaling ₱31.0 million were issued to RFU XII without corresponding ASA. Likewise, for the month of November, 2006, NTA totaling ₱20.62 million were issued to the same region with the total ASA of only ₱11.62 million showing deficiency of ₱9.0 million. This may not be noticeable as the difference in amount may have been covered by other available ASA within RFU XII but the practice should not be tolerated.
- 3.7 On December 2006, the total NTA issued to RFU XII was only ₱156,680,380.00 although total ASA was only ₱196,897,580.00. It showed that allotment exceeded the total amount transferred of ₱40,217,200.00. The excess in amount provided by the DA OSEC covered up for the previous deficiencies of RFU XII but affected the cash position of the former.

3.8 The details of the transfers are shown below:

Details of Transfers to RFU XII										
Notice of Transfer of Allocation (NTA)				Advice of Sub-Allotment (ASA)				Difference		
No.	Date	Amount	Total	No.	Date	Amount	Total			
06-07-390	07.07.06	2,500,000	31,000,000	Not covered by ASA						
06-07-408	07.20.06	2,000,000								
06-08-441	08.22.06	3,000,000								
06-09-452	09.04.06	3,000,000								
06-09-483	09.12.06	7,000,000							(31,000,000)	
06-09-511	09.19.06	3,500,000								
06-10-518	10.02.06	2,000,000								
06-10-525	10.09.06	3,000,000								
06-10-569	10.23.06	5,000,000								
06-11-591	11.10.06	1,200,000			20,620,000					
06-11-597	11.13.06	2,000,000	101-2006-799	11.06.06		1,200,000	11,620,000	(9,000,000)		
06-11-614	11.14.06	1,200,000	101-2006-802	11.06.06		1,200,000				
06-11-621	11.23.06	4,000,000	101-2006-821	11.17.06		6,220,000				
06-11-652	11.28.06	6,220,000	101-2006-871	11.28.06		3,000,000				
06-11-658	11.29.06	6,000,000								
06-12-673	12.06.06	5,000,000	156,680,380	101-2006-938	12.07.06	31,743,890	196,897,580	40,217,200		
06-12-689	12.07.06	31,743,890		101-2006-953	12.07.06	3,516,000				
06-12-691	12.07.06	1,500,000		101-2006-955	12.07.06	1,500,000				
06-12-693	12.11.06	7,000,000		101-2006-967	12.07.06	8,360,000				
06-12-707	12.18.06	13,000,000		101-2006-975	12.12.06	1,716,490				
06-12-723	12.21.06	8,360,000		101-2006-984	12.12.06	1,061,200				
06-12-730	12.27.06	1,716,490		101-2006-1053	12.28.06	30,000,000				
06-12-731	12.28.06	40,000,000		101-2006-1104	12.29.06	(8,360,000)				
06-12-731A	12.28.06	40,000,000		101-2006-1104	12.29.06	8,360,000				
06-12-735	12.29.06	8,360,000		101-2006-1113	12.29.06	119,000,000				
<b>Total</b>		<b>208,300,380</b>							<b>208,517,580</b>	<b>217,200</b>

3.9 In view of the aforementioned deficiencies, the ATLS recommended the following:

- a) To provide clear guidelines on the signing authority of the NTA to pinpoint accountability and responsibility over the release of funds;
- b) To support all releases of ASA with the corresponding Work and Financial Plan to justify the amount requested. The Work and Financial Plan must be reviewed by the Field Operations Service to justify the funding requests, and the current allotment of the RFUs must be considered before release is made;
- c) To release funds based on the ASA indicating its purpose as originally conceived in the SARO;
- d) To closely coordinate with DBM to prevent late releases of funds;
- e) To stop the practice of releasing NTA to the RFUs without corresponding ASA like in the case of RFU XII; and
- f) To inquire further the case of RFU XII where NTAs were released in advance for its purpose.

3.10 The Undersecretary for Field Operations Services was amenable with our recommendation to set up policies and limits of authority in the signing of the



NTAs. He believes that the signing authority of checks provided under GMO No.1 series of 2005 should not be adopted because the authority may be too limited.

**Cancellation and Withdrawals of PDAF ASA and SAROs in the amount of ₱76.30M and P151M, respectively.**

**4. Priority Development Assistance Fund (PDAF) Advices of Sub-Allotments (ASA) amounting to ₱76.30 million were cancelled and transferred to other agencies while SAROs totaling ₱151 million were withdrawn by DBM resulting in misinformation affecting the funds of the OSEC and/or concerned RFUs.**

4.1 Audit of expenditures starts with the evaluation and verification of the budget formulation and execution processes to ensure that funds are properly allocated and utilized solely for the specific purpose for which they have been appropriated. Hence, the audit starts with the SARO received from DBM and proceeds as to how the same were spent or distributed to field offices or bureaus through ASA and NTA in the case of the department.

4.2 In monitoring the PDAF SARO received from DBM and sub-allotted to field offices or other agencies, the following deficiencies were observed:

- a) ASA released to RFUs amounting to ₱76,300,000.00 in CY 2006 were cancelled and transferred to other agencies like the TLRC or NABCOR. Funds were further transferred by the TLRC or NABCOR to NGOs/POs stationed in the RFUs as follows:

List of Cancelled and Transferred ASAs				
ASA #	Date	Amount	Original Recipient	Transferred to
101-2006-1021	12.20.06	10,000,000.00	RFU X	TLRC
200-06-12-8109	12.29.06			
101-2006-1069	12.28.06	8,000,000.00	RFU V	TLRC
200-06-12-8110	12.29.06			
101-2006-1070	12.28.06	10,000,000.00	RFU VII	TLRC
200-06-12-8108	12.29.06			
101-2006-8243	11.20.06	10,000,000.00	RFU X	TLRC
200-06-11-7233	11.28.06			
101-2006-790	11.03.06	5,000,000.00	RFU II	TLRC
200-06-11-7234	11.28.06			
101-2006-762	10.18.06	1,000,000.00	CAR	NDA
200-06-11-7265	11.29.06			
101-2006-973	09.05.06	2,375,000.00	RFU VI	NABCOR
200-07-01-0016	01.07.07			
101-2006-5300	07.25.06	4,300,000.00	RFU X	TLRC
200-06-08-4673	08.07.06			
101-2006-647	09.05.06	7,000,000.00	RFU XII	RFU XI
101-2006-804	11.09.06			

101-2006-614 200-06-09-5413	08.24.06 09.05.06	4,000,000.00	RFU V	TLRC
101-2006-522 200-06-07-4134	07.07.06 07.27.06	2,625,000.00	RFU VI	NABCOR
101-2006-326 200-06-04-1908	04.12.06 04.20.06	5,000,000.00	RFU IV	TLRC
101-2006-123 200-06-02-778	02.13.06 02.22.06	10,000,000.00	RFU II	TLRC
101-2006-226 101-2006-227 101-2006-567	03.06.06 03.06.06 07.05.06	2,000,000.00 5,000,000.00	RFU V RFU IX	RFU IV-A
<b>Total</b>		<b>76,300,000.00</b>		

- b) SAROs in the total amount of ₱151,000,00.00 were withdrawn by the DBM after these were downloaded to the RFUs through the issuance of ASA and NTA. These amounts however could no longer be returned as some of these were already spent, affecting the funds of the RFUs in case where only ASA has been released and the funds of the OSEC in case where ASA and NTA had already been released. This can be attributed to the release of SAROs received on the same day.

List of Withdrawn/cancelled SAROs					
Original SARO Issued		Cancelled by SARO #		Amount	RFUs/Bureaus
ROCS	Date	ROCS	Date		
ROCS-06-08910	12.15.06	ROCS-06-09899	12.29.06	10,000,000.00	RFU XI
ROCS-06-08872	12.15.06	ROCS-06-10388	12.29.06	10,000,000.00	RFU IV-A
ROCS-06-08864	12.15.06	ROCS-06-10314	12.29.06	10,000,000.00	RFU III
ROCS-06-08845	12.15.06	ROCS-06-09923	12.29.06	10,000,000.00	TLRC
ROCS-06-08842	12.15.06	ROCS-06-09907	12.29.06	10,000,000.00	RFU VII
ROCS-06-08841	12.15.06	ROCS-06-09922	12.29.06	10,000,000.00	RFU VII
ROCS-06-08838	12.15.06	ROCS-06-10263	12.29.06	10,000,000.00	RFU XI
ROCS-06-08835	12.15.06	ROCS-06-10298	12.29.06	5,000,000.00	RFU I
ROCS-06-08832	12.15.06	ROCS-06-09925	12.29.06	10,000,000.00	RFU VI
ROCS-06-08808	12.15.06	ROCS-06-10278	12.29.06	10,000,000.00	RFU VII
ROCS-06-08804	12.15.06	ROCS-06-10257	12.29.06	5,000,000.00	RFU IV-B
ROCS-06-08798	12.15.06	ROCS-06-09914	12.29.06	10,000,000.00	RFU IV-A
ROCS-06-07972	12.04.06	ROCS-06-10024	12.29.06	5,000,000.00	RFU IV-A
ROCS-06-06103	10.12.06	ROCS-06-08546	12.13.06	4,000,000.00	RFU I
ROCS-06-04846	09.11.06	ROCS-06-10125	12.29.06	2,000,000.00	NABCOR
ROCS-06-04403	08.07.06	ROCS-06-10155	12.29.06	10,000,000.00	RFU III
ROCS-06-04056	07.21.06	ROCS-06-10047	12.29.06	10,000,000.00	RFU IV-A
ROCS-06-03039	06.09.06	ROCS-06-10018	12.29.06	10,000,000.00	RFU IV-A
<b>Total</b>				<b>151,000,00.00</b>	

- 4.3 Audit also disclosed that there were double issuances of NTAs made to RFU IV-B for the same SARO and ASA amounting to ₱600,000.00 thereby reducing the cash allocation of the DA-OSEC. Moreover, the recipient RFU has no authority to use the funds because there is no allotment advice, hence obligation thereof is not proper.

- 4.4 Moreover, livelihood project for the 2<sup>nd</sup> district of Antipolo in the amount of ₱10 million was charged against the AFMA releases instead charging it to PDAF of the legislator concerned.
- 4.5 It is recommended that management take caution in releasing ASA/NTA to avoid occurrence of a similar situation where releases should be taken back from the RFUs as a result of a withdrawn SARO.
- 4.6 Double issuance of NTA is indicative of weak control and therefore should not be tolerated.
- 4.7 Utilization of regular funds for the projects of legislators must be stopped as this is equivalent of providing funds over the limit of their respective PDAF.
- 4.8 Management justified that the withdrawal of SAROs by the DBM is not anticipated and therefore withdrawal of corresponding ASA could not be prevented. Late releases of SAROs from DBM created a chain effect on the releases made to the Bureaus and RFUs. Management also promised that the double issuance of NTA which was inadvertently committed as well as the utilization of regular funds for the projects of legislators will no longer be tolerated.

#### **Misstated Receivable accounts – ₱6.283 B**

5. **Total reported receivables of ₱12.008 billion include (a) long outstanding but expended advances for travels and other receivables from officers and employees totaling ₱133.935 million; (b) loans receivable of ₱5.002 billion from GOCCs/LGUs, of which ₱769.804 million are either unsupported, disputed as grants or NFA receivables, etc.; (c) unliquidated fund transfers to NGAs/ GOCCs/ LGUs/ NGOs expended for project implementation totaling ₱5.035 billion; and (d) various accounting errors resulting in a total net understatement of ₱36.189 million of the receivable accounts.**

#### *Long Outstanding Expended Advances for Travel and Other Purposes*

- 5.1 Section 5.8 of COA Circular No. 97-002 provides that all cash advances shall be fully liquidated at the end of the year, while Sections 3.1.2.1 and 3.2.2.1 of COA Circular 96-004 provide that liquidations for official travel shall be within thirty (30) days after return to his permanent official station in the case of local travel or within sixty (60) days after return to the Philippines in the case of foreign travel. The same requirements are stated in EO 248 and EO 298. In addition Section 89 of PD 1445 requires that cash advances shall be liquidated as soon as purpose for which it was given has been served.

- 5.2 Audit of the account Due from Officers and Employees showed that the Department has a total outstanding cash advances of ₱167,872,187.07 as of December 31, 2006, of which ₱133,935,088.33 or 79.78% were aged 31 to over 90 days and considered already expended for travels and other purposes.
- 5.3 The failure to enforce liquidation and reclassification of these receivables to expenses was due to weak monitoring thereof. These resulted in the overstatement of total reported receivables and understatement of travel and other operating expense accounts. Details follow:

<b>Aging of Due from Officers and Employees</b>				
<b>Agency</b>	<b>Amount</b>	<b>Current 30 days or less</b>	<b>31 to 90 days</b>	<b>Over 90 days</b>
OSEC	23,295,314.69	229,770.23	2,301,076.25	20,764,468.21
CAR	186,119.03	-	2,450.86	183,668.17
RFU I	282,098.00	242,581.00	21,683.00	17,834.00
RFU II	6,413,901.12	5,360.00	61,424.03	6,347,117.09
RFU III	450,146.33	6,800.00	136,537.00	306,809.33
RFU IV *	9,969,989.14			
RFU V	4,525,520.08	663,673.00	652,243.30	3,209,603.78
RFU VI	124,462.50	19,060.00	53,779.50	51,623.00
RFU VII	206,137.65	29,774.00	43,629.11	132,734.54
RFU VIII	1,645,021.16	7,950.00	701,506.25	935,564.91
RFU IX	5,092,943.79	801,096.00	448,107.40	3,843,740.39
RFU X	272,879.52	98,176.00	137,531.08	37,172.44
RFU XI	2,838,125.98	107,799.00	2,360,435.92	369,891.06
RFU XII	385,937.00	44,273.00	15,082.00	326,582.00
RFU XIII	2,245,037.86	2,057,958.86	154,487.38	32,591.62
ATI **	71,921,150.69		430,075.83	68,502,031.27
BAI	13,359,949.85	56,265.00	81,560.00	13,222,124.85
BAS	1,333,251.82	425,322.82	706,039.00	201,890.00
BAR	195,559.35			195,559.35
BPI	6,821,674.49	515,137.86	333,046.14	5,973,490.49
BSWM	666,019.78	26,122.00	243,291.96	396,605.82
NIA *	15,138,656.63			
CHARMP *	502,290.61			
<b>TOTAL</b>	<b>167,872,187.07</b>	<b>5,337,118.77</b>	<b>8,883,986.01</b>	<b>125,051,102.32</b>

\* No aging submitted as of date

\*\* Aging submitted is for Central Office only (Centers - ₱2,989,043.59)

- 5.4 The failure to enforce liquidation and reclassification of these receivables to expenses was due to weak monitoring thereof. These resulted in the overstatement of total reported receivables and understatement of travel and other operating expense accounts.
- 5.5 Accounting record showed that loans receivables of the Department amounting to ₱5,002,125,928.67 remained outstanding as of December 31, 2006, broken down as follows:

<b>Outstanding Loans Receivables As of December 31, 2006</b>				
<b>Agency</b>	<b>Totals</b>	<b>GOCCs</b>	<b>LGUs</b>	<b>Others</b>
OSEC	2,573,722,090.99	2,517,565,679.49	6,754,150.00	49,402,261.50
CAR	89,022,034.57	-	-	89,022,034.57
RFU I	202,194,168.87	-	-	202,194,168.87
RFU II	424,828,721.48	-	151,851,965.78	272,976,755.70
RFU III	313,313,926.52	-	2,188,600.00	311,125,326.52
RFU IV	207,548,553.19	-	48,905,579.07	158,642,974.12
RFU V	192,603,523.80	-	-	192,603,523.80
RFU VI	136,854,807.70	-	-	136,854,807.70
RFU VII	66,635,355.35	-	-	66,635,355.35
RFU IX	139,620,041.45	--	18,121,126.00	121,498,915.45
RFU X	281,223,544.27	-	-	281,223,544.27
RFU XI	235,523,455.50	-	-	235,523,455.50
RFU XIII	104,360,913.89	-	-	104,360,913.89
ATI	32,122,568.39	-	15,706,933.38	16,415,635.01
BAI	322,000.00	-	-	322,000.00
NIA	2,230,222.70	-	-	2,230,222.70
<b>Total</b>	<b>5,002,125,928.67</b>	<b>2,517,565,679.49</b>	<b>243,528,354.23</b>	<b>2,241,031,894.95</b>

*Unsupported and Disputed Loans receivable*

5.6 The following loan receivables amounting to ₱769,804,412.97 could not be substantiated since there are no subsidiary ledgers showing the breakdown or composition thereof, or record of the identity of the debtors, or other supporting documents thus, no verification or confirmation of their validity or existence could be made.

<b>Deficiencies noted in Loans Receivable Accounts</b>			
<b>Agency</b>	<b>Accounts Affected</b>	<b>Amount</b>	<b>Deficiencies</b>
DA-OSEC	Loan Receivable - LGU (124)	₱ 453,529,378.10	Accounts under Fund 101 did not have detailed breakdown of debtor/accountable officers.
	Loan Receivable - LGU (125)	2,162,000.00	
	Loan Receivable – Others (126)	2,582,608.35	
		83,100.00	Unaccounted amount under Fund 102 with a total balance of ₱46,736,553.15
RFU 3	Loan Receivable – Others (126)	311,125,326.52	Account could not be traced due to the absence of subsidiary ledgers
BAI	Loan Receivable – Others (126)	322,000.00	Transfer by DA under RF 162 without subsidiary ledgers, supporting documents or schedules
	<b>Total</b>	<b>₱ 769,804,412.97</b>	

5.7 Other reasons affecting the validity of the foregoing receivables are as follows:

- a) According to RFU IV, in year 1998 the then President declared the loans as grants; and

- b) According to RFUs IV and XIII, it is not clearly stated in the MOA whether DA or NFA will do the collection activity.

*Expended But Unliquidated Fund Transfers*

- 5.8 Section 4.6 of COA Circular 94-013 dated December 13, 1994 requires the submission of liquidation of the funds received by the implementing agencies to the source agency within ten (10) days after the end of each month/end of the agreed period for the Project. In the same manner, Section 3.11 of COA Circular No.96-003 dated February 27, 1996 requires that NGO/PO that within 60 days after completion of a project, the NGO/PO shall submit financial statements. Management is responsible for establishing an effective system of internal control to ensure that reliable data are obtained, maintained, and fairly disclosed in reports. In case of delay in the submission of reports of liquidation, management of source agency can demand from the implementing agencies to liquidate the funds transferred to them.
- 5.9 Examination of balances as of December 31,2006 showed that funds transferred to NGAs, LGUs, GOCCs, NGOs/POs and ROs/Staff Bureaus have significant unliquidated balances totaling ₱6,300,416,349.79 contrary to aforementioned COA regulations, to wit:. (Details in **Annex 8**)

Unliquidated Fund Transfers*						
AGENCY	NGA	GOCC	LGU	NGO/PO	ROs/SB.	TOTAL
DA-OSEC	804,765,335.38	1,824,481,000.85	34,044,029.23	53,541,720.97	44,914,982.27	2,761,832,086.43
CAR	8,936,695.80	-	41,030,642.33	-		49,967,338.13
RFU I	23,541,811.70	-	16,555,844.03	132,257.46		40,229,913.19
RFU II	63,180,224.43	-	93,191,275.24	23,997,271.41	12,564,995.56	192,933,766.64
RFU III	35,115,853.15	-	172,010,342.92	25,441,056.50	-	232,567,252.57
RFU IV	19,876,364.09	1,000,000.00	102,568,577.72	356,671,613.74		480,116,555.55
RFU V	10,716,467.94	-	247,727,868.65	23,035,181.00	-	281,479,517.59
RFU VI	3,096,628.57	350,018.29	24,838,203.62	14,258,284.69	-	42,543,135.17
RFU VII	712,561.65	-	52,023,125.36	32,444,406.11		85,180,093.12
RFU VIII	15,851,610.58	-	73,642,538.91	1,000,000.00	-	90,494,149.49
RFU IX	34,714,772.41	-	192,746,306.80	43,587,500.00	-	271,048,579.21
RFU X	2,862,593.00	500,000.00	4,871,359.61	100,000.00	-	8,333,952.61
RFU XI	13,242,500.09	151,502.00	192,280,138.36	695,427.42		206,369,567.87
RFU XII	-	-	11,299,071.25	6,999,200.00	-	18,298,271.25
RFU XIII	981,231.65	-	125,701,617.55	72,573,350.00		199,256,199.20
ATI	2,554,111.50	48,864.79	253,664.09	214,787,415.54	290,000.00	217,934,055.92
BAI	14,025,748.52	2,904,803.46	2,397,533.32	320,000.00	17,621,596.20	37,269,681.50
BAR	744,986,336.29	18,747,146.19	824,356.26	258,860,437.61	-	1,023,418,276.35
BAS	734,922.73	-	-			734,922.73
BSWM	12,287,561.55		9,902,366.33	15,000.00		22,204,927.88
BPI	31,395,172.62	5,005.42	691,911.59	2,887,428.86	3,309,606.58	38,289,125.07
<b>TOTAL</b>	<b>1,843,578,503.65</b>	<b>1,848,188,341.00</b>	<b>1,398,600,773.17</b>	<b>1,131,347,551.31</b>	<b>78,701,180.61</b>	<b>6,300,416,349.74</b>

- 5.10 The common causes for the delay in the liquidation by implementing agencies and consequent delay in the recording of expenses out of the fund transfer are as follows:

a) Inadequate provisions of MOA on the policies and controls and determination of party responsible for the over all monitoring of fund transfer, hence no monitoring of projects made; and

b) Non-follow up of liquidation;

5.11 Such condition bloated/overstated total reported receivables and government equity accounts by the same amount of ₱6,300,416,349.74 considering that said amount had already been expended for project implementation by the recipient implementing agencies.

*Other Accounting Errors*

5.12 Analysis of the Receivable accounts also showed other various accounting errors resulting in a net understatement of ₱36,188,837.03, to wit:

Agency	Account	Overstatement/ (Understatement)	Cause/s /Over/understatement
RFU II	Due from LGUs	(2,895,000.00)	Erroneously debited as Grants & Donations
	Due from LGUs	(894,400.00)	Error in recording
	Loans Receivable-Others	2,187,068.08	-do-
	Due from LGUs	(485,000.00)	-do-
	Loans Receivable-LGU	(2,655,974.70)	-do-
	Loans Receivable-LGU	485,000.00	-do-
	Disallowances & Charges	(244,253.99)	Unrecorded PY's disallowance
RFU III	Due from NGAs	(118,012.18)	Unrecorded excess refund to BPRE
	Due from NGOs/POs	(6,000,000.00)	Erroneously debited as Donations
RFU VI	Due from Nati'l. Treasury	1,296,382.99	Error in recording
	Due from LGUs	8,899,990.00	Taken up in the books even if funds have not been transferred for programs to be implemented.
	Due from NGOs/POs	8,076,000.00	
RFU VII	Loans Receivable	(199,104.88)	Error in recording
ATI	Due from NGOs/POs	(45,589,000.00)	Erroneously debited to Other Payables
BAI	Due from NGAs	2,000,000.00	Other Prepaid Expenses erroneously recorded as receivables
	Due from NGAs	(52,532.35)	Erroneously debited to Office Supplies Expense
<b>Net Understatement</b>		<b>(36,188,837.03)</b>	

5.13 In addition, other misclassifications were noted, which although without effect on the total receivables, should nevertheless be adjusted, to show the correct balance of each individual receivable account. The misclassified accounts are as follows:

Misclassification of Receivable Accounts			
Agency	Recorded as	Should be	Amount
RFU XI	Due from NGAs	Due from GOCCs	1,150,000.00
	Due from GOCCs	Due from NGAs	50,000.00

BAI	Due from LGUs	Due from NGAs	4,002,000.00
	Due from NGOs/POs	Due from NGAs	195,427.42
	Due from GOCCs	Other Receivables	1,502.00
	Due from LGUs	Other Receivables	90,556.75
	Due from Officers & Employees	Advances to Officers & Employees	307,800.49
	<b>Total</b>		<b><u>5,797,286.66</u></b>

5.14 Further, the audit of the Loans Receivable also showed erroneous recording of remittances of loan collections granted through the Land Bank of the Philippines under the ACEF Program for the 4<sup>th</sup> Quarter of CY 2004 resulting in a net overstatement of ₱2,230,050.00 of said account because remittances of loan payments were deducted from the loan granted on the “first in, first out basis”, as follows:

Year Granted	Per Book	Per Audit	Over/ (Under) statement
2000	₱ 00.00	₱ 25,796,851.00	(₱ 25,796,851.00)
2001	69,007,025.58	30,567,512.50	38,439,513.08
	00.00	44,970,417.00	(44,970,417.00)
2002	91,541,395.00	69,236,687.00	22,304,708.00
	46,297,914.00	45,208,018.30	1,089,895.70
2003	7,047,488.00	6,947,488.00	100,000.00
2004	123,759,712.00	116,898,329.00	6,861,383.00
	138,304,000.00	135,148,444.68	3,155,555.32
2005	131,683,769.00	130,637,506.10	1,046,262.90
	82,701,750.00	82,701,750.00	00.00
	<u>362,948,349.00</u>	<u>362,948,349.00</u>	<u>00.00</u>
<b>Total</b>	<b><u>₱ 1,053,291,402.58</u></b>	<b><u>₱1,051,061,352.58</u></b>	<b><u>₱ 2,230,050.00</u></b>

5.15 To correct the above deficiencies, the Audit Team Leaders recommended to management the following:

- a) That all cash advances granted to officers and employees be liquidated at the end of the year to avoid overstatement of the account Due from Officers and Employees and understatement of the corresponding expense accounts and to comply with EO 248, EO 298 and COA Circular 97-002;
- b) that subsidiary ledgers be set up and maintained to support the balance of the recorded loans receivable and that accountants be required to substantiate all recorded receivables to establish the validity of the balances recorded in the books;
- c) that accountants be tasked to monitor and enforce the immediate liquidation of funds transferred to implementing agencies pursuant to COA Circulars 94-013 and 96-003 by issuing demand letters; and
- d) that accountants be required to adjust all the errors found in various receivable accounts.



**Fund Transfers ₱616.8 M to GOCCs contrary to COA Circular No. 94-013 and considered unnecessary**

- 6. Fund transfers totaling ₱616.8 million were unnecessary since DA agencies/units are capable of carrying out the intended purposes. The MOAs covering such transfers did not require submission of liquidation documents or project details for monitoring. Moreover, NABCOR and PADCC charged administrative costs from the transferred funds of ₱32.11 million and ₱.84 million respectively, while PCA charged ₱6.39 million and the TLRC an undetermined amount equivalent to .5% to 1% of the project cost, which amounts could have been utilized instead for project implementation.**
- 6.1 COA Circular 94-013 dated December 13, 1994 provides for the liquidation of funds transferred from the source to the implementing agencies. With the implementation of the New Government Accounting System, the transfer of funds by the source agency shall be treated as Receivable accounts, which in this instance, was recorded in the Due from GOCC account. On the other hand, the implementing agency shall record the same as a liability or a “Due to” account.
- 6.2. Consistent with this circular, there should be a policy in the source agency regarding the choice of recipient agencies, and the limits and control of fund transfers.
- 6.3 This was not the case in the Department of Agriculture. In the transfers made to National Agribusiness Corporation (NABCOR), Technology and Livelihood Research Corporation (TLRC), Philippine Coconut Authority (PCA) and Philippine Agricultural Development and Commercial Corporation (PADCC), the following were noted:
- a) While the funds are taken up as Account 137 or “Due From”, there is no requirement in the MOAs between the DA and NABCOR/ PADCC for liquidation or reporting on the utilization of the funds transferred. The implementing Agencies recorded the same as Trust Fund instead of in the “Due to DA” account. On the other hand, while liquidation was cited as one of the requirements in the MOAs between DA and PCA/TLRC, there was either slow liquidation or no liquidation noted.
  - b) The MOA and pertinent documents did not indicate breakdown of expenditures of the program. The specific project was not mentioned in the case of the transfer made to PADCC, and the terms of reference of the projects was not included specifically in the case of the transfer to NABCOR for ASEAN IPM, and therefore no evaluation could be undertaken.
  - c) There was neither report of accomplishment nor monitoring submitted to the DA for all the projects funded by said fund transfers.

- 6.4 Projects out of the fund transfers totaling ₱608.40 million could have been implemented by the DA with the assistance of its bureaus and RFUs who could be responsible for the following:

Fund Recipient	Amount (In million)	Project	DA Office that Could Have Instead Been Made Responsible
NABCOR	₱ 300.0	Agribusiness support services to the GMA program including the provision of post harvest facilities	BPHRE & RFUs.
NABCOR	1.5	Implementation of the Huwarang Palengke Direct Market Linkage Program	Agribusiness and Marketing Assistance Service (AMAS)
NABCOR	5.0	Implementation of the Huwarang Palengke Barangay Food Terminal	AMAS
NABCOR	10.0	evaluation of ASEAN IPM, Knowledge Network	Bureau of Plant Industry
NABCOR	4.625	Implementation of the livelihood projects of the lone district of Guimaras	RFU VI.
PCA	127.875	Management of funds for Biotechnology Program	DA Finance
TLRC*	159.4	Livelihood projects of various districts	RFUs
PADCC	8.4	AFMA –DA projects	DA- Direct to supplier
<b>Total</b>	<b>₱616.8</b>		

\*The fund transferred could have been directly released to the TLRC by the DBM. The transfer was made circuitous as these were again transferred to NGOs/Pos which actually implemented the projects. There were two levels of liquidations needed to be accomplished, that of the TLRC to the DA and that of the NGO/PO to the TLRC.

- 6.5 As a consequence of transfer of funds, service fees were collected by these implementing agencies NABCOR and PADCC charged administrative costs equivalent to 10% or ₱32,112,500.00 and ₱840,000.00 respectively; PCA equivalent to 5% or ₱6,393,750.00; and an undetermined amount by TLRC ranging from .5% to 1% of the project cost, which amounts could have been utilized instead for implementation of the projects.
- 6.6 In addition, personal services totaling ₱374,027.12 were incurred by PCA as of December 31, 2006 and charged against the funds transferred from DA inconsistent with the limitation in the use of funds provided under COA Circular 94-013 dated December 13, 1994.
- 6.7 NABCOR and PADCC acknowledged the receipt of funds using an unofficial form not authorized or printed by the National Printing Office.
- 6.8 DA transferred funds to PCA for the purpose of managing funds for the Biotechnology Program of the DA. The term of agreement is until December 31, 2006 unless renewed or extended. There was no renewal or extension agreed upon by the parties as of this date.

- 6.9 DA transferred funds to the TLRC totaling ₱159,400,000.00 for the livelihood projects of various districts. The transfers were made circuitous because these were again transferred to NGOs/POs, thus requiring two levels of liquidation, that of TLRC to the DA and that of the NGOs/POs to the TLRC.
- 6.10 In view of the above observations, Audit Team Leaders recommended management:
- a) To indicate in the succeeding MOA for transfer of funds the responsibility of the implementing agency to submit liquidation report to the source agency as required under COA Circular 94-013 Dated December 13, 2004.
  - b) To require NABCOR, PADCC, PCA and TLRC to submit liquidation documents to be able to determine the status of the funds and the implementation of the projects. Liquidation documents should specify the project and the breakdown of expenditures for evaluation and monitoring purposes.
  - c) To evaluate the necessity of the transfer of funds, and the advantages of securing the services of NABCOR, PADCC, PCA and TLRC vis a vis implementation of the projects by the DA itself utilizing the services of its bureaus, offices and RFUs in order to avoid the service fees which could have been utilized instead for project implementation.
  - d) To consider the return by PCA of the unspent balance since the MOA already expired on December 31, 2006.
  - e) To stop the practice of circuitous transfer of funds by requesting DBM to negate the SARO issued to DA and transfers the same directly to TLRC. The SARO for the PDAF of the congressmen can be withdrawn by the DBM and released directly to the TLRC upon request by the DA and/or the proponent legislators. In entering into a MOA with TLRC, the DA is only being made to account for funds and is creating another level of accountability and responsibility over the funds and the said projects.
  - f) To require the implementing agencies other than NABCOR and PADCC to acknowledge receipt of funds using an official receipt.
- 6.11 The above-cited observations were communicated to the management in the Audit Observation Memoranda issued to them. No comment/reply has been received until now except for the information that NABCOR and PADCC eventually complied with the use of an official receipt printed by the National Printing Office to acknowledge the funds transferred by the DA.
- 6.12 In the exit conference however, the Undersecretary for Field Operations justified that the reason for the transfer to NABCOR of P300,000,000.00 is to facilitate

implementation of the project. It was mentioned that in the past, when the same nature of project was transferred to BHPRE, the funds are also downloaded to RFUs delaying its implementation. Management assured us that the administrative cost will be reduced from 10% to 5%.

6.13 On the other hand the fund transfers made to PCA for the Biotechnology Program was justified as follows:

- a) The fund management agreement was entered by DA with PCA was entered into because of the latter's fiscal flexibility allowing it to rollover unexpended budgetary allocations at year end;
- b) The 5% administrative fee charged by PCA is supposed to be deducted on a per approved project/fund basis, as approved by the Chair of the Program Steering Committee;
- c) The slow liquidation of funds to the DA can be accounted to the fact that liquidations are only submitted until fully documented;
- d) The nine applied biotech research projects will only be implemented in 2007 based on the Ten-year Agricultural Biotechnology Roadmap. The request for continuous funding was already sent by the Chair of the DA Biotech Program Steering Committee to the PCA Administrator.

6.13 We still believe that the aforementioned amounts need not have been transferred to said agencies but could have been implemented at the DA OSEC level. The 5% administrative cost could have been saved and utilized to enhance the projects' implementation and outputs.

#### **Disbursements of DA-CVIARC beyond limits of authority - ₱53.980 M**

**7. Funds amounting to ₱53.980 million transferred by RFU II to DA-CVIARC, Ilagan, Isabela, a research station, were disbursed by the Station Manager and Cashier, beyond their limits of authority in violation of DA General Memorandum Order No. 1, series of 2005.**

7.1 General Memorandum Order (GMO) No. 01, series of 2005 of the Department of Agriculture dated July 18, 2005, contains the Rules on the Delegation of Authority to sign/approve official papers, documents and contracts.

7.2 Section III-D in particular stated the following signing limits for Disbursement Vouchers as follows:

<b>Amount Involved</b>	<b>Certifying Official</b>	<b>Approving Authority</b>
Above ₱5.0M	Regional Director	Secretary
₱5.0M	Asst Regional Director	Regional Director

- 7.3 Section III-E also stated that all checks shall be signed by the Chief Cashier and countersigned by the official approving the disbursement voucher. Further, Section IV states that any amendment to the General Memorandum Order shall be solely signed and issued by the Secretary.
- 7.4 However, in the audit/verification of disbursement made at the DA-CVIARC, it was found that funds totaling ₱53.98 million, for payment of accounts payable were transferred to the Station. The payments to the different creditors were approved by the Station Manager, a Section Chief. In most cases, the payments were recommended by the concerned Division Chief stationed in the regional office or the Regional Executive Director. Also, the Cashier assigned in the station signed all the disbursements and countersigned by the Station Manager regardless of amount which was a gross violation of the above General Memorandum.
- 7.5 It is recommended to management of RFU II that the practice of transferring funds to its stations for the payment of expenses other than the regular petty expenses be stopped and the limits set by DA General Memorandum Order No. 2 be strictly followed.
- 7.6 Management explained that the procedure was resorted to due to lack of MDS checks. Further, management stated that the limits may have been exceeded, but there was no venue for abuse since the supporting documents to the vouchers were approved and contracted by the officials of the Regional Office before these were paid by CVIARC.
- 7.7 However, the audit team maintains that the limits set under DA GMO No. 2 was violated since, the Station Manager signed the approved box of the disbursement voucher and countersigned the check payments with the Station Cashier beyond their limits.

**Error in Books and Unreconciled Difference of Inventory accounts - ₱129.291 M and ₱1.134 B**

- 8. There is a net understatement of ₱129.291 million in the books due to errors and unreconciled difference of ₱1.134 billion between the books and the physical count reports of Inventory account balances.**
- 8.1 Section 65 of the NGAS Volume II requires physical count of supplies by type of inventory reported as of a given date showing the balance of inventory items per card and per count and the shortage/overage, if any. The result of the physical

count should be reconciled with the recorded balance per books in order to adjust errors, if any.

- 8.2 Audit showed that some inventory accounts were not supported with physical count reports, stock cards and other property records. On the other hand, some inventory balances per books did not reconcile with the physical count reports as of the same date.
- 8.3 Review showed that only 20 out of 58 inventory accounts in 15 offices/units had inventory reports and only 19 out of 57 inventory accounts were physically counted resulting in a variance of ₱1,134,187,902.48 between the total physical count result and the total recorded inventory balance (**Annex 9**).
- 8.4 The following errors were found in recording of inventory items resulting in a net understatement of ₱129,290,985.83:

<b>Results of Analysis of Inventory Accounts</b>			
<b>Agency</b>	<b>Inventory Account</b>	<b>Over/ (Under)statement</b>	<b>Cause/s of Misstatement</b>
RFU II	Livestock Inventory	450,000.00	Transfer of 18 heads of goats to farmer-beneficiaries should be classified as Accounts Receivable – Others.
RFU VI	Agricultural Supplies Inventory	(6,042,328.00)	Double recording of issuance of agricultural supplies
		(1,107,600.00)	Over recording of issuances of agricultural supplies
		910.00	Erroneously credited to accounts payable
		(486,000.00)	Errors in recording issuances of agricultural supplies
	Animal/Zoological Main. Inventory	484,400.00	
	Agricultural Supplies Inventory	(1,965,000.00)	Errors in recording issuances of knapsack sprayer and liquid fertilizers which were already previously recorded as donation
RFU XII	Office Supplies Inventory	(37,783,753.69)	Inventory acquisition directly charged to expense accounts instead of debiting the respective inventory accounts
	Accountable Forms	(16,800.00)	
	Animal/Zoological Supplies	(8,326,125.53)	
	Food Supplies	(22,200.00)	
	Medical, Dental & Laboratory	(1,396,885.25)	
	Agricultural Supplies	(64,542,327.05)	
Other Supplies	(8,944,694.52)		
ATI	Office Supplies Inventory (CO)	(676,821.79)	Unrecorded issuances
	Office Supplies Inventory (RTC 11)	76,750.00	
BAI	Drugs and Medicines	(98,750.00)	Acquisition directly recorded as expense
BAS	Office Supplies Inventory	(1,360.00)	Recorded as Office Equipment
	<b>Net Understatement</b>	<b>(129,290,985.83)</b>	

- 8.5 It was recommended that OSEC, concerned RFUs and Staff Bureaus be required to conduct, prepare and submit inventory report for each inventory account.

Management was likewise advised to draw RSMI whenever there are issuances of supplies, to take up properly in the books receipts and issuances and to periodically check the supplies record through physical count. In addition, management was also advised to avoid outright charging to Expense account and to adjust all errors in recording transactions to reflect the correct inventory balances.

**Unreliable PPE accounts balances – ₱55.795 B**

**9. The net book value of Property, Plant and Equipment (PPE) accounts amounting to ₱55.795 billion are unreliable because of (a) unreconciled difference of ₱3.572 billion between the balances per books and the inventory reports; (b) various errors in recording PPE accounts resulted in a net understatement of ₱311.947 million; (c) inclusion of unserviceable/transferred PPE valued at ₱26.403 million; (d) misclassification of accounts totaling ₱1.871 million; and (e) insufficient provision of allowance for depreciation for depreciable assets totaling ₱29.701 billion, of which only ₱1.546 billion or 5.21% was provided as accumulated depreciation.**

9.1 The reported net book value of PPE accounts in the books of the department amounting to ₱55,794,920,686.22 comprised 76.20 % of the total assets of ₱73,219,210,606.72. The reliability of this balance greatly affects the determination of the fair presentation of the agency's asset in the financial statements.

9.2 While physical inventory of property was conducted, the reconciliation of the balances between the books and the inventory reports were not undertaken for certain PPE accounts, resulting in unreconciled variance of ₱3,571,752,891.17 at the end of the year (**Annex 10**).

9.3 Various errors in recording PPE accounts also showed a net understatement of ₱311,946,526.47 (**Annex 11**).

9.4 Assets under Property, Plant and Equipment of the Department still included unserviceable/transferred items aggregating ₱26,403,661.16 which should have been classified as Other Assets awaiting disposal, contrary to the prescribed use of accounts under COA Circular No. 2004-008 dated September 20, 2004, as follows:

<b>Agency</b>	<b>Amount</b>
DA-OSEC	₱ 9,351,154.00
RFU I	2,984,127.20
RFU IV	1,177,343.01
RFU VIII	1,149,905.00
RFU XII	2,656,845.67

BAI	<u>9,084,286.28</u>
<b>Total</b>	<b><u>₱ 26,403,661.16</u></b>

- 9.5 Section 79 of PD 1445 states that “xxx when government property have become unserviceable for any cause, or is no longer needed it should, 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 sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor concerned or duly authorized representative of the Commission xxx”
- 9.6 The unserviceable equipment of the OSEC amounting to ₱9,351,154.00 were already recommended for disposal thru public bidding or for transfer without cost to various offices.
- 9.7 On the other hand, verification revealed that Other Assets account of RFU-CAR totaling ₱2,120,929.69 consisted of unserviceable properties amounting to ₱1,132,413.41 that are beyond repair and awaiting disposal since 1995. These properties were stored in the different offices of the DA, RFU-CAR, exposing them to dirt and other elements that caused their fast deterioration. Failure to dispose these properties by not preparing the inventory and inspection report as basis in requesting for its disposal and subsequent dropping from the books of accounts are not in conformity with Section 79 of PD 1445 and further deprived the government of additional income from the sale thereof.
- 9.8 COA Circular No. 2004-008 dated September 20, 2004 was issued updating the description of accounts under the New Government Accounting system. It prescribes the use of the account, Other Assets (290) to represent cost/appraised value of serviceable assets not used in operation and those waiting for disposal.
- 9.9 Audit also disclosed that there were misclassification of PPE accounts totaling ₱1,871,225.48. While it has no effect on the total reported PPE, it nonetheless affects the accuracy of presentation of individual account. This is shown below:

<b>Misclassification of PPE accounts</b>			
<b>Agency</b>	<b>Recorded as</b>	<b>Should be</b>	<b>Amount</b>
DA-OSEC	Office Equipment	Office Bldg	₱1,163,459.48
		Communication Equipment	113,140.00
	Other Machineries & Equipment	Other PPE	5,250.00
		Communication Equipment	238,478.00
BAI	Office Building	Land Improvement	213,950.00
	Land Improvement	Other Structure	16,858.00
BAS	Furniture & Fixture	IT Equipment & Software	79,290.00
CAR	Land Improvements	Other Structures	40,800.00
		<b>Total</b>	<b>₱1,871,225.48</b>



9.10 Further analysis of PPE accounts in the financial statements showed that the Department provided insufficient allowance for depreciation thus, for a total depreciable assets with a book value of ₱29,700,951,832.56, only ₱1,546,229,195.79 or 5.21% were provided for accumulated depreciation contrary to the method prescribed by the NGAS, as presented below:

Depreciable Assets	Book Value	Accumulated Depreciation	Rate of A/D over PPE
Land Improvement	2,271,850,731.61	69,523,482.74	0.31%
Electrification, Power & Energy Structures	192,330.00	57,139.86	29.71%
Office Buildings	2,148,594,353.67	363,991,336.53	16.94%
Market & Slaughterhouse	7,176,503.83	87,187.50	1.21%
Other Structures	407,828,369.49	72,711,047.23	17.83%
Leasehold Improvement, Buildings	1,525,020.00	1,372,518.00	90.00%
Office Equipment	651,083,013.93	171,695,683.74	26.37%
Furniture & Fixtures	233,569,851.21	62,544,408.99	26.78%
IT Equipment & Software	392,544,537.39	192,218,010.79	48.97%
Library Books	2,913,333.09	960,382.77	32.97%
Machineries	147,524,952.63	5,197,321.21	3.52%
Agricultural, Fishery & Forestry Equipment	869,552,948.04	84,110,116.42	9.67%
Communication Equipment	65,142,180.01	24,122,577.59	37.03%
Construction & Heavy Equipment	11,134,421.27	66,156.44	0.59%
Firefighting Equipment & Accessories	1,077,728.26	347,085.85	32.21%
Medial, Dental & Laboratory Equipment	72,089,306.06	34,436,474.04	47.77%
Military & Police Equipment	145,772.26	14,661.00	10.06%
Technical & Scientific Equipment	386,770,124.08	137,518,750.79	35.56%
Other Machineries & Equipment	463,848,336.10	44,565,307.06	9.61%
Motor Vehicles	684,061,456.99	241,875,715.13	35.36%
Aircraft & Aircraft Ground Equipment	23,365,568.42	20,024,393.20	85.70%
Watercraft	19,529,153.21	382,208.40	1.96%
Other Transportation Equipment	1,665,950.00	66,555.00	4.00%
Other Property, Plant & Equipment	397,765,891.01	18,340,675.51	4.61%
<b>Total</b>	<b>29,700,951,832.56</b>	<b>1,546,229,195.79</b>	<b>5.21%</b>

9.11 It is recommended to management that the:

- a) accountants and property officers be required to update their respective records and reconcile the book balance with the property records;
- b) accountants be required to correct all the errors noted in recording transactions affecting PPE accounts;
- c) accountants of the DA-OSEC, BAR and the concerned RFUs be required to take up the unserviceable properties awaiting disposal under the account Other Assets pursuant to COA Circular No. 2004-008 dated September 20, 2004;
- d) property officer of DA RFU-CAR be required to take action and cause the disposal of the unserviceable properties by preparing the Inventory and Inspection Report of Unserviceable Properties and conduct Appraisal of the Properties in consonance with Section 79 of PD 1445.

- e) allowance for depreciation be provided for each PPE items and be guided with COA Circular No. 2005-02 in order to determine the correct valuation of the fixed assets in the financial statements.

**Doubtful Current Liability Balances - ₱4.730 B**

- 10. Reported current liabilities totaling ₱4.730 billion are doubtful because of (a) long outstanding accounts payable aged more than two years totaling ₱1.265 billion which should have been reverted to the unappropriated surplus of the government; (b) errors found in various payable accounts resulting in a net understatement of ₱49.277 million; (c) payables of ₱33.794 million which are undocumented and without subsidiary ledger; and (d) misclassification of some payable accounts totaling ₱5.639 million.**

*Long Outstanding Payable Accounts*

- 10.1 Sec. 98 of PD 1445 and Sec. 1 of EO No 109 requires the reversion to the unappropriated surplus of the general fund of the national government any unliquidated balance of the accounts payable which has been outstanding for more than two years, and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts.
- 10.2 Audit of Accounts Payable account showed an outstanding balance of ₱1,265,176,946.34 which are already aged more than two (2) years, as summarized below:

<b>Liability Account</b>	<b>Agency</b>	<b>Amount</b>
Accounts Payable	DA - OSEC	1,026,192,219.06
	RFU IV	18,869,950.70
	RFU VI	16,858,654.94
	RFU X	453,862.32
	RFU XI	20,459,361.30
	RFU XII	13,363,643.82
	BAI	161,227,781.72
	BPI	3,565,244.75
Due to Officers & Employees	RFU X	87,508.94
Due to Other NGAs	RFU XII	1,664,328.59
Due to Other ROs/Bureaus	RFU XII	34,386.20
Due to Central Office	RFU XII	2,400,004.00
<b>Total</b>		<b>1,265,176,946.34</b>

- 10.3 As a result, the balance of accounts payables as of December 31, 2006 was overstated by ₱1,265,176,946.34 which should have been reverted to unappropriated surplus of the general fund.

*Various Accounting Errors*

- 10.4 Audit also disclosed that there were various accounting errors noted in some payable accounts resulting in a net understatement of ₱49,276,616.18, as follows:

Agency	Deficiency	Overstatement / (Understatement)
<b>Accounts Payable</b>		
RFU II	Unreleased checks not reverted to payable account	(16,913,472.97)
RFU IV	Already paid but still recorded as accounts payable	6,942,105.37
RFU VI	Double recording of the payment to the account	( 84,395.47)
	Setting-up of liability for funds not yet transferred to LGUs/POs/NGOs	17,060,385.47
	Monetization of leave credits which should have been credited to Due to Officers and Employees	2,819,708.15
RFU VII	Overstatement due to accounting error	72,236.62
RFU VIII	Understatement due to unrecorded payable	(361,975.00)
RFU XI	Liquidation/payments made with no corresponding credit to Accounts Payable and double recording of liquidation	(16,013,561.08)
	Advances to contractors erroneously credited to accounts payable	1,946,232.91
<b>Due to Other NGAs</b>		
CAR	Liquidation of the fund transfer from BAR erroneously debited to Donations instead of Due to Other NGAs account	587,500.00
	Payment of honoraria of BAC members erroneously charged to the fund transfer	(56,500.00)
<b>Guaranty Deposit Payables</b>		
CAR	Recoupment of advances to contractor was erroneously credited to the account instead of Advances to Contractors	314,119.82
<b>Other Payables</b>		
ATI – CO	Erroneously debited to this account instead to account Due from NGOs/Pos	(45,589,000.00)
<b>Net Understatement</b>		<b>(49,276,616.18)</b>

*Undocumented Payable Accounts*

- 10.5 Sec. 75, Vol 1 of the NGAS Manual requires that the Balance Sheet shall be supported with schedules/statements. The absence of these schedules as of December 31, 2006 did not allow the substantiation of the existence of the liability and validation of the legitimacy of the recorded obligations.
- 10.6 Other deficiencies totaling ₱33,793,702.38 were noted during audit, as presented below:

Agency	Amount	Deficiencies Noted
<b>Accounts Payable</b>		
RFU IV	280,000.00	Undocumented payables
RFU VII	11,454,065.78	Undocumented payables
RFU XIII	2,877,809.56	Not covered with a perfected contract.
ATI-RTC 9	81,485.84	Unauthorized payment out of current NCA
BSWM	1,123,980.84	Undocumented Payables
	15,512,907.19	Undocumented Payables
	806,196.55	No subsidiary ledger
<b>Due to Officers and Employees</b>		
BSWM	46,226.16	No subsidiary ledger
	289,959.10	Contingent liability to Modesto I. Borja which should be reverted to the government since he lost the case
<b>Due to Other NGAs</b>		
RFU X	730,097.75	No record/supporting documents to determine the validity of the account
<b>Other Payables</b>		
RFU X	590,973.61	No record/supporting documents to support validity of the account
<b>Total</b>	<b>33,793,702.38</b>	

*Misclassified Payable Accounts*

- 10.7 There were also misclassification of Payable accounts totaling ₱5,639,366.82. While these did not affect total reported current liabilities, these nonetheless affected the accuracy of the presentation of the balances of individual liability accounts, as shown below:

Agency	As Recorded	Should Be	Amount
RFU 6	Accounts Payable	Due to Officers and Employees	2,819,708.15
RFU 8	Due to Officers and Employees	Accounts Payable	2,819,658.67
		<b>Total</b>	<b>5,639,366.82</b>

- 10.8 It was recommended that the accountants of the concerned regional offices and bureaus of the department be required:
- a) to verify and analyze long outstanding accounts payables;
  - b) to revert to the unappropriated surplus of the general fund outstanding accounts payable aged over two years which do not have valid claimants and those which originated from excess certification during the old accounting system; and
  - c) to prepare the necessary adjusting entries/reversing entries to correct the various errors noted in the recording of transactions including the misclassification of current liability accounts.

## Misstatement of Expense Accounts - ₱20.466 M

11. There was a net understatement of various expense accounts amounting to ₱20.466 million due to various errors in recording transactions affecting expenses.

Agency	Accounts Affected	Overstatement (Understatement)	Deficiencies
DA – OSEC	Traveling Expenses Various MOOE	(3,447,679.48) (19,847,635.21)	Unliquidated cash advances for travel and other operating expenses
BAI	Office Supplies Expense Drugs and Medicines Expense	50,532.35 500,000.00	Erroneously recorded to the account instead of Due from NGAs Erroneously recorded to the account instead of Drug and Medicines Inventory
CAR	Donations	340,943.91	Erroneous recording of payment of final billing for the construction of cold storage
RFU 8	Traveling Expenses – Local Agricultural Supplies Expenses Other Maintenance & Operating Expenses	( 5,975.00) ( 350,000.00) ( 6,000.00)	Unrecorded expenses
RFU 11	Repair & Maintenance - Motor Vehicles	2,299,456.80	Major repairs of vehicles directly charged/recorded to this account instead of Motor Vehicles
	<b>Net Understatement</b>	(20,466,356.63)	

- 11.1 It should also be mentioned that ATI-CO and BAI has continuously practiced the erroneous used of the expense method in recording inventory acquisition. In 2006 alone, ATI-CO recorded directly to expense office supplies amounting to P676,821.79 while, BAI did the same to drugs and medicines purchased amounting to P500,000.00.
- 11.2 It was recommended to management that the concerned accountants be required to adjust the errors in recording transactions and erroneous charging to other accounts in order to reflect the correct balances of expense accounts at the end of the year.

## Excessive costs totaling ₱50.277 million

12. There were excessive costs totaling ₱49.80 million noted in the (a) purchases made by RFUs V, VII, and IX amounting to ₱38.14 million; and (b) contract entered into by OSEC with Geospatial Solutions, Inc. by ₱11.67 million because of (i) RFU V practiced of direct contracting; (ii) procurement by NGO/PO in RFU VII; and (iii) limited canvass/bidding adopted by RFU IX and OSEC. Likewise, overpayment of subsidy for Hybrid Rice Seeds of ₱0.477 million was noted in RFU III due to double and undocumented payments.

12.1 Implementing Rules and Regulations (IRR) of Republic Act No. 9184 or the Government Procurement Act provides for the modes of procurement that will ensure that government funds are spent within the bounds of propriety, regularity and economy.

12.2 Documents relative to the purchases/contract made by the above-mentioned agencies failed to show that the provisions of the IRR were complied particularly on the requirements of limited bidding and direct contracting. Allowing NGO/PO to purchase farm inputs and implements resulted to purchases over and above the prevailing market prices.

12.3 The excess costs in the RFUs are summarized below:

Computation of Excess Cost									
RFU	Payee	Kind	Qty.	Amount Paid		Amount		Excess Cost	
				Per P.O.	Total	Per Canvass	Total		
V	Moraleda Farm	Hybrid gilts	103 heads	13,950	1,436,850	8,550	880,650	556,200	
VII	<b>Samahan ng mga Manininda Ng Prutas sa Gabi, Inc.</b>								
	- 2 <sup>nd</sup> District, Bohol (Roberto Cajés)	Diesel engine (8.5HP) with water pump and complete accessories	56 units	155,000	8,730,000	28,500	1,596,000	7,134,000	
	- BUHAY Party List (Rene M. Velarde)		56 units	155,000	8,680,000	28,500	1,596,000	7,084,000	
	- APEC Party List (Sunny R. A. Madamba)	Gasoline engine (5.5HP) with pumps and accessories	61 units	121,250	7,372,000	16,420	1,001,620	6,370,380	
			16 units	121,250	1,940,000	16,420	262,720	1,677,280	
	<i>Sub-total</i>					<b>26,722,000</b>		<b>4,456,340</b>	<b>22,265,660.00</b>
	<b>Kabus nga Mag-uumang Mananangat (KAMANA) Foundation, Inc.</b>								
	- Zynmil Agrosciences Inc. (2 <sup>nd</sup> District, Bohol – Roberto Cajés)	Granular solid fertilizers	19,400 kilos	250 / kilo	4,850,000	18.84	365,496.00	4,484,504	
	- Zynmil Agrosciences Inc. (1st District, Bohol - Edgar M. Chatto)		19,400 kilos	250// kilo	4,850,000	18.84	365,496.00	4,484,504	
	- JR & JP Enterprises (2 <sup>nd</sup> District, Negros Occidental - Emilio C. Macias II)	Delgro Terrestrial inorganic solid fertilizer	8,083 kilos	240 / kilo	1,939,920	18.84	152,283.72	1,787,636.28	
- Madarca Trading (AKBAYAN Citizen's Action Party -Mario Joyo Aguja)	Magnecrop Organic Granular Fertilizer	5,105 bags	950 / bag	4,849,750	130.00	663,650.00	4,186,100		
<i>Sub-total</i>					<b>16,489,670</b>		<b>1,546,925.72</b>	<b>14,942,744.28</b>	
IX	CL Agribusiness Solutions, Davao City	SD pop-up Fertilizer	6,525 bottles	385.00	2,512,125	345.15	2,252,103.75	<b>260,021.25</b>	

	Blueprint Irrigation	Polyethylene bags	437,500 bags		656,250.00		545,321.88	<i>110,928.12*</i>
	<b>Total Excess Cost</b>							<b>38,135,553.65</b>

\*COA recommended price reduction due to deficiency in specification.

- 12.4 In RFU V, the procurement of 103 gilts is excessive by 63% above the offer of one of the hog producers in Pili, Camarines Sur. The purchase through direct contracting is not in order, because there are other hog raisers, some of them located near Sorsogon, which can probably supply the needed 103 hybrid gilts. The papers did not show how the unit price of ₱13,950.00 per head was arrived at although inquiry revealed that the price was quoted based on the weight of the gilt.
- 12.5 RFU VII entered into various Memoranda of Agreement with two (2) NGOs namely Kabus nga Mag-uuma ug Mananagat (KAMAMA) Foundation and the Samahan ng mga Manininda ng Prutas (SMP) for the procurement of farm equipment and fertilizers. It involved purchases amounting to ₱37,208,404.00 but were not subjected to public bidding. The items were delivered by these NGOs to the farmer beneficiaries without coordination with the DA RFU. The purchases of irrigation pumps and fertilizers through the NGO/PO prevented the government from procuring the items at the least cost. It resulted in excessive costs or overprice from 444% to 1227% which excess cost could have been used for more extensive program implementation to benefit more farmers. Procurement through the NGOs/POs also deprived the government of additional income in the form of taxes. Moreover, contracts were awarded to suppliers based in areas outside of Region 7, thus, additional cost was incurred for freight and handling.
- 12.6 The items were purchased by the foundations after the conduct of canvass. There was no evaluation conducted by the Department of Agriculture technical personnel on the kind of fertilizer suited on the farm crops and soil of the farmer beneficiaries.
- 12.7 Price verification of the seed nutritional supplement purchased in RFU IX from Agway Chemicals Corporation in Davao City showed that the selling price was only P295.00 per bottle as against P385.00 per bottle. Even with an estimated mark-up profit of 15% or ₱44.25 and cost of freight/shipment pegged at 2%, estimated selling price per bottle should only be ₱345.15 hence there was an overprice of ₱39.85 per bottle or a total of ₱260,021.25 for the 6,525 bottles purchased by management resulting to waste in the use of government funds. Moreover, the price difference between purchase price (₱385.00 per bottle) and price as canvassed by COA (₱295.00) was beyond the allowable 10% variance.
- 12.8 Purchase of 437,500 pieces of polyethylene bags by RFU IX amounting to ₱656,250.00 was not in conformity with specifications and the price was not adjusted accordingly.
- 12.9 At the OSEC, the Contract entered into by the DA with the Geospatial Solutions, Inc. for the DA Enhanced Website Electronic Sanitary and Phytosanitary

Certification System (DA-EW-ESPCS) in the amount of ₱46.53 million was found excessive by ₱11.79 million. Terms of the contract have expired and the payment of DA was already 42% or P19.60 million although the project is still far from completion and yet without benefit to the disadvantage of the department.

12.10 Review by the COA Technical Audit Specialist of the contract of consultancy services for the DA-EW-ESPCS showed a cost variance of ₱11,667,638.14, as shown below:

	Contract Cost	COA Estimated Cost	Difference
Remuneration of Domestic Consultant	₱ 25,505,741.50	₱ 16,456,490.32	₱ 9,049,251.18
VAT	2,550,574.15	1,974,778.84	575,795.31
Equipment	16,494,430.41	16,431,170.41	63,260.00
VAT	<u>1,979,331.65</u>		<u>1,979,331.65</u>
<b>Total</b>	<b>₱46,530,077.71</b>	<b>₱ 34,862,439.57</b>	<b>₱11,667,638.14</b>

12.11 In the audit of payment of subsidy for hybrid rice seeds in RFU III, the amount of ₱477,000 was disallowed in audit due to:

- a) double payment as evidenced by the duplicate copies of the same masterlist of farmer-beneficiaries/recipients attached to the same paid DV; and
- b) undocumented payment wherein the quantity paid is more than the actual quantity received per Masterlist duly signed by the recipients.

12.12 Details of the disallowances are shown below:

Date	Check #	Supplier/Seed Grower	Payment of Hybrid Rice Seeds			Disallowance		Remarks
			Qty. (Bags)	Gov't. Subsidy	Amount	Qty. (Bags)	Amount	
03.23.06	1247657	Nueva Ecija Hybrid Rice	158	1,300/bag	205,400	44	57,200	Double Payment
03.31.06	1271038	Nueva Ecija Seed Growers (Inbred plus freight and handling – P20)*	1,167	460/bag	536,820	305	140,300	Quantity paid is more than actual quantity received by farmers/benericiaries
02.27.06	1247022	Central Luzon State University	478	1,300/bag	621,400	215	279,500	Double Payment
04.10.06	1271202		734	1,300/bag	954,200			
<b>Total</b>			<b>2,537</b>		<b>2,317,820</b>	<b>564</b>	<b>477,000</b>	

12.13 The audit team recommended to management that:

- a) RFU VII be required to institute measures to recover the excessive payment on the small irrigation pumps and fertilizers and reassess its fund release



through the PDAF of lawmakers by requiring that the procurement undergo the normal government procurement process so that corresponding withholding of taxes due be made;

- b) procurement of items which are readily available in the market, the widest publicity be made and invitations be sent to as many qualified suppliers, to bring about competition and achieve the lowest price of the item;
- c) RFU XI be required to explain the price variance in the purchase of seed nutritional supplement. Also, that supplier of Region IX be required to refund the price difference of the deficient polyethylene bags;
- d) justification be submitted immediately for the price variance noted in the review of contract with the Geospatial Solution and justify why it will not be charged liquidated damages for the delay in the contract completion; and
- e) RFU III suppliers/seed growers of hybrid rice seed be required to immediately refund the amount of ₱477,000.00 and its internal and accounting controls over the disbursement of funds be strengthened in order to avoid disallowances in audit.

12.14 RFU V offered the following justifications:

- a) The Center Chief of Sorsogon Research Outreach Center said that the price of ₱14, 000 per head (or ₱13,950 as adjusted) is reasonable compared with Hi-Tech Farms in Calabarzon area and in DA stock farms;
- b) That Zepeda Farms quoted meat type and not breeder type of hogs; and
- c) That all chances were given to Mr. Zepeda to participate in all the biddings conducted by the agency for the supply of the hybrid gilts but he did not participate in the second bidding conducted. But this was refuted by Mr. Zepeda in his letter dated February 16, 2007 where he stated that he is willing, able and ready to supply the needed hybrid gilts requirements of the DA, at the price he previously offered.

12.15 RFU VII submitted the following justifications:

- a) That the procurement process of NGO was in accordance with the generally accepted procurement scheme and that being a non-government entity is not covered by RA 9184;
- b) That the Constitution provides that the state shall encourage and support the non-governmental community based on sectoral organization so that releases to these NGOs are for general welfare; and

- c) That DA merely acts as conduit of fund and that the obligation of the office is only to transfer funds to NGO as identified by the legislators and that the implementation of the project is not within the RFU's Work and Financial Plan and Budget. With regard to the pricing, Fertilizer and Pesticides Authority (FPA) price list could not be considered as the bases because it is not the prevailing price in the market. There are other factors to be considered such as but not limited to freight and handling and other related incidental expenses in selling a particular brand.

12.16 RFU VII Audit Team believes that the justifications of management are not all tenable due to the following:

- a) The Memoranda of Agreement covering the fund transfers mentioned that one of the obligations of the Foundation is to ensure that utilization of the fund should be in accordance with existing accounting and auditing rules and regulations. Being a government fund, it is not exempted from the normal procurement process under RA 9184. Moreover, the MOAs stipulate that the DA RFU VII shall have the right to intervene and institute corrective measures for the purpose of preserving the funds in case of, but not limited to misappropriation or non-utilization of funds, non-compliance with any provisions stated in the Agreement. If upon evaluation of the documents submitted, as required, warrant the introductions of corrective measures. This provision in the MOA strengthens DA's obligation to review the supporting documents and even to the extent of validating the purchase cost.
- b) Since the audit of similar transactions disclosed that the purchase of the farm inputs and farm implements by the NGOs/POs had resulted to higher cost paid by the government thus, it cannot be said that this was done for the general welfare of the public. Had prudence been exercised in the purchases, more farmers will be benefited.
- c) The provision of the Constitution in encouraging the existence of the NGOs/POs could not be made as a justification on full reliance on the NGOs/POs' implementation of government projects. Considering the policies provided under COA Circular 96-003, the DA, among others, shall develop standards for project implementation and acceptance, monitor and inspect project implementation, and verify financial records and reports of the NGO/PO.
- d) DA RFU VII should not act merely as a conduit of such funds but should exercise due care as custodian of government funds and should see to it that project implementation are in accordance with the purpose thereof and that procedures were in accordance with government auditing rules and regulations.

## Deficiencies in the Payment of CNA Incentives and Other Allowances

13. **The payments of the CNA Incentives and other allowances by OSEC, RFUs II, III, IV, VI, VII, XI and XII amounting to ₱85,094,496.85 were not in compliance with DBM Circular No. 2006-1 dated February 1, 2006, PSLMC No. 4, Series of 2002, and other issuances on the grant of allowances.**

12.17 The payment of CNA Incentives was authorized under PSLMC Resolution No. 04, s.2002 and PSLMC Resolution No. 02, s.2003 and confirmed under AO No. 135. Budget Circular No. 2006-01 dated February 1, 2006 prescribed the policy and procedural guidelines on such grant, as mandated in AO No. 135. The guidelines state that *“all existing cash incentives in the CNAs in the form of allowances and benefits such as staple food allowance, rice subsidy, grocery allowance, inflation allowance, relocation allowance, SONA bonus, bonuses and other year-end benefits authorized under RA No. 6686, as amended by RA No. 8441, etc., shall be consolidated into a single cash incentive, and shall be referred to and collectively paid as the CAN Incentive.”*

12.18 Audit revealed that the following regions and bureau, among others, granted its employees CNA Incentives and other allowances, as follows:

Agency	Incentives/Allowances	Amount
OSEC	CNA	₱ 7,635,000.00
RFU II	CNA	16,210,000.00
	Performance Allowance	247,500.00
	Additional Compensation Allowance	1,045,392.85
	Other Benefits	1,730,000.00
RFU III	Anniversary Bonus	1,470,000.00
	CNA	18,815,000.00
RFU IV	can	9,340,000.00
RFU VI	CNA	9,382,500.00
	Anniversary Bonus	909,000.00
RFU VII	CNA	10,822,660.00
RFU XI and XII	Staple Food Allowance	7,380,500.00
ATI – RTC	Extra Christmas Bonus	106,944.00
<b>Total</b>		<b>₱ 85,094,496.85</b>

12.19 The audit teams of OSEC, RFU II, III, IV and VII, reported that CNA Incentives for 2006 were given to their employees during the year without waiting for actual savings to be first determined at the end of the year.

12.20 OSEC advanced the giving of allowance of ₱15,000 to each employee for a total of ₱7,635,000.00 although savings had not yet been realized during the year.

12.21 In RFU II, payments of CNA Incentives and other allowances were not supported with the Collective Negotiation Agreement of DA and Administrative Orders that should serve as legal basis.

12.22 In Region VI, verification and evaluation of the documents supporting the grant of the incentive showed the following deficiencies:

- (a) The CNA Incentive granted is equivalent to eighty percent (80%) of the savings generated as Per Statement of Savings submitted by the agency. The grant of 30% savings amounting to ₱3,518,437.50 as additional CNA Incentive is without legal basis as this should have been spent for the improvement of working conditions or other programs agreed upon in the CNA.
- (b) The CNA Incentive was computed based on the savings generated by the agency as of December 12, 2006 as shown in the Statement of Savings submitted to this office and was paid on December 20 and 27, 2006, which is against the provision that it should be paid at the end of the year.
- (c) Savings from Personal Services in the amount of ₱1,200,000.00 was utilized to pay the CNA incentive contrary to Sec. 7.1 of DBM Circular No. 2006-1.
- (d) Balance of ₱10,000,000.00 for AFMP Funds (GMA-Rice, Corn, HVCC and Livestock) released for a specific purpose were declared as savings and were utilized to pay CNA Incentive. This includes current appropriations in the amount of ₱4,588,471.63 for GMA Rice and Corn Program which could still be utilized for CY 2007.
- (e) Furthermore, the reported savings on GMA Rice Program by the Action Officer is ₱4,943,782.36 while that of the Chief, Budget Section is ₱5,397,782.36 showing a difference of ₱454,000.00.
- (f) The Agency had no written resolution embodying the agreements on (i) the guidelines/criteria to be followed in the grant of CNA, (ii) the total amount of unencumbered savings at the end of the year realized out of cost cutting measures identified in the CNA and which were the results of the joint efforts of labor and management, and (iii) the individual amount to be granted to the employees concerned based on the established guidelines/criteria. In the absence of this resolution, there is no basis for the amounts paid to each personnel and for allowing in audit.

12.23 DA RFU III and VI likewise provided anniversary bonus to its employees even though 2006 is not a milestone year and therefore contrary to the provisions of Administrative Order No. 263 dated March 28, 1996 and National Budget Circular No. 452 dated May 20, 1996.

- 12.24 RFU VII granted the CNA incentives but was not able to provide the appropriate details of computation of the savings to justify the incentive. It could not be established whether the amount of savings used to pay the incentives is correctly derived at after satisfactorily complying with the other requirements. In the absence of these documents, the payment of such incentives is deemed improper and invalid. Liquidation of cash advances pertaining to the incentives and those paid by individual checks were duly supported with paid payrolls and corresponding obligations slips. Aside from these documents there were no other supporting papers attached thereto.
- 12.25 In DA RFU XI and XII, the payment of Staple Food/Rice Allowance of P1,000/month to each employees or a total of ₱7,380,500.00 was contrary to Section 12 of RA 6758 or Salary Standardization Law and Administrative Order No. 37 dated November 21, 1998, and resulted in additional, double or indirect compensation.
- 12.26 RFUs XI & XII granted Staple Food/Rice Allowance of ₱1,000/month to each employee or a total of P7,380,500.00. The release of such incentive was based on the approval by the Civil Service Commission (CSC) of the Department of Agriculture's Program on Awards and Incentives for Services (PRAISE).
- 12.27 The PRAISE approved by the Civil Service Commission cannot stand alone as legal basis of granting Staple Food/Rice Allowance as the grant is already incorporated in the standardized salary rates under Sec 12 of the Salary Standardization Law ( RA 6758), which states that “ *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.*”
- 12.28 Consequently, only those allowances specifically mentioned in the exceptions under Section 12 may continue to be granted; and Staple Food Allowance and all others are deemed integrated in the standardized salary rates.
- 12.29 Such payment also violated Administrative Order No. 37 dated November 21, 1998 and paragraph 4.5 of Budget Circular No. 16, dated November 28, 1998, which provides in part that “ *All agencies are hereby prohibited from granting any food, rice, gift checks or any other form of incentives/allowance except those authorized via an Administrative Order by the Office of the President.*”
- 12.30 The granting of these allowances should have proper authorization either from the DBM, the Office of the President or by legislative issuances. Hence, payment of Staple Food/Rice Allowance to employees of RFUs XI & XII is devoid of legal basis resulting in additional, double or indirect compensation.

12.31 Extra Christmas Bonus was paid by ATI - Regional Training Centers at ₱9,342.00 instead of ₱6,000.00 per employee, resulting to a total excess payment of ₱106,944.00 contrary to Administrative Order No. 164 dated December 11, 2006 and its implementing guidelines under Budget Circular No. 2006-4 dated December 13, 2006.

12.32 It was recommended that management be required to:

- a) submit Statement of Savings per specific activity generated from cost cutting measures as of the end of fiscal year duly certified by the Accountant and Regional Executive Director against which payment of CNA was charged;
- b) submit a copy of Agency's accomplishment report for the year to determine whether all planned targets, programs and services approved in the budget of the agency were really achieved before granting the CNA Incentive;
- c) refund the CNA incentive paid by the agency to its personnel in excess of the 50% savings;
- d) submit evidence of the reversion of the 20% portion of savings to the unappropriated surplus of the General Fund of the national government;
- e) furnish COA office with a written resolution signed by the representatives of both DA RFU-VI and DAEA Region VI Chapter noted by the agency head embodying the agreements on (i) the guidelines/criteria to be followed in the grant of CNA, (ii) the total amount of unencumbered savings at the end of the year realized out of cost cutting measures identified in the CNA and which were the results of the joint efforts of labor and management, and (iii) the individual amount to be granted to the employees concerned based on the established guidelines/criteria;
- f) submit copy of a written authority coming from the DBM or the Office of the President to substantiate the granting of the Staple Food/Rice Allowance in CY 2006 so that it can pass the test of legality and regularity and final Disallowance on the said grant will not be issued; and
- g) refund the excess payments and hold the persons liable for authorizing the grant of excess Christmas bonus.

12.33 The following actions were taken by management on the recommendations incorporated in the Audit Observation Memoranda on the above allowances/incentives:

- a) The Accountant and the Budget Officer of the OSEC submitted the computation of the savings together with the evidence of remittance of part of the savings;
- b) During the exit conference at RFU II, management presented the DA-CNA, that indicated that the amount of incentive is ₱50,000. They also justified that the grant of the partial incentive in May was due to the exemplary attainment of targets, hence, the savings derived from the GMA Rice Dry Cropping Season was given as incentive allowance to its employees;
- c) RFU VII management explained that after an intensive review of the targets and accomplishments of the four commodity programs, namely RICE, CORN, HVCC and LIVESTOCK, the management consultative committee with consideration of the agency's financial records finally decided to grant CNA incentives computed as follows;

Total Accumulated Savings	<u>₱ 16,186,588.54</u>
50% (16,186,588.54 x .50) =	8,093,294.27
30% (16,186,588.54 x .30) =	<u>4,855,976.56</u>
Sub-total	<u>12,949,270.83</u>
20% (16,186,588.54 x .20) =	<u>₱ 3,237,317.71</u>

- d) The committee decided to add as part of the CNA Incentive the 30% for the reason that improvements of working conditions were already accomplished during the year.

12.34 While CNA incentives were allowed by AO 135, payment thereof should be subject to the limitations prescribed by Budget Circular 2006-01 and the Public Sector Labor Management Council (PSLMC) Resolution.

12.35 The audit team maintained however, that the Staple Food Allowance paid to employees of DA RFUs XI & XII totaling ₱7,380,500.00 violated the Salary Standardization Law (RA 6758) and requires the approval of the DBM or the Office of the President.

**Granting of Leave Monetization Inconsistent with the CSC Rules – ₱.988 M**

**14. The grant of leave monetization totaling ₱.988 million by the RFUs XI and XII were charged to sick leave credits of employees and were approved beyond the maximum number of days allowed by regulations in violation of the Civil Service Omnibus Rules on Leave, resulting in the exhaustion of leave credits of employees.**

- 14.1 In CY 2006, RFUs XI and XII paid leave monetization to its employees totaling ₱5,120,986.20 which was released in the form of cash advances granted to the following disbursing officers:

Date	Check No.	Payee	Office	Amount
04-06	69501	Roger Chio	DA RFU XI	₱1,002,499.66
04-06	69502	Roger Chio	DA RFU XI	1,811,467.54
05-06	70291	Niceto Agduyeng	CMIARC XII	631,881.00
05-06	70292	Abusama Alid	DA RFU XII	1,406,131.00
05-06	70293	Vicente Muyco	DA RFU XII	269,007.00
			<b>Total</b>	<b>₱5,120,986.20</b>

- 14.2 Review and verification of the Report of Disbursements on the above cash advances disclosed the following:

- a) Employees were allowed to monetize leave credits with an equivalent value not exceeding ₱10,000;
- b) Lower rank employees or those with low salary grades had leave deductions of 10 days or more to as high as 37.76 days; and
- c) For those employees with only few vacation leave credits, monetization was applied on their sick leave. Out of the total amount of ₱2,813,967.20 leave monetization granted for DA RFU XI employees, an equivalent amount of ₱987,951.38 or 35% was charged to sick leave credits.

- 14.3 Verification of the individual leave cards of employees of DA RFU XI, especially those who had their sick leave monetized, revealed that many has negative or less than the required minimum five (5) days vacation leave credit balances.

- 14.4 Leave applications pertaining to monetization of DA RFU XII & CMIARC employees were not verified considering the distance of the offices and time constraints.

- 14.5 Sec. 22-23 Rule XVI of the CSC Omnibus Rules on Leave, as amended by CSC MC Nos. 41, s. 1998; 6 and 14, s. 1999; 16 and 22, s. 2002 provides in part:

*“Officials and employees who have accumulated fifteen (15) days of **vacation leave** credits shall be allowed to monetize a minimum of ten (10) days: Provided, that **at least five (5) days is retained** after monetization and provided further that a maximum of **thirty (30) days** may be monetized in a given year .Monetization of fifty percent (50%) of all accumulated leave credits may be allowed for valid and justifiable reasons subject to the discretion of the agency head and availability of funds”*



- 14.6 Apparently, as provided in the above provisions, only vacation leave credits shall be allowed to be monetized and it should not exceed thirty (30) days in a given year. Monetization of 50% or more of vacation/sick leave credits may be allowed for valid or justifiable reasons. Moreover, an employee should have retained at least five (5) days vacation leave credits after having applied for monetization.
- 14.7 As a consequence of granting monetization beyond the limits provided in the above CSC provisions, many employees have their vacation leave credits exhausted or fully consumed. The application of monetization on the sick leave credits is also irregular and will subsequently pose problems to employees in the future as it is only endowed in case of sickness or illness and emergency cases.
- 14.8 It was recommended that Chief of the Personnel Section be required to monitor closely the leave credit balances of employees and follow strictly the provisions of CSC Omnibus Rules on Leave particularly on leave monetization.

#### **Multiple Issuances and Unreported Loss of Cellphones**

- 15. Some officers and employees of DA-RFU II, IV, XI and XIII were issued more than one (1) cellular phones, in violation of DA Special Order No. 267, Series of 2000 and Section 3.3 of COA Circular No. 85-55-A. Alleged loss of some cellular phones and portable radios were not reported contrary to Section 73 of P.D. 1445 and unserviceable ones were not returned.**
- 15.1 Section 3.3 of COA Circular No. 85-55-A dated September 8, 1985 defines excessive expenditures as one that signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits.
- 15.2 Section I.2 of the Department's Office Order No. 3, series of 2004 issued by Secretary Arthur C. Yap which provides, among others, that the issuance of cellular phone and prepaid cards shall be limited up to the level of Division Chief only.
- 15.3 It is mandated in Section 73 of P.D. 1445 that *“When loss of government funds or property occurs in transit or the loss is caused by fire, theft or other casualty or force majeure, the officer accountable therefore or having custody thereof shall immediately notify the Commission or the auditor concerned and within thirty (30) days or such longer period as the Commission or auditor may in the particular case allow, shall present his application for relief with the available supporting evidence. An officer who fails to comply with the requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts.”*

- 15.4 Examination and verification of inventory records from the Property and Supply Section disclosed that some officials and employees of RFUs II, IV and XIII were issued more than one unit of cellular phones. Some of these units were very sophisticated (**Annexes 12, 12.a, 12.b & 12.b1**).
- 15.5 Moreover, there were officials and employees of the agency who did not return the cellular phones previously issued to them when they are issued a new one contrary to Section 495, Volume I of Government Accounting and Auditing Manual (GAAM) which states that *“When the equipment issued to an officer and employee is no longer needed by him, said equipment shall be returned to the property clerk. Upon receipt of the returned equipment the property clerk shall surrender to the officer or employee concerned the corresponding original of the Memorandum Receipt (now Acknowledgement Receipt of Equipment).”*
- 15.6 Verification of Inventory Report of Communication Equipment as of December 31, 2006 also disclosed that RFU XI purchased a total of 202 mobile units in 2000-2006 with an acquisition cost amounting to ₱2,139,559.10.
- 15.7 Some of the mobile phones are in the custody of officials and employees who were no longer assigned in Region XI, as well as, cellular phones transferred to job order/contractual employees contrary to Section I.2 of the Department’s Office Order No. 3, series of 2004 issued by Secretary Arthur C. Yap which provides, among others, that the issuance of cellular phone and prepaid cards shall be limited up to the level of Division Chief only.
- 15.8 The practice of issuing more than one (1) cellular phone to some DA officials and employees deprived others who, in the discharge or performance of their official functions, duties and responsibilities, may also need a cellular phone. The amount used in the purchase of excess units could have also been used to finance more priority programs/ projects of the agency.
- 15.9 Also in RFU XIII, there were eight (8) cellular phones and two (2) portable radios lost without request for relief from accountability made by the accountable persons concerned, as shown below:

<b>Brand/Model</b>	<b>Accountable Person</b>	<b>Amount</b>	<b>Year Issued</b>
1. Samsung, SGV-V200	Romeo G. Banate	17,884.21	2005
2. Nokia 3530	Alma B. Mahinay	7,350.00	2003
3. Nokia 3330	Lelisa D. Lascuña	7,390.00	2002
4. Nokia 3310	Eleanor Tuazon	5,590.00	2001
5. Nokia 5210	Mirope Lamsen	5,600.00	2000
6. Nokia 3210	Godofredo A. Ramos	7,588.00	2000
7. Nokia 3210	Rita A. Retiro	7,588.00	2000
8. Motorola GP 68	Evelyn Malubay	11,500.00	1999
9. Alinco, Portable Radio	Aguillo G. Villahermosa	9,300.00	1999
10. Alinco Portable Radio	Glen GYanilo	9,300.00	1999

- 15.10 Considering that the period allowed by law to apply for relief from property accountability has already prescribed, relief therefore can no longer be granted to the accountable person's concerned due to failure to immediately notify the Commission on Audit and file the application for relief of accountability within thirty (30) days from date of loss.
- 15.11 It was recommended that management be required to follow strictly the policies/guidelines issued by the Department Secretary on the procurement and utilization of cellular phones so that purchases thereof will be limited to the needs of the agency in pursuance of their mandate.
- 15.12 It was also recommended to management that the following measures be undertaken:
- a) No replacement for cellular phones while the unit is still serviceable;
  - b) That the accountable officer be made to account when the unit is lost or becomes unserviceable due to negligence;
  - c) Amount of acquisition cost of cellular phone be in accordance with an established ceiling to discourage sophisticated and expensive units;
  - d) Excess cellular phones issued to the officials or employees be returned to the property and supply officer immediately;
  - e) Notification be made to the accountable persons concerned by the Head of the Agency upon the recommendation of the Supply Officer, for the settlement of property accountabilities for lost cellular phones; and
  - f) Prudence or diligence of a good father of a family be exercised and to refrain from purchase of immoderate quantity of cellular phones in excess of what is essential to the nature of its operation.
- 15.13 During the exit conference in RFU II, management explained that the multiple issuances were caused by unserviceable units which were not surrendered, and thus, not dropped from the inventory report. Management assured that issuances will be properly evaluated and that employees concerned will be required to return excess units issued to them.
- 15.14 RFU XI management will adhere to the recommendations and assured the audit team that policy guidelines will be prepared. However, they explained that there were areas wherein communication signal varies from one place to another and in order to access both Globe and Smart networks, two (2) cellular phones are needed by employees and staff whose work requires field monitoring of programs, coordination and constant contact with local government counterparts and stakeholders.

15.15 The management’s justifications were considered but the audit team still believes that purchases in excess of what is needed by the office are considered excessive and extravagant. The importance of mobile phones especially to officials and employees who are always in the field is recognized. However, the team believed that the issuance of one unit to each official/employee is sufficient enough in the performance of his/her duties. Further, these equipment may be subjected to misuse due to the possibility that the excess units issued to recipients may be used by unauthorized persons.

**Irregular transaction paid in kind at DA RFU VII**

**16. Payment in kind equivalent to ₱62,000.00 per year for the billboard space rental contract entered into between DA RFU VII and Alcordo Advertising International Inc. is inconsistent with the normal procurement procedure and appeared disadvantageous to the government. The items delivered as payment by the lessee from 1999 to 2006 could not be fully accounted for because they have no corresponding value, not inspected, some turned out unserviceable and others, lost. The original contract nor its renewal was not bidded out.**

16.1 Review of Memoranda of Agreement (MOAs) for lease contracts between DA RFU 7, Lessor, and Alcordo Advertising International Inc., Lessee, for the use of 105 sq. meter lot within MES Compound for billboard covering December 31, 1999 to April 30, 2006 showed that the consideration for the lease is in kind equivalent to ₱62,000.00 per year, as follows.

MOA	Period Covered	Measurement of Billboard Sign
1	12/ 31/99 – 12/31/00	20 x 40 ft
2	9/1/00 – 8/31/01	20 x 40 ft
3	1/01/01-12/31/01	20 x 40 ft
4	1/1/02 – 12/31/02	20 x 40 ft
5	1/1/03 – 12/31/03	20 x 40 ft
6	5/04 – 4/05	20 x 80 ft
7	5/1/05 – 4/30/06	Contract did not mention any measurement but only the installation of billboard signs

16.2 Audit of the transactions revealed various deficiencies, to wit:

- a) Since the payment was made in kind (such as cellular phone, personal computers, gasoline and oil products and office supplies), no income was accounted and recorded in the books nor deposited to the National Treasury.
- b) Payment for bill board space rental is not supported with sales invoice or official receipts so that the exact price or value of the items delivered could not

be determined. Similarly, issuance and usage of the delivered items is not supported by approved requisition and issue slips (RIS)

- c) Non-recording in the DA VII's books of accounts resulted in the understatement of the agency's assets by a still undetermined amount.
- d) Some of the delivered items were already unserviceable, some were lost and some could not be accounted for. The loss of one mobile phone was also found not reported.
- e) Yearly extension of the MOAs was made in succession without subjecting these transactions to public bidding, contrary to Section 533 of the GAAM, Volume I.
- f) The lease contract showed that the rental was a fixed amount of ₱62,000.00 per annum from December 1999 to April 30, 2006, for the same billboard space. It was noted that the ads space increased to 20 x 80 feet during the period May 2004 to April 2005, without a corresponding increase in the rental amount.

16.3 The audit team recommended management that:

- a) the amount of consideration for the billboard lease be paid in cash, receipted, recorded in the books and remitted to the National Treasury pursuant to law and applicable regulations;
- b) the MES station superintendent be required to observe the inspection procedures and render reports to the Property and Accounting Sections concerned to ensure the recording of these items in the appropriate books of accounts pursuant to Section 63 of PD 1445;
- c) lost properties be properly accounted otherwise, the accountable officer should be made to pay for the cost of the items or replace them with items of the same specifications;
- d) an investigation be conducted on the delivery and usage of the personal computer received by the MES from the AAI; and
- e) a summary of the gasoline and oil products delivered by AAI be submitted, copies of approved requisition and issue slips to document the issuance of deliveries including the report of fuel consumption be submitted to the Auditor within five (5) days from receipt in compliance with Sections 53 and 361 (f & g) of the New Government Accounting System (NGAS) Vol. II and of the Government Accounting and Auditing Manual (GAAM).

16.4 Management explained that the intention of the office to accept various equipment, supplies and other materials to satisfy the space rental is fitting to the needs of the

station. The items delivered were utilized accordingly and have greatly improved the operational efficiency of the station without relying so much on the DA VII, RFU. The intention of the office was to substantially address its operational needs to enhance the level of its services and performance.

- 16.5 The MES Superintendent reasoned that the rental fee was converted into supplies and equipment needed for the Station since its budget is not enough to improve the 5-hectare lot. He however committed that the current year's rental will be deposited to the National Treasury and he will secure an authority to use the income from the DBM. Moreover, the MES Superintendent explained that, the non-conduct of the public bidding did not jeopardize the government considering that the office was able to obtain a fair and reasonable terms and conditions. It is a public knowledge that AAI has been engaged in the business for quite a time now, hence, he assumed that even if public bidding was conducted, the AAI would have given the best offer among other advertising agencies.
- 16.6 Analysis of the team however showed that, the MES Budget Allocation covering CYs 2000 to 2006 for the supplies, repairs and maintenance for vehicles and facilities and other operating expenses of ₱1,327,900.00 was considered enough to fund its operational needs. The justification of management could not validly support its action on the receipt of payment in kind for the billboard rental.
- 16.7 The audit team further believes that, the policies on fuel consumption apply regardless of the amount involved. A considerable time has lapsed since the fuel has been used, so there is no reason why the report on fuel consumption could not be made. The audit team also maintains that, a responsible government official should follow government rules and regulations particularly in the conduct of public bidding.

### **High cost of Hybrid Rice Seeds**

17. **Seed grower cooperatives and various seed companies were selling commercially, certified hybrid seeds at lower prices than the prices prescribed by the DA, an indication of the management's failure to exercise prudence to get the most advantageous prices for the government and the farmer-beneficiaries.**
- 17.1 The DA, through its Ginintuang Masaganang Ani (GMA) Rice Program aims to attain total palay production of 15.88 million metric tons in 2006 and ultimately achieve 16.67 million tons in 2007 and to reduce production cost and attain a 10% increase in the average yield per hectare from 2006 to 2007. In line with the program and due to the perceived high cost of hybrid rice seeds, DA Unnumbered Memorandum dated 20 September 2005 provided government subsidy of ₱65.00 per kilo or ₱1300.00 for every 20-kilo bag for every hectare planted with hybrid rice for the Dry Season 2005-2006 (November 2005-April 2006). It also stated that

the farmers shall shoulder the balance of the subsidized amount on the opted hybrid rice seed variety.

17.2 In connection thereto, the DA RFU II issued guidelines for the region. Its targeted area to be planted with hybrid rice for the Dry Season 2005-2006 is 50,000 hectares and a production target of 325,000 metric tons. The general guidelines stated among others the following:

- a) The distribution of subsidized hybrid seeds shall be undertaken in fully irrigated areas;
- b) The Municipal Agriculture Office shall prepare masterlist of qualified farmer beneficiaries. The Seed Grower's Cooperatives and the Private Seed Companies upon their request shall be furnished with the municipal masterlist of farmers as their reference in their direct sales to qualified farmer beneficiaries; and
- c) The F1 seeds considered in the program for the season, including the supplier, seed requirement per hectare and the subsidized price is shown below:

Hybrid	Source/Supplier	Original Price (P/Ha)	Gov't. Subsidy (P/Ha)	Farmer's Equity (P/Ha)	Seed Rate
Mestizo 1	Seed Grower's Cooperative	2,400	1,300	750	20
Mestizo 3		2,400	1,300	750	20
SL-8H	SL Agritech Corp.	2,500	1,300	1,200	20
Bigante	Bayer Seed Company	3,135	975	2,160	15
Rizalina 28	HyRice Corp.	2,400	1,300	1,100	20
Bioseed 401	Bioseed Corp.	2,940	1,040	1,900	16

17.3 It was noted that a total of 65,000 bags of certified hybrid rice seeds costing ₱82 million, were distributed as of this date to various farmer beneficiaries for the Dry Season 2005-2006 (November 2005-April 2006) broken down as follows;

Variety	Supplier	Quantity	Gov't. Subsidy	Amount
M1	Seed Grower Cooperative	24,466.50	P 1,300.00	₱ 31,806,450
M2		154	1,300.00	200,200
M3		7,134.50	1,300.00	9,274,850
SL 8H	SL Agritech Corp.	24,243	1,300.00	31,515,900
Bigante	Bayer Crop Science	6,056 (15kl)	975.00	5,904,600
Rizalina	HyRice Corp.	460	1,300.00	598,000
Bioseed	Bioseed Corp.	2,506 (16kl)	1,040.00	2,606,240
<b>Total</b>				<b>₱ 81,906,240</b>

17.4 It was also found out that of the distributed bags of 65,000, a total of ₱36,281,995 was already paid representing government subsidy, broken down as follows:

<b>Schedule of Payment made to Suppliers of Government Subsidy</b>					
<b>Date</b>	<b>Check No.</b>	<b>Supplier</b>	<b>Variety</b>	<b>Qty. (Bags)</b>	<b>Amount</b>
12.29.05	1039068	Bayer Seed Co.	Bigante	10,348 packs @ 5 kls. per pack	3,363,100
	1039085			1,540 packs	495,495
	1039080	Bioseed	Bioseed	570	296,400
	1039095	Cagayan Seed Growers Association	M3	69	88,500
	1039066	Isabela Seed Growers Association	M1	686	891,800
	1039079			2027	2,635,100
	1039086			Kalinga Hybrid Rice Farmers Coop.	910
	1039084	Northern Cagayan Seed Growers	M1/M3	98	127,400
	1039078	Nueva Ecija Hybrid Seed Growers Association	M1	349.50	454,350
	1039067	Nueva Viscaya Hybrid Seed Growers Association		454	590,200
	1039072	Roxas Hybrid Seed Growers Association	M3	2,637.50	3,428,750
	1039081		M3/M1	2198	2,857,400
	1079070	San Manuel Hybrid Seed Growers Association	M3	3,454	4,490,200
	1039071		M1	3,193	4,150,900
	1039082	SL Agri Tech Corporation	SL-8H	2,743	3,565,900
	1039083			2,158	2,805,400
	1039087			3,737	4,858,100
			<b>Total</b>	<b>₱ 36,281,995</b>	

17.5 However in the validation, which included sampling interviews of some farmer beneficiaries, the following information were gathered:

- a) Some farmer beneficiaries who were not able to get all their seed requirements from their respective municipal agriculture offices (MAOs) bought from private agricultural supply stores in their localities and noted that the price over the counter was the same as the farmer's equity paid in the MAOs offices.
- b) That the private agricultural supply stores did not require any signatures from them, thereby indicating that the price was their regular sales price.
- c) The selling price of hybrid rice seeds in the market which is presented in the preceding page, was lower than the prices set in the guidelines as validated and evidenced by sales invoices presented by farmers and certifications signed by them.

<b>Schedule of Market Price of Hybrid Rice Seeds</b>		
<b>Variety</b>	<b>No. of Kilos per</b>	<b>Selling Price</b>



	<b>Bag</b>	<b>(Over the Counter</b>
SL-8H	20 kilos	₱ 1,500
Bigante	5 kilos pack	750
M3	20 kilos	1,100
Bioseed (D-401)	8 kilos	920

- 17.6 Apparently, the seed growers' cooperatives and the various seed companies were selling commercially, certified hybrid seeds at lower prices than the prices considered by the DA. The department failed to consider that the supply of hybrid seeds is no longer scarce as production is continuously increasing.
- 17.7 It was recommended to management to require the review of the policy on price subsidy to come up with a more efficient procedure of acquiring certified seeds at lower prices than the ceiling prescribed which will result to lower government subsidy and farmer's equity. It was further recommended that the prices set by the DA guidelines be reviewed and re-evaluated to acquire prices most advantageous to the government and the farmer beneficiaries.
- 17.8 The observation was discussed with management officials at the OSEC level however, the explanation of the seed growers to the letter of the Secretary informing them of the audit observations has not yet been received. It is requested that management follow-up the actions immediately.

### **Contract with Non-operational Cooperative**

- 18. The agency entered into a Memorandum of Agreement with the Northern Cagayan Seed Growers Cooperative, a non-operational cooperative for certified seeds subsidy totaling ₱1.801 million, in violation of DA Memorandum dated April 19, 2004.**
- 18.1 Administrative Order No. 25 dated December 1, 2001 mandated the DA, PhilRice, and seed growers cooperatives and seed companies to join in the national strategy to attain self-sufficiency in rice.
- 18.2 In line with this mandate, a memorandum from the Secretary of DA dated April 19, 2004, the DA RFUs were instructed to make arrangements/contracts with Hybrid Seed Growers Cooperatives/ Companies for the seed requirements of their respective areas.
- 18.3 Audit showed that on October 5, 2005, the DA RFU II entered into a MOA with the Northern Cagayan Seed Growers Cooperative, Incorporated. Verification revealed that the cooperative is not operative hence, considered illegitimate and the contract entered into is not valid. The certified seeds subsidy totaling ₱1,801,700 was paid to the Cooperative as follows:

<b>Date</b>	<b>Check No.</b>	<b>Amount</b>
Nov 05	1039084	127,400.00
Sep 05	1038091	92,300.00
Sep 05	1038384	96,200.00
Nov 05	1039084	127,400.00
Sep 05	1036200	88,400.00
Sep 05	1035640	204,100.00
Sep 05	107747	65,000.00
Sep 05	107748	45,500.00
Jul 06	1075864	80,000.00
Jul 06	1074865	5,200.00
Jul 06	1074866	22,000.00
Aug 06	1075685	20,000.00
Oct 06	1076834	86,000.00
Dec 06	1121288	12,000.00
Dec 06	1121289	204,800.00
Dec 06	1121290	128,000.00
Dec 06	1121291	322,800.00
Dec 06	1121292	74,600.00
<b>Total</b>		<b>1,801,700.00</b>

- 18.4 It was recommended to management that proper evaluation be made on the status of the contracting cooperatives before entering into a contract and a justification be submitted why the MOA with the Northern Cagayan Seed Growers Cooperative should not be declared void and payments thereto should not be disallowed in audit.
- 18.5 During the exit conference, management stated that the operation status of the cooperative was not important as long as the seeds delivered were of good quality and it met the standards set by the BPI-NSQCS.
- 18.6 The audit team believes however, that it is the responsibility of the agency to transact business with legitimate cooperatives to promote the importance of their existence. It is reminded that status of cooperatives be validated since various subsidies and assistance were extended to the Seed Growers Cooperatives to help the members who were supposed to be legitimate farmers in their legitimate existence as a cooperative. Further, the cooperative may have been used by suppliers to escape taxes from sale which is a privilege enjoyed by cooperatives.

## **B. Value for Money Audit**

### **PDAF for livelihood projects expended for other projects - ₱74.740 M**

**19. Priority Development Assistance Fund (PDAF) totaling ₱74.740 million in DA-RFUs CAR, III, V, VII, XI, & XIII were expended for agricultural supplies and equipment and administrative cost, instead of utilizing the funds for livelihood projects thereby hindering the attainment of increased diversified income generating opportunities for the poor and decreased poverty incidence.**

19.1 The DA livelihood projects aimed to provide alternative sources of income aside from farming. It is intended to give work to family members who are not involved in the farming activities or when there are less farming activities. The income derived from these livelihood projects would not only augment the family income but may be the main income especially if the farm cannot produce the desired yield.

19.2 The goal of the project was to generate income opportunities for the poor in the areas identified by the legislators and the DA. It aimed to provide livelihood projects to targeted beneficiaries and to support its sustainability. Its ultimate objective was to increase diversified income generating opportunities for the poor and decrease poverty incidence.

19.3 The livelihood projects being undertaken by DA are as follows:

- a) Agriculture
  - Swine raising (breeding/fattening)
  - Goat raising
  - Poultry raising
  - Cattle raising
  - Bee keeping
  - Cut flowers and ornamentals
  - Green corn production
  - Vegetable production
- b) Home Economics
  - Home management
  - Food trades
  - Handicrafts
  - Clothing
  - Food processing and preservation

19.4 Audit of the livelihood program disclosed that disbursements totaling ₱74,739,920.45 in DA-RFUs CAR, III, V, VII, XI, & XIII were expended for agricultural supplies and equipment, and administrative cost, instead of utilizing the funds for the livelihood projects, as follows:

Legislator	Amount Received	Amount Disbursed	Nature of Payment
<b>RFU III</b>			
Cong. Aurelio M. Umali	2,500,000.00	2,320,000.00	80 units Power Sprayer URG55-Motor Rating 5.5 HP Gasoline Engine and Pressure 0-45kg/cm2 (700-900PSI)
		180,000.00	Miscellaneous Expenses
	2,500,000.00	990,000.00	11 units hand tractor, Heavy Duty, 60/60 chain sprocket transmission and 0.8 HP Diesel Engine, 4 stroke, single horizontal cylinder AMTEC Tested
		1,267,200.00	11 units Rice Threshers
		242,800.00	Miscellaneous Expenses
Cong. Rey B. Aquino	150,000.00	150,000.00	Rehabilitation of STWs
Cong. Leonila Chaves-Butil	1,000,000.00	984,000.00	820 bags Certified Bags (50kgs.)
		16,000.00	Miscellaneous Expenses
Sen. Ramon Magsaysay	700,000.00	700,000.00	Various dairy equipment
Cong. Jesli Lapus	10,000,000.00	7,500,000.00	Fertilizers
		2,500,000.00	Knapsack sprayers and farm equipment
Cong. Mickey Arroyo	10,000,000.00	6,000,000.00	Motorized boats, nets and fishing supplies
		4,000,000.00	Fertilizers, seeds, high value crops and implement
<b>RFU VII</b>			<b>Irrigation Pumps</b>
Rep. Roberto Cajés	5,000,000	4,850,000	31 units diesel engine w/ water pump
	4,000,000	3,880,000	25 units diesel engine w/ water pump
Rep. Sunny R.A. Madamba	5,300,000	4,850,000	40 sets gasoline engine w/ water pump
	2,000,000	1,940,000	16 units gasoline engine w/ water pump
Rep. Rene Velarde	9,000,000	8,680,000	56 diesel engine w/ water pump
<b>Sub-Total</b>	<b>25,300,000</b>	<b>24,200,000</b>	
			<b>Fertilizers</b>
Rep. Emilio Macias	2,000,000	1,939,920	Delgro Terrestrial Solid Inorganic Fertilizer
			<b>Fund transfers on 12/29/06</b>
Rep. Roberto Cajés	4,000,000	4,000,000	Fund transfer to Bohol -APC
Rep. Macias	5,000,000	5,000,000	Fund transfer to PATCO –

			Dumaguete
Rep. Sunny R.A. Madamba	5,100,000	5,100,000	Fund transfer to PATCO – Dumaguete
<b>Sub-Total</b>	<b>14,100,000</b>	<b>14,100,000</b>	
<b>Sub-Total for RFU VII</b>	<b>41,400,000</b>	<b>40,239,920</b>	
<b>RFU-CAR</b>			
Rep. Laurence Wacnang	10,000,000	9,688,800	Organic fertilizer
		111,200	Monitoring and capability building program
		200,000	Administrative Cost
<b>Sub-Total</b>	<b>10,000,000</b>	<b>10,000,000</b>	
<b>RFU V</b>			
Cong. Jose Solis	5,000,000	4,850,000	5,000 bags special rice
		100,000	470 packs corn seeds
		50,000	Administrative cost
Cong. Rizalina S. Lanete	10,000,000	9,800,000	28 units power sprayer and 515 pcs. Agricultural production kit
<b>Sub-Total</b>	<b>15,000,000</b>	<b>15,000,000</b>	
<b>RFU XI</b>			
2 <sup>nd</sup> District of Davao Oriental	11,500,000	9,400,000	100 units Karavision and 100 computer sets
<b>Sub-Total</b>	<b>11,500,000</b>	<b>9,400,000</b>	
<b>RFU XIII</b>			
		4,544,670.45	3,880 livelihood kits in English
<b>Sub-Total</b>		<b>4,544,670.45</b>	
<b>Grand Total</b>		<b>74,739,920.45</b>	

- 19.5 Of the PDAF of ₱26,850,000.00 released to RFU III, ₱6,850,000 were transferred to four NGOs namely, Kabalikat sa Kabuhayan, Inc., Sanduguan, MPC, Small Farmers Development Center and Tribo Zambaleno Dairy Cooperative all spent for other projects except livelihood. The bulk of the amount was transferred to Municipality of Bamban, Tarlac and Municipality of Guaga, Pampanga. It was noted by the ATL of RFU III that monitoring and inspection of project implementation was only half performed by DA RFU III monitoring and evaluation team. There was no report prepared and attached to the vouchers. There was no acknowledgement receipt of the beneficiaries as the document submitted was merely a listing of proposed recipients of the farm equipment/implements.
- 19.6 In DA-RFU VII, the total of ₱14,100,000 were released to DA provincial offices in the last working day of 2006 thus, the items purchased could not be determined as at year-end since the report of disbursements on such funds have not been submitted.
- 19.7 Review of documents showed that the legislators in Region 7 recommended and approved the implementation of project proposal submitted by the non-government organization (NGO). However, the items purchased were fertilizers and irrigation

pumps which are farm inputs and farm implements and not livelihood projects under the DA program.

- 19.8 DA RFU VII, through the recommendation of APEC Party List Representative implemented the program Small Scale Irrigation Pumps in Regions VI, VII and VIII. Only 14 sets out of the 40 irrigation pumps were delivered to Region VII. The forty units were not for distribution in Region VII alone but also for marginal farmers in selected municipalities in Region 6 (Guimbal, Dumangas and Concepcion, Iloilo; Valladolid and Hinigaran, Negros Occidental) and San Isidro, Leyte in Region 8. The supporting documents did not state the reasons why the release of funds was made to DA RFU VII instead of the concerned regions.
- 19.9 The fourteen irrigation pumps allotted for Region VII were distributed as follows: 10 to the Local Government Unit (LGU) of Negros Oriental and four (4) to the DA RFU VII. Out of these, there were 10 units gasoline engine 5.5 HP with water pump costing ₱1,212,500.00 which remained undistributed by the Provincial Agriculture Office (PAO) of Negros Oriental and the Regional Agricultural Engineering Division RFU VII due to the lack of identified recipients.
- 19.10 The Negros Oriental LGU received ten (10) water pumps on July 10, 2006. The interview with the Provincial Agriculturist on January 31, 2007, or seven months after the receipt of the irrigation pumps, showed that only two (2) or 20% of the ten (10) units were distributed. The two beneficiaries were in Barangay Ubogon, Tanjay City and in Barangay Cabanlutan, Bais City.
- 19.11 The verification on the distribution of the four (4) sets with the DA RFU VII disclosed that two were undistributed and kept at the Regional Agricultural Engineering Division. One of pumps was given to a farmer/beneficiary from Paril, Cebu City while the other set was given to the Most Outstanding Vegetable Farmer of the High Value Commercial Crops (HVCC) program in Bayawan City.
- 19.12 Based on the information gathered, there was no immediate need of the irrigation pumps since there were no identified recipients and that 10 sets or 71% remained undistributed.
- 19.13 It was also noted that there were no guidelines on the selection of beneficiaries which could have provided for a fair selection process that will contain the criteria on the qualifications, area tilled and the crops planted, among others.
- 19.14 Per interview with Provincial Agriculturist, the remaining units on hand will be given to a Farmer Association who will request for assistance from the governor thru a resolution.
- 19.15 On the other hand, DA-RFU-CAR received the amount of P10 million PDAF intended for Input Assistance and Capability Building Program (IACBP) of which, ₱9,688,800.00 was spent for organic fertilizer assistance, ₱111,200.00 was

expended for monitoring and capability building program and the ₱200,000.00 was retained by the DA RFU-CAR for administrative cost.

- 19.16 Further, DA RFU No. V received PDAF of ₱5,000,000 for the 2<sup>nd</sup> District of Sorsogon and ₱10,000,000 for 3<sup>rd</sup> District of Masbate. Out of the ₱5,000,000, ₱4,950,000.00 were paid to NOFAEP for the delivery of 5,000 bags of special rice, 470 packs sweet corn seeds @ 500 grams per pack and 20 packs sweet corn hybrid honey bliss @ 250 grams per pack. The balance of ₱50, 000.00 was used as administrative cost of the DA RFU V.
- 19.17 While, the ₱10,000,000 PDAF of the 3<sup>rd</sup> District of Masbate were expended as financial assistance to an NGO, the *Masaganang Ani Para Sa Magsasaka* Foundation, Inc. (MAMFI) and included the deliveries of 28 units Power Sprayer and 515 pieces Agricultural Production Kits, intended for the various municipalities in the third district of Masbate. These items had the following estimated costs: Power Sprayer at ₱175,000.00 per piece and Agricultural Production Kit at ₱9,500.00 per piece and have a total estimated cost of ₱9,792,500.00.
- 19.18 The ATL of DA-RFU V cannot identify whether the expenditures for rice distribution is for “livelihood” project, as it will not contribute to the income generation of the farmer-beneficiaries, being consumables and this constituted 97% of the total allotment. There was no roll-over effect of the expenditures, which is the expectation of livelihood projects.
- 19.19 Also, DA RFU XI procured 100 units Karavision Multi-Media System and 100 computer sets from PZA Trading, Quezon City totaling ₱9,400,000 funded from PDAF for livelihood projects of the Congressman of the 2<sup>nd</sup> District of Davao Oriental.
- 19.20 The above items were distributed to the Barangays of the five (5) Municipalities of the 2<sup>nd</sup> District of Davao Oriental. A random inspection and validation was conducted by the ATL thereat and found out that the karavision and computer sets were stationed in the Barangay Halls and were being used in their official business and functions. Hence, DA RFU XI accommodated projects under PDAF which is considerably unrelated with its mandate and the achievement of its goals.
- 19.21 Moreover, DA RFU No. XIII paid livelihood kits in English version amounting to ₱ 4,544,670.45 charged against the social funds of a legislator for distribution to the barangays which could not be understood by farmers and fisher folks thus defeating the purpose for which it was intended.
- 19.22 Sometime in December, 2005, the regional office paid Barredo Publishing House, with office address at No. 339 Quezon Ave., Quezon City the amount of ₱4,544,670.45 for the delivery of 3,880 livelihood kits. The livelihood kits are

intended to help the beneficiaries on how to engage in various livelihood projects that would augment their income and uplift their living condition.

- 19.23 Per inspection it was noted that the kits were not distributed to the barangays (farmers and fisher folks) but remained on stock at the Office of the Congressional District. Interview conducted with the barangay officials and some residents disclosed that they did not receive nor they were informed about the livelihood kits. The farmers and fisher folks commented that the kits should have been in a Surigaonon or in a Visayan dialect since they cannot understand the English version.
- 19.24 In effect, the amount of ₱ 4,544,670.45 paid for livelihood kits were just wasted since it did not serve the purpose of enhancing farmers/fisher folks' capability of engaging livelihood projects.
- 19.25 The problem in the non-implementation of the projects was the uncoordinated policy and program implementation between the DA and the legislators especially since the funds were not part of the DA work and financial plan. Therefore, project implementation was not in accordance with the purpose of the DA livelihood program and hindered the attainment of the ultimate objective of increased diversified income generating opportunities for the poor and decreased poverty incidence.
- 19.26 It was recommended that management be required to:
- a) coordinate with the PAO of Negros Oriental and the RAED 7 to cause the immediate release of undistributed/unclaimed water pumps so that the intended beneficiaries could enjoy the benefit from the use thereof;
  - b) coordinate with NGO and the PAO to conduct an orientation or training as to the maintenance and operation of the pumps before its distribution.
  - c) prepare guidelines on the selection of the recipients to avoid personal or political concerns in the use of government funds and ensure that items purchased reached the intended beneficiaries. It is important that procurement of agricultural supplies be enough for the actual requirement of the intended beneficiaries or user to avoid over-stocking of supplies.
  - d) coordinate with the legislators to align projects with the agency's priority programs. Further, there should be minimal political intervention in the choice of projects, funded out of government funds, which would benefit to the greater number of people.
- 19.27 Management explained that it has still to verify the actual distribution of the Gasoline Engine considering that the DA Technical Team has not given a report on the actual number of units that have been distributed under the PDAF Project of



Honorable Representative Sunny R. A. Madamba. The Samahan ng mga Manininda ng Prutas sa Gabi, Inc. has already delivered the required number of engines at the designated locations in accordance with the project proposal. However, Management explained that it has overlooked the immediate distribution of the engines to the identified recipients on time, hence, it will look on the matter with dispatch.

19.28 Management committed to comply with as much as possible the actions desired towards successful implementation of PDAF Programs and Projects.

19.29 Management explained that the PDAFs were released and disbursed in accordance with the intention and purpose of the various Congressmen who transferred the aforesaid funds. PDAF is utilized based on what the concerned Congressman considers as the best program and project that will be implemented in their respective districts.

19.30 Further, management justified that irrigation pumps are necessary for livelihood projects. Such procurement helped in the attainment of increased diversified income generating opportunities for the poor and decreased poverty incidence. Fertilizers and irrigation pumps are the agricultural inputs and implements which are needed in livelihood projects. Further, the procurement of the said items was in line with the thrust of the department.

19.31 Management emphasized that though the office takes special attention to the recommendation, it is the opinion of the undersigned that political intervention will always occur as long as the project or program is under PDAF of the Congressmen. The DA RFUs have no control as to the priority of the legislator in the utilization of his/her PDAF, but one thing for sure is that the project is for the best interest of their respective constituents.

19.32 The Audit Team believes that the legislator may identify the project and its beneficiaries, however, the procurement of items or program implementation, should be handled by the Department and not by the NGO. If it is to be done by the NGO, it should be closely monitored by DA to ensure that government rules and regulations are followed.

#### **Effectiveness and timeliness of farm inputs**

**20. PDAF released to RFU VII of ₱1,939,920.00 for livelihood project was utilized for the purchase of fertilizers for the 2<sup>nd</sup> District of Negros Oriental but were not used during the planting season it was intended for. The late delivery, the non-conduct of crash training program on its application and the poor quality of the fertilizers contributed to the non attainment of the purpose of the farm input assistance. Similarly, fertilizers and polybag amounting to ₱429,513.00 bought out of the PDAF for livelihood were not distributed on time to**

**intended beneficiaries in Region IX, thus depriving them of its immediate use.**

- 20.1 The Department of Agriculture RFU VII received Advice of Sub-Allotment (ASA) No. 101-2006-501 dated June 23, 2006 in the amount of ₱2,000,000 as financial assistance for livelihood programs and projects in the 2nd District of Negros Oriental. The fund transfer was released to the Kabus nga Mag-uuma ug Mananagat Foundation Inc. (KFI) or KAMAMA in the amount of ₱1,939,920.00. It was fully released instead of by tranche as specified in the Memorandum of Agreement.
- 20.2 The fund was used for the procurement of farm inputs in the form of terrestrial solid inorganic fertilizers with trace elements to be distributed to the farmers through the different Barangay Development Council (BADCs) for the second district of Negros Oriental. The 22 BADCs and one barangay received 351 packs of 1kilo/pack inorganic fertilizers to supplement the commercial fertilizer for the production of vegetables, rice and corn.
- 20.3 Interviews conducted on six sampled BADCs disclosed that three (3) BADCs did not use the fertilizers due to its untimely arrival, summarized as follows:

BADC	Used Fertilizers	Did not use	Reason
Pandanon, Mabinay		√	Plants are ready for harvest
Old Namangka, Mabinay	√		Only 2 kilos out of 234 kilos were used due to presence of worms & strong odor
Dahile, Mabinay		√	Fertilizers received only last January 2007
Janti-anon, Amlan		√	Fertilizers received on the second week of December 2006. No training was conducted.
Silab, Amlan	√		Out of five groups only group 3 used the fertilizer due to the rainy season.

- 20.4 The fertilizers arrived only during the harvest season in December 2006 and January 2007. The late arrival of the fertilizers deprived the farmers of its immediate use contrary to the implementing schedule of the KFI which states that the project will be implemented on the 2<sup>nd</sup> cropping season of CY 2006. These fertilizers should have been positioned strategically during the month of August to be in time for its use during the planting schedule starting from the month of September to October 2006. The officers said that the unused fertilizers will be used in the next cropping season.
- 20.5 Moreover, the BADC president of Sitio Catalina, Barangay Silab of the Municipality of Amlan and a recipient from Barangay Abis of the Municipality of Mabinay explained that the fertilizers they received remained unused as of the interview date because of the rainy season. Since these fertilizers will be sprayed

on the plants, there should be a good timing on the application of fertilizers in order to have a better result on its growth and yield a good harvest.

- 20.6 Only one of the six (6) respondents/recipients of inorganic fertilizer utilized the Farm Inputs (FIs) and applied it on sugarcane which has not been harvested as of interview date. No significant change or effect was observed in the use of the Delgro fertilizer. They presumed that it might be due to the rains that followed the application of fertilizer thereby washing away the nutritional elements of the fertilizers. The interviewee was the lone user of Delgro in the BADC of Barangay Old Namangka in the Municipality of Mabinay. He informed the audit team that it was only he who used the fertilizers due to the presence of worms and strong odor.
- 20.7 The other intended Farmer Beneficiaries (FBs) of Barangay Old Namangka, upon learning of the presence of worms and the strong bad smell which caused headache, no longer wanted to use it. One of them, who accompanied the audit team to the place where the fertilizers were stored, made a comment that *these fertilizers will make the plants healthy but are very harmful to the farmer's health*. So out of the 234 kilos received by the BADC only two (2) kilos were used pending assistance from the technician on how to get rid of those worms and the strong bad smell.
- 20.8 In the List of Beneficiaries furnished by KFI, only the names of the BADC Presidents and Brgy. Captains appeared on the list. Some of these barangay officials have no knowledge about the product and its application. Others tried to learn by themselves by reading the product label on how to apply these fertilizers. Of the five officers interviewed who were actual recipients of the farm inputs, three (3) or 60% failed to use or apply the solid inorganic fertilizers as agricultural reinforcement due to the inability of the municipal agriculture officials to provide them with adequate information or instruction on the proper usage or application of these items despite the provision in the project proposal that a crash training program will be conducted among the intended beneficiaries.
- 20.9 In Barangay Janti-anon of the Municipality of Amlan, the fertilizers were received during the 2<sup>nd</sup> week of December 2006 but as of Feb. 01, 2007 there was no training conducted as to the proper usage or application of the fertilizers which is contrary to their implementation schedule that crash training program should be conducted 1-2 weeks prior to the planting schedule of September – October 2006.
- 20.10 On the other hand, ocular inspections made on stock rooms of DA-Pagadian and Western Mindanao Integrated Agricultural Research Center (WESMIARC – Ipil Sibugay) of RFU IX showed that various agricultural supplies such as fertilizers and polybags totaling ₱429,513 remained undistributed.
- 20.11 Verification revealed that majority of the fertilizers was kept on stock for more than one (1) year and were not distributed to farmers. Also, there were 15,600

pieces of unused polybags stocked at WESMIARC and found abandoned resulting to waste of government funds.

20.12 The ATL recommended to RFU VII management that:

- a) KAMAMA be required to implement the project in accordance with the terms and conditions of the MOA and the schedule set forth in the project proposal so that the farmers could benefit from the use of the fertilizers and attain the program objective of increased income.
- b) Penalty clause be included in the terms and conditions of the MOA to compel contracting parties to perform the deliverables within the stipulated time.
- c) KAMAMA be informed about the defects of the fertilizers and require supplier to change the product so that it could be used by the intended beneficiaries without any ill effect on their health.
- d) KAMAMA and concerned MAOs be required to provide the BADC officials with the necessary instruction or guidance or conduct the crash training program on the proper application or usage of these items in compliance with the approved project proposal.
- e) effective monitoring system be provided to oversee the proper implementation of its projects to achieve its desired goals and targets.

20.13 Management explained that it has still to verify the delay in the delivery of the purchased fertilizers. Further, the other observations need confirmation from DA Technical Team so that problems encountered will be properly addressed by this office. Management will create a task force to look into this case and will be required to render a report as well recommendations for management guidance and reference. Management committed to immediately furnish COA with a copy of the report.

20.14 Management gave assurance that the recommendations set forth in the Audit Observation Memorandum will be given utmost attention and that it will incorporate some provisions in the Contract that will serve as safety nets in the procurement of Fertilizers.

20.15 On the other hand, it is recommended RFU IX ensure that agricultural supplies of this nature be distributed to the beneficiaries immediately upon delivery.

20.16 Management explained that agricultural supplies in DA-RFU IX were not distributed because these were intended for distribution during the wet season.

20.17 However, it is the stand of the audit team that since the agricultural supplies were purchased over a year ago, these should have been distributed during the wet season in CY 2006.

### **Livelihood Projects Lack Formal Monitoring Reports - ₱55.077**

**21. RFUs II and IV were not able to measure the success of the Livelihood projects totaling ₱55.077 million extended to various Non-Government Offices/Peoples' Organizations due to lack of formal monitoring reports that should have ensured that the programs were indeed implemented. Name of projects and names of recipients were not even mentioned in certifications issued by the monitoring team of the DA attached to the vouchers.**

21.1 Section 3.4 of COA Circular No. 96-003 dated February 27, 1996 states that the Memorandum of Agreement (MOA) between the Government Office (GO) and the Non-Government Office (NGO)/Peoples' Organization (POs) shall incorporate the following:

- Project statement including identification of beneficiaries
- Standards for project implementation by the NGO/PO and acceptance by the GO to include completion date
- Systems and procedures for project implementation and the schedule of release of the fund assistance
- Project cost estimates and time schedules
- Reporting, monitoring and inspection requirements such as the Statement of Disbursements duly certified by an independent accountant

21.2 Also, effective monitoring system provides adequate and accurate information as reliable basis in reporting so as to provide management with enough bases in making decision and as a tool in taking appropriate action on identified problem areas to ensure the efficient and effective implementation of the program.

21.3 In the review of the various releases to different NGOs/POs, it was noted that the MOAs did not indicate the specific projects including the identification of the beneficiaries. It only indicated the congressional districts to where the funds will be utilized. Also, the specific dates and the concurrence of the beneficiaries or the local government units to where the projects were supposedly implemented were not solicited.

21.4 The DA-RFU2 was not made to accept the project as implemented, neither did the beneficiaries. The projects were only accepted by the proponents of the funds.

Also, inspections and monitoring of DA was not made as nowhere in the documents submitted showed that it was conducted. The agency only had a certification that the program was implemented but not a monitoring report on the extent of implementation.

- 21.5 The project in the 3<sup>rd</sup> District of Quezon released to RFU IV implemented by Unlad Quezon Foundation, Inc, (UQFI) was properly documented so that the intended project recipients could not easily be pinpointed thus project results were hard to monitor and evaluate. There was also no monitoring, inspection and verification made by DA-RFU IV as implemented by the NGOs/Pos to enable them to determine whether government funds released for livelihood projects improved the lives of the targeted beneficiaries.
- 21.6 It was recommended that management be required to conduct proper monitoring and evaluation of project implementations and to submit proofs that the projects were properly implemented as desired. Also, submit properly prepared Report of Disbursements indicating the complete details of disbursements made from the fund pursuant to relevant accounting rules and regulations. Also, perform a careful screening of the NGOs and suppliers to whom government funds are entrusted ensuring that only those with legitimate existence and with relevant experiences in connection with the programs of the agency are selected.
- 21.7 It was also recommended that DA – RFU IV be required to monitor and inspect implementation of projects funded by PDAF to ascertain if the specific objectives of these were attained to ensure that lives of its beneficiaries have improved. Require the NGO/PO to devise a good system of documentation and recording at their level, to facilitate easy monitoring and validation of projects implemented by their organization. Likewise, require them to have beneficiaries sign certificates of acceptance for projects delivered/ accepted as provided for in Sec. 5.3 of COA Circular 96-003 dated February 27, 1996 which states that the NGO/PO shall require beneficiaries to issue certificate of acceptance for accomplished/completed projects.”
- 21.8 Management of RFU II stated that they did not have the necessary technical capacity to evaluate the impact of the livelihood projects implemented by the various NGOs. Further, the evaluation of implementation can not be made since the NGOs are not government agencies.
- 21.9 The UQFI, the NGO that implemented the project of RFU IV admitted that the deficiency was due to their system in providing the assistance to the targeted beneficiaries, which was usually coursed through the mayor, and from the mayor, to the MAO instead of directly issuing the same to qualified recipients. In most cases, the NGO/PO has to make several follow-ups from the Office of the Mayors or the MAOs before they can be furnished with the list of targeted beneficiaries bearing signatures, evidencing receipt of assistance.

- 21.10 However, as partners in the program implementation, as stated in the MOAs, it is the stand of the team that the responsibility of the agency to monitor the implementation of the livelihood projects which were the bases of the fund transfers to assure that government funds given as assistance will not be wasted.
- 21.11 Management however, insisted that they can not monitor and inspect project implementation thru PDAF because it is very difficult to do such for each and every project being undertaken; they are actually projects of legislators who would insist that the funds downloaded to the NGOs/POs were theirs not the RFUs and as such there are no funds available for monitoring PDAF funded projects.

### **Absence of Guidelines in the Livelihood Project**

**22. The absence of guidelines in the selection of recipients of the Livelihood Support to the Poverty Alleviation Program of the 2<sup>nd</sup> District of Negros Oriental resulted in the difficulty in assessing the extent of project implementation and the impact it has among its recipients.**

- 22.1 The project implemented by KAMAMA Foundation Inc. (KFI) is a Livelihood Support to the Poverty Alleviation Program of the 2<sup>nd</sup> District of Negros Oriental via the Barangay Development Council (BADC).
- 22.2 The twenty three (23) BADC who received the Delgro Terrestrial solid Inorganic Fertilizer from the Priority Development Assistance Fund (PDAF) were represented by the President or by the captains in their respective barangays in Sibulan, San Jose, Amlan, Pamplona, Tanjay, Mabinay and Bais City.
- 22.3 The distribution of solid inorganic fertilizers was coursed thru their respective barangay officials to facilitate the issuance of these farm inputs to farmer beneficiaries located in the hinterlands and remote areas.
- 22.4 Per interview, all the five (5) BADC presidents did not furnish us with the list of the actual beneficiaries of the fertilizers, thus, validation of project implementation could not be immediately done. Inquiry as to the process involved in the selection of beneficiaries disclosed that they could not give the audit team a copy of the guidelines on the selection of recipients. The BADC officials interviewed can relate only to their own informal guidelines since they just received the fertilizers given to them. They did not have a uniform basis in the selection process in the distribution that could have formalize the program of the congressman with funds released through the DA.
- 22.5 In Barangay Pandanon, Mabinay, the BADC president explained that only the active members of the council who are very interested in using the fertilizer can avail of its use. No list of recipients was given to the audit team because it was

the secretary who was in charge of keeping the records and she was not around during the interview.

- 22.6 No official list was given to the audit team in Barangay Old Namangka, Mabinay, because out of 234 kilos received by the president only two (2) kilos were used and the remaining 232 are still undistributed. It was agreed among them that the fertilizers are to be sold at ₱50.00 per kilo. The proceeds from the sale of the fertilizers will be used as a roll-over fund of their BADC.
- 22.7 The active members in Barangay Silab, Amlan were grouped into five. As of interview date, only the members of Group 3 were given their share of fertilizers. The other groups have yet to claim their fertilizers. Some residents who are non-members but who voluntarily helped in the on-going construction of their BADC building were also given fertilizer in lieu of their salary.
- 22.8 In Janti-anon, Amlan, the 351 packs were still undistributed and per interview with the BADC president, the fertilizers will be divided among the 38 members but there was no mention as to the specific quantity each farmer will receive. As of interview date, February 02, 2007, a meeting was to be conducted among the farmer/beneficiaries at 2:00 p.m.
- 22.9 Lastly, the fertilizers were received only in Barangay Dahile, Mabinay last January 2007 by its president and their BADC has decided to use the fertilizers only in the next cropping season.
- 22.10 It appears that the fertilizers were purchased without identifying the specific recipient, qualifications, crops, area planted and whether the fertilizers purchased suit the crop planted and the area to which it was planted. Thus, it is difficult to assess the extent of project implementation and the impact it has among its recipients.
- 22.11 It was recommended that the Memorandum of Agreement (MOA) between DA, RFU 7 and KAMAMA Foundation Inc. (KFI) be included in a provision stating the guidelines on the project implementation. The qualifications of recipients and the quantity of the farm inputs to be given to each recipient need to be clarified to serve as basis in the selection of qualified beneficiaries. Moreover, the presence of guidelines will provide for a fair basis in the selection of recipients and will help prevent the notion that the project is personally or politically-motivated.
- 22.12 Management explained that it will still have to make representation with the respective Congressmen under which PDAF Projects and Programs are apportioned due to the fact that only the purpose was indicated when the fund was downloaded to DA-RFU 7. The project proposal of the Foundation highly endorsed by the Congressman set forth therein the beneficiaries. Hence, the setting of guidelines in the selection of recipients of the Program is the obligation of the Foundation with the imprimatur of the Congressmen concerned.



- 22.13 However, Management committed to ensure that the recommendations made by COA will be fully considered with regard to the guidelines on the project implementation and qualifications of the recipients.

#### **Input Assistance and Capability Building Program of DA-RFU CAR - ₱10 M**

- 23. The implementation of the PDAF project worth ₱10 million for Input Assistance and Capability Building Program (IACBP) of the 1,200 targeted indigent farmers of Kalinga Province is not effectively carried out by Bukid-Tanglaw Livelihood Foundation, Inc., the proponent NGO in DA-RFU CAR,. The input assistance in the form of Mega BIO-Organic Liquid Fertilizer was not fully appreciated by the farmers and the implementation of the Capability Building Program was limited to the briefing on the application of fertilizer but failed to include modules on livelihood projects as provided in the MOA.**
- 23.1 The IACBP project comprises of fertilizer assistance for rice corn and vegetable farmers and the component Capability Building Program wherein various livelihood projects with modules such as: livestock raising, fast-growing vegetable and root crop farming and other related livelihood technologies were included. In the project proposal of the Memorandum of Agreement (MOA) entered into by and among the Department of Agriculture-CAR, the Office of the Congressman of Kalinga and the Bukid-Tanglaw Livelihood Foundation, Inc., the fertilizer assistance and the conduct of a capability building program were intended to expand and sustain the growth of agricultural production in the lone district of Kalinga and to uplift the quality of life of the indigent farmers in the area.
- 23.2 The benefit of the fertilizers purchased out of PDAF funds which are intended for livelihood projects could not be appreciated as they did not significantly improve the yield of the farmers. Fifty two percent (52%) of all interviewees or twenty four (24) farmer-beneficiaries including one farmer who claimed to have experienced no increase or decrease in yield, stated that they cannot ascertain whether or not there was increase in their farm yield after using Mega Bio-Organic Liquid Fertilizer.
- 23.3 Aside from one (1) farmer-beneficiary who claimed that he noticed no difference after using the organic fertilizer, they narrated that their farms were adversely affected by bad weather conditions such as: drought (for rain fed areas), cold weather, too much rain (in other areas) during initial stages, rice tungro infestation, rodents, birds and stray animals. Other factors cited by farmers include bad timing in planting and/or application, not following the proper application of the organic fertilizer and mixing the application of mega bio-organic liquid fertilizer with other fertilizers and/or pesticides that may lessen its efficiency.

- 23.4 There were seventeen (17) out of forty six (46) farmer-beneficiaries interviewed or 37% who stated that they noted increases in farm yields after using Mega Bio-Organic Liquid Fertilizer. Although some of these farmers failed to maintain records of their farm expenses and revenues, they were able to derive an estimated additional income from the increase in yield ranging from ₱1,350.00 to ₱8,800.00 wet season of 2006 depending on the farm size and kind of crops, thereby resulting in partially attaining the project's goal.
- 23.5 Five (5) farmer-beneficiaries or 11% gave no comment on whether there was increase or decrease in their farm yield after using Mega Bio-Organic Liquid Fertilizer because they have yet to use the fertilizers and/or have yet to harvest their crops. Accordingly, the fertilizers were distributed after planting season, hence farmer-beneficiaries only used them for the succeeding planting season. Other farmers claimed that they are quite apprehensive in using the mega bio-organic liquid fertilizer, while one farmer decided to observe the results from other farmer-users before using the same to ensure its success. Another interviewee claimed to have mixed his produce with those applied with other fertilizers, which made it difficult for him to differentiate the result from the other.
- 23.6 The report of the DA RFU-CAR Monitoring Team on the non-implementation by the proponent of other modules under the Capability Building Program in various areas was confirmed during the interviews conducted, thereby the purpose of imparting knowledge on various livelihood projects to selected farmers was not fully attained.
- 23.7 Most of the 46 interviewees confirmed they were just given briefings on the application of Mega Bio-Organic Liquid Fertilizer and no Capability Building Seminar or any equivalent was provided by the NGO.
- 23.8 The project's goal may not be fully attained or benefits there from may not be maximized because the Provincial and/or the Municipal Agricultural Offices were not involved in the activities. The non-involvement of municipal agriculturist and agricultural technicians in the implementation of the project may have contributed to the problems of these farmers. In addition, some interviewees related that they were not aware of the presence of monitoring personnel from the proponent organization.
- 23.9 Verification of the price of the Mega Bio-Organic Liquid Fertilizer revealed that it is not available within the area where the project was implemented aside from the fact that its component or organic contents were not specified in detail in the documents submitted, hence there was difficulty in the evaluation of prices. Based on experience, agricultural suppliers within the area do not have the exact brand/kind of the organic fertilizer distributed. Some suppliers indicated "none" in the canvass paper and at the same time quoting a price of another kind/brand of fertilizer.

23.10 It was recommended to management that the following measures be implemented:

- a) Aside from the monitoring being conducted by DA RFU-CAR, require the proponents to monitor and evaluate the result of their project and to determine the problems being encountered in the process for appropriate action. For easy access, monitoring and coordination, it is further recommended that the DA RFU-CAR tap NGO base on the locality where the project is being implemented as required under COA Circular 96-003;
- b) Include the requirements for record keeping or the proper maintenance of the project's expenses, revenues and other related information. In this way, complete and accurate data are easily retrieved for monitoring, evaluation and reporting purposes. Complete and accurate data acquired for evaluation of accomplishments and the project as a whole will ensure reliable results;
- c) Require the participation of the Municipal Agricultural Services Office in the area. The Local Government Unit's agriculturists and technicians have direct links with farmers, therefore, close coordination between and among them should be maintained to immediately address farmers' problems in minimizing if not preventing such damages to various crops.
- d) Require intensive information dissemination by proponents on the proper and correct application of farm inputs being distributed especially if the product is newly introduced and not yet available in the market;
- e) Before approving the final transfer of funds to the proponent, require the report of the DA RFU-CAR Monitoring Team for evaluation of accomplishments. Deficiencies or deviations noted by the monitoring team should be corrected and implemented by the NGO before final fund transfer is made to ensure that the terms and conditions stated in the MOA are met or complied with so that objectives may be attained and no government money is wasted. Furthermore, the Regional Director should instruct officers concerned to seriously look into the matter and if warranted, the deficient party should refund the proportionate amount equivalent to the unimplemented part of the project under the capability building program; and
- f) Require the detailed specification of the organic contents or component of the fertilizer being procured for easy verification and evaluation. The DA RFU-CAR should, likewise, strictly adhere to the provisions of Republic Act No. 9184 (The Government Procurement Reform Act) in the procurement of goods and services to obtain the quality and prices most advantageous to the government.

## Efficiency and Effectiveness of the PDAF and GMA Program of DA-RFU XIII

24. A total of **₱266.00 million** were spent in the purchased of fertilizers thru transfer of funds to NGO during the year, **₱172.00 million** of which was sourced from PDAF and **₱94.00 million** from GMA Rice and Corn Program fund, but did not improve farmer's yield because only total yield of **408,774 metric tons of rice and 86,434 metric tons for corn** were achieved for an area of **55,057 hectares**.

24.1 Republic Act 8435, otherwise known as the Agriculture and Fisheries Modernization Act (AFMA), aims to strengthen the agriculture and fishery sector through modernization greater participation of small-holders (or small stakeholders), food security and food self sufficiency, private sector participation and people empowerment

24.2 An audit revealed that huge amount was spent for the purchase of fertilizers. Accomplishment report during the year, match against the funds provided to the program, revealed that yield did not significantly increase inspite of the huge funds spent.

24.3 Interview made by the audit team revealed that the program was implemented by NGO without monitoring by DA management. Management merely waited for the NGOs liquidation of its transferred funds without evaluating whether the funds were properly utilized.

24.4 It further revealed that Province of Surigao del Norte with the lowest area planted received more funds as compared to other provinces as presented below:

<u>Provinces</u>	<u>PDAF</u>	<u>GMA Rice &amp; corn Program</u>	<u>Total</u>	<u>Area Planted</u>
Agusan del Norte	₱ 23,000,000	₱ 6,000,000	₱ 29,000,000	13,160
Agusan del Sur	35,000,000	23,000,000	58,000,000	20,546
Surigao del Norte	76,000,000	45,000,000	121,000,000	7,537
Surigao del Sur	38,000,000	20,000,000	58,000,000	13,814
<b>Total</b>	<b>₱ 172,000,000</b>	<b>₱ 94,000,000</b>	<b>₱ 266,000,000</b>	<b>55,057</b>

24.5 In effect, the department's objective to boost farmers income was not attained, and farmers remain in a below poverty line.

24.6 It was recommended that management monitor the funds released to NGOs in order to determine whether or not the NGOs actually delivered the fertilizers to local government units.

- 24.7 Management commented that the transfer of funds was made in accordance with COA Circular.

### **SELAP Fund not Used for Livelihood Program**

**25. Support for Emergency Livelihood Assistance Program (SELAP) funds of ₱2,099,196.66 intended for socio-economic upliftment was used instead to pay various expenses depriving the intended farmer beneficiaries of availing the benefits of the program.**

25.1 The Support for Emergency Livelihood Assistance Program guidelines provides that the fund is for rural infrastructure projects, farm to market roads, post harvest facilities, irrigation and livelihood projects.

25.2 Audit revealed that there were various expenses spent by management in the total amount of ₱2,099,196.66 which were not related to the program. These expenses included payment of fuel and oil of all vehicles in the office, office curtains and installation, tires, television set and office renovation.

25.3 In effect, funds intended for rural infrastructure projects were not utilized in accordance with the purpose, thus depriving the rural folks of availing the benefits for their socio-economic upliftment.

25.4 It was recommended to management that charging expenses out of SELAP funds which are not related to the implementation of the program be stopped. Funds should be used solely for the purpose for which it is intended.

25.5 The management justified that the expenses charged against SELAP was a support to RFU-PMO operations component of the program more particularly on regional monitoring and evaluation and rehabilitation of the regional office building duly supported with a Work and Financial Plan.

25.6 The Audit Team maintains that the expenses incurred were not legitimate expenditures of the program. The expenses for fuel and oil consumption of all vehicles in the Regional Office charged against the fund for project monitoring and evaluation cannot be considered.

### **GMA Rice Program – Certified Seeds (Inbred Rice)**

**26. The expected yield in production did not materialize because of the failure of the DA to address the problems of farmers.**

26.1 The GMA Rice Program envisions a sustainable self-sufficient economy by 2010. It aims to improve rice productivity and increase the income of rice farmers. To

ensure the success of this program, it has 7 major component activities: Production Support Services, Irrigation Support, Infrastructure and Post-Harvest Supports, Extension Support, Education and Training, Research and Development, Regulatory Services, Policy Formulation Planning and Advocacy.

- 26.2 For CY 2006, DA-RFU IX received funds totaling ₱7,512,960.00 for Certified Seeds (Inbred Rice) and ₱3,185,600.00 from re-alignment of funds to implement GMA Rice Program of which 100% was utilized/used by the agency. Per accomplishment report, the agency met its annual target of 23,502 bags of inbred rice seeds to be distributed to the farmers with the objective of increasing rice production and consequently improve the living condition of farmers.
- 26.3 However, of the 67 farmers/respondents interviewed, only 13 beneficiaries or 19% declared a positive effect on their yield in that there was increased production. Eight (8) respondents declared same yield as when they use other varieties.
- 26.4 The audit team did not notice any increase in yield during the year. The success of the GMA rice program-inbred rice was obstructed by the different problems encountered by farmers in the region. Notable among them was the damage caused by pest infestation hence farmers are seeking more assistance in the form of free fertilizers and insecticides.
- 26.5 Contributing to this failure is the lack of monitoring and inadequate technical assistance in the part of DA-RFU 9 on its farmer beneficiaries before and after planting season. Had management strictly monitor the implementation of this program, increased in income of farmer-beneficiaries could have been materialized.
- 26.6 Result of the interview on farmers also disclosed that one of the reasons why their livelihood did not improve despite government interventions during planting season was because of problems encountered after planting season such as in the sale of their harvest whereby the middle man earn more for their yield than the farmer themselves. Farmers sell their harvest at such low cost that their profit would only be minimal.
- 26.7 It was recommended that management reinforce necessary farming practices and techniques and install measures to prevent and control pest infestation. Also, it was recommended that technician closely monitor and constantly provide assistance to farmers not only during seed distribution but also before and during planting and post-harvest season.

#### **Doubtful Validity Payments for Inbred Rice Program**

- 27. Validation of farmer-beneficiaries of the inbred rice program and the quantity they received showed discrepancies rendering validity of payments made to suppliers as doubtful.**

- 27.1 Verification of master list of recipients of inbred rice which served as basis for payments to suppliers disclosed that four (4) farmer-beneficiaries of Ramon Magsaysay Municipality attested that they have not availed of the rice seeds since they have no resources to pay for their counterpart of P440.00 per bag of inbred rice seeds. However in the master list of recipients attached to the payment to supplier ZDS Seed Producers showed that they acknowledged received one bag each of inbred rice on Dec. 15, 2006. This noted discrepancy puts in doubt payments made to supplier.
- 27.2 Management commented that extension support services (distribution and monitoring) lies in the hands of the local government units not with DA.
- 27.3 We maintain however that DA should involve itself to the level of the beneficiaries and not only stop upon delivery of seeds to LGU's.

#### **Fulbright DA Scholarship under the Agricultural Training Institute (ATI)**

- 28. Of the 143 scholar grantees of the Fulbright DA Scholarship under the Agricultural Training Institute (ATI), only 85 scholars completed the course and returned to the Philippines as of September 13, 2006 while 58 scholars remained in the United States reportedly under study status. However, there are no available information on whether these scholars are complying with the conditions of the MOA on service contract liability and the two-year home residency program.**
- 28.1 Audit revealed that during the year that there were 30 scholars who were enrolled starting School Year (SY) 2001 up to SY 2004 but up to now, they are still on study status when they should have finished and returned to the Philippines after two-year study only. There was no monitoring conducted on the status of these scholars.
- 28.2 It was recommended that ATI, particularly the Central Implementation Committee (CIC) monitor whether the service contract of the 53 government employees are being complied and likewise, the two-year home residency requirement for non-government employees. Furthermore, require explanation/justification to 30 scholars who were not able to finish their study on time.
- 28.3 Monitoring was done during the year by floating of questionnaires addressed to the immediate supervisors of the scholars to verify whether the knowledge and technologies they have acquired in their study was actually adapted in their work which will eventually benefited the agriculture sector.

### **Only 15% Awarded Local Scholarship Program**

**29. Of the target of 4,324 scholars for local scholarship program, only 644 or 15% were awarded scholarship as of December 31, 2006 . The cost per scholar on the entire duration of the study of ₱.25 million exceeded the estimated cost of P.12 million. Book allowance and monthly stipend which should have been part of the cost remitted to the schools per MOA were paid directly by ATI to the scholars.**

29.1 The Local Scholarship Program is one of the component of the DA's EHRDP. The program aimed to enhance the scientific and technical capability of the country's agriculture and fisheries manpower along the objectives of Agricultural Fisheries Modernization Act (AFMA), otherwise known as Republic Act 8435. It shall be implemented for a period of five (5) years starting 2001. The program was participated by five accredited universities namely, Ateneo de Manila University, Xavier University, University of the Philippines-Visayas and Diliman and the University of Asia and the Pacific.

29.2 The total cost of local scholarship program is ₱500 million for the 4,324 targeted scholars, or ₱115,633.67 per scholar. The actual amount released for the project amounted to ₱105,448,433.00, with an amount of ₱26,490,102.70 reverted to the National Treasury or a net amount of ₱78,958,330.30. The actual cost incurred as of December 31, 2005 for the 311 scholars is computed at ₱253,885.31 per scholar compared to the estimated cost of ₱115,633.67, there was an overage of ₱138,251.64 per scholar. If the cost per scholar will continue to be more than double the estimated cost, the target number of the scholars will correspondingly reduce.

29.3 The Memorandum of Agreement entered into between the DA and the four universities provide that the contract amount included the cost of the tuition fees, book allowance and monthly stipend. It was noted, however, that the book allowance and monthly stipend were paid by ATI directly to the scholars, in violation of the MOA

29.4 It was recommended that approved cost per student be submitted for evaluation. The present cost will entail cutting short the number of estimated scholars out of the local scholarship program. Likewise, we recommended that the Chief Accountant submit the schedules of payment paid by ATI directly to the scholars together with evidence that these payments were not done by the universities.

### **No Improvement Obtained from Transponder Lease of DA-OSEC - ₱9.993 M**

**30. Transponder Lease Agreement entered into by the DA with Pacific Wireless Inc. in the amount of ₱9.993 million replacing the previous year's transponder band leased from Mabuhay Satellite Philippines, Inc. did not improve the operation of the Very Small Aperture Terminal (VSAT). The**



**previous capacity of 5.300 MHz which failed to provide the expected communication network was even reduced to 3.562 MHz.**

- 30.1 Last year, the Department had a similar agreement with Mabuhay Philippine Satellite, Inc. for the lease of 5.30MHz of C-band transponder capacity for \$20,000 a month. It was found that in spite of the significant investment placed by the DA to operate the Very Small Aperture terminal (VSAT), the department did not avail of the expected services and advantage of the service. Instead of terminating the service as recommended, the department again entered into an agreement with another service, this time with the Pacific Wireless, Inc at 5.350 MHz at a lesser cost.
- 30.2 On September 18, 2006, an amendment to the contract agreement was entered into by and between DA and Pacific Wireless to reduce the transponder bandwidth from 5.350 MHz to 3.562 MHz effective July 2006 due to the “present financial situation”. The payment for the services was reduced “accordingly” from ₱9,992,715.00 to ₱6,923,000.00 per annum. It was not clear however how the reduced amount was arrived at and what is the corresponding effect to the VSAT operation would be.
- 30.3 The reduction of the lease price last year of ₱1,200,000.00 (\$20,000.00) to this year’s lease amount of ₱9,992,715.00 and its further reduction to ₱6,923,000.00 could not be appreciated because the new contract did not improve the services of the VSAT. The VSAT with the support of the transponder service is expected to improve data network which is capable of sharing software application such as email, internet service between station, access internet from the authorized mode or workstation. Voice service is capable of telephone communication direct connectivity. Video network is capable of transmission of real time video between remote station and hub. These services were not enjoyed by the department in spite of the change in service provider.
- 30.4 We also could not appreciate the accomplishment report supporting the payment because it merely mentioned about the acceptance of the transponder space segment provided. Per site Migration Certificate issued by the Aibis Network Solution, Inc. VSAT Equipment was also provided to Pacific Wireless, Inc.
- 30.5 Inspection of the project revealed that like last year, the VSAT with the new transponder band could not also operate on its maximum usage particularly with the reduction of bandwidth from 5.350 MHz to 3.562 MHz.
- 30.6 It was recommended that management the services provided by the Pacific Wireless, Inc. be terminated because the maintenance of VSAT is very costly and to reconsider the plan to transfer VSAT to BFAR as the latter may also be encountering problems in its maintenance and operation.

30.7 Management conformed with our observations and explained that they can never maximize the use of the VSAT due to lack of technical expertise and additional spare parts to really run the system as expected. They further justified that financial constraint prompted them to reduce the bandwidth capacity. They are considering the transfer of the VSAT to BFAR who will have more use of the system.

## Project Implementation in BAS

**31. Delays in the implementation of some projects implemented by the Bureau were due to the reformatting of statistical tables and other reasons, which are not in accordance with the provisions of the Memorandum of Agreements (MOAs) and the Work and Financial Plans of each project. As a consequence, the delivery of statistical data to stakeholders was likewise delayed.**

31.1 Evaluation of selected projects being implemented by the BAS disclosed that the following projects were implemented in 2006 with varying stages of completion and funds utilization:

Name of Project	Releases	Amount of Funds used accomp.	% of funds used against releases	Completion Date		% of accomp. over target
				Target	Actual	
Barangay Profiling on Agricultural Crops - R IV MIMAROPA	2,000,000.00	1,928,872.60	96	Nov. 2006	-	80%
MOA with BFAR-Fishery Survey - October to December	2,300,000.00	2,295,754.56	100	Dec. 2005	Dec. 2006	100%
BAS-Philrice Collaborative on Regular Updating of Provincial Rice Statistics	74,100.00	56,844.00	44	Jan.- Mar. 2006	Jul- Sept. 2006	100%
Survey of Hunger Incidence in the Philippines	2,450,000.00	2,381,273.28	97	Sept. 2006	Oct. 2006	100%
Rapid Assessment of Supply and Demand of broilers in Metro Manila	1,577,108.00	1,441,113.96	91	Dec. 2006	-	80%

31.2 From the above schedule, it was noted that all of the projects evaluated incurred delays in implementation ranging from 1 to 12 months as of December 31, 2006, in spite of full release of funds except for funds released to RASD, which represents only 88% of the total project cost.

31.3 The project plans were not strictly carried out that explain the extensions in some of these projects.

31.4 Management commented that some projects were delayed due to the following reasons:

- a) The urgency/importance of project was overlooked because of the change in DA leadership;
  - b) To reformat statistical tables and to generate additional tables that will address the issues and concerns identified by stakeholders during consultation;
  - c) To prioritize the more urgent concern of the office in charge of the project instead of the scheduled project; and
  - d) The difficulty in collecting data from respondents.
- 31.5 Although some of the reasons are justified and considered outside the control of the implementers, we maintain, however, that the terms and conditions of the individual MOA for the projects as well as the financial and operational planning of the projects embodied in the Work and Financial Plans provide the guidelines in project implementation and should be strictly followed at all costs to attain the objectives of the project.
- 31.6 There is also need for effective monitoring to accomplish the projects as planned.
- 31.7 Non-compliance therewith resulted in delayed delivery of the statistical data to users of the information.
- 31.8 It was recommended to management that project managers be required to adhere strictly to the provisions of the MOA and the Work and Financial Plans to ensure project implementation on time and within the budget.
- 31.9 We enjoined the agency to secure the written approval of the officials/agency concerned for any amendments to the MOA/WFP before implementation of all its projects.
- 31.10 We also likewise recommended that the project managers be required to review the existing monitoring designs to evaluate if there is a need for improvement to address the problems identified.
- 31.11 Management generally agreed with the recommendations. All information will serve as decision input.

### **Part III - Status of Implementation of Prior Year's Audit Recommendation**

Out of last year's 225 audit recommendations, 40 or 18% were fully implemented, 105 or 47% were partially implemented while 52 or 23% were not implemented, and 16 or 7% are in the process of implementation and 12 or 5% were not acted upon by management.

The observations which were unimplemented are herein reiterated. Details of the status of implementation of prior years recommendations are shown in **Annex 5**.