

**Philippine Coconut Authority
Annual Audit Report for CY 2011**

EXECUTIVE SUMMARY

A. Introduction

The Philippine Coconut Authority (PCA) was created on June 30, 1973 by virtue of Presidential Decree No. 232 as amended by P.D. 1468 (or Revised Coconut Industry Code). Its primary objective is to promote the rapid integrated development and growth of the coconut and other palm oil industry in all its aspects and to ensure that the coconut farmers become direct participants in, and beneficiaries of such development and growth.

PCA is a public corporation attached to the Department of Agriculture (DA). The corporate powers and functions of the Authority are vested in and exercised by the Board of Directors chaired by the Secretary of the Department of Agriculture with six members. The day to day affairs and operations of the Authority is being managed by the Administrator in accordance with the policies established by the board.

The PCA adopts the regionalization scheme except for Regions I, II, III and IV-B which are under the Regional Office in Quezon City and Region IV-A under the Regional Office in Lucena City. It has 12 regional offices, 67 provincial offices, three research centers as well as training and seed production centers headed by a Regional Manager, Provincial Coconut Development Manager and Center Managers, respectively.

Total actual manpower complement as of December 31, 2011 was 924 consisting of 170 in the Central Office and 754 in the Regional/Research Centers and Field Offices.

B. Financial Highlights

The Corporation's financial condition and results of operations are presented below:

Financial Condition

	2011	2010 (As restated)
Assets	1,997,468,923	1,830,869,134
Liabilities	317,659,387	246,561,139
Equity	1,679,809,536	1,584,307,995

Results of Operations

	2011	2010 (As restated)
Income	292,229,369	270,478,542
Expenses	743,992,576	754,503,308
Loss from operations	451,763,207	484,024,766
Subsidy from National Government	542,700,000	585,000,000
Income after subsidy from National Government	90,936,793	100,975,234

C. Scope of Audit

The audit covered the accounts and operations of the Corporation for the calendar year 2011. It aimed to ascertain the fairness of the presentation of the financial statements. Our audit was also made to assess the propriety of the financial transactions and compliance of the Corporation with applicable laws, rules and regulations.

D. Auditor's Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the financial statements of the Corporation for reasons stated in the Audit Certificate under Part I of this Report.

E. Summary of Audit Observations and Recommendations

Below is a summary of audit observations and recommendations with details in Part II-A of this Report:

1. Year-end variance of P1.743 million between the balance per books at P70.892 million and the balance per CISF Assessment and Collection Office at P69.149 million existed due to unrecorded PCA fees. Also, the one-time accounting entry of P35.100 million under Accounts Receivable-PCA fees representing assessments of PCA fees during CY 2011 was supported only by a Schedule of Outstanding PCA fees as of December 31, 2011 prepared by the CISF Assessment and Collection Office, instead of booking up the billings issued to the oil millers during CY 2011.

We recommended that Management:

- a. Require the CISF Assessment and Collection Office to adopt the accrual basis in recording the PCA fees to ensure that its balance reconciles with the accounting records; and

- b. Direct the Accounting Division to secure copy of bills/statement of accounts from the CISF Assessment and Collection Office as reference in the recording of Accounts Receivable-PCA fees to facilitate complete and proper reconciliation process.
2. Recoverability of long outstanding Accounts Receivable–PCA fees in the amount of P31.563 million was doubtful because these pertained to the accounts of oil millers either with cases pending in court, ordered archived by court or referred to PCA Legal Department for filing of cases. Also, collectability of Other Receivables of P2.147 million was uncertain because the addresses of the farmers could not anymore be located, non-availability of documents/records and poor results of confirmation. *(Reiteration of prior year’s audit observation)*

For Accounts Receivable – PCA Fees, we reiterated our recommendations that Management:

- a. Exert more efforts to recover/collect long outstanding accounts receivable;
- b. Direct the Legal Department to closely follow up cases pending in court and expedite the execution/enforcement of the decision in favor of the PCA;
- c. Undertake additional means to ensure recoverability of A/R- PCA fees such as:
 - i. formulate a policy recommendation to reinstate commodity or export clearance to compel companies with unpaid accounts to settle first their accounts before allowing them to export; and
 - ii. coordinate with the Department of Interior and Local Government/Municipal Mayors to reach an agreement on how they can help in the collection efforts.

For Other Receivables, we reiterated our recommendations that Management require the concerned Regional Offices to exert best efforts to collect long outstanding receivables from the farmers and submit the required documents for writing-off of the accounts.

3. Reciprocal account, *Due from Regional Offices*, in the books of the PCA Central Office which should have been eliminated in the Consolidated Balance Sheet carried a year-end balance of P22.373 million due to its unreconciled difference with reciprocal account, *Due to Central Office* in the books of the PCA Regional Offices/Research Centers. Also, the reconciling items for the Central Office and Regional Offices/Research Centers accounts amounting to P12.856 million and P9.518 million, respectively, remained unadjusted/unrecorded as at year-end, and some of these reconciling items amounting to P753,904 pertained to transactions dating back 1996.

We recommended that Management require the Accounting Division at the Central Office and Regional Offices/Research Centers to exert best efforts to locate the documents of the fund remittances and property to facilitate reconciliation and effect the necessary adjustments in the books of accounts.

4. The salt fertilizers costing P1.995 million which remained undistributed at year-end were not recognized as inventory by PCA Region IVA while salt fertilizers already distributed by Regions V and X to the farmer-beneficiaries costing P23.814 million were still carried in the said account. These resulted in the net overstatement by P21.819 million of the year-end balance of Agricultural and Marine Supplies Inventory account in the amount of P56.735 million.

We recommended that Management take appropriate action on the SFP and SCFDP fertilizers and direct:

- a. the Accountant III, PCA Region IVA to refrain from recording as an outright expense purchases of agricultural grade salt fertilizers and coconut seednuts and prepare the necessary adjustments to record in the books the cost of said undistributed agricultural supplies at year-end; and
 - b. the Regional Manager, PCA Regions V and X to require the Technical Staff/Division Chiefs of the concerned provincial offices to submit immediately to the Accounting Division the acknowledgment receipts duly signed by the farmer-beneficiaries to record in the books the cost of agricultural grade salt fertilizers distributed to the farmer-beneficiaries.
5. Warehouse facilities for agricultural grade salt fertilizers were not available in the barangays and municipalities designated as drop-off points due to lack of funds, thus exposing the agricultural grade salt fertilizers to possible damage/loss before the same were distributed to the coconut farmer-beneficiaries.

We recommended that Management:

- a. Consider to appropriate funds for warehouse facilities in the designated drop-off points in the future to ensure that adequate safeguards are provided for the agricultural grade salt fertilizers to protect the same from damage and prevent loss of government funds; and
- b. Direct the concerned regional office to expedite the distribution of the agricultural grade salt fertilizers to the intended farmer-beneficiaries after inspection.

6. The accuracy and validity of the year-end balances of PPE accounts P320.932 million could not be ascertained due to unreconciled discrepancy of P9.795 million between the book balance and inventory count in the Central Office, PCA Region IVB and PCA Region V, and non-submission of physical inventory report in PCA Region X. Also, unserviceable property of P13.207 million remained classified under PPE in the Central Office and PCA Region V, instead of under Other Assets.

For the discrepancy between the book balance and physical inventory of PPE accounts, we recommended that Management:

- a. Require the Central Office Accounting and Property Divisions and concerned Regional Offices to:
 - i. Effect the necessary adjustments duly supported with complete documents;
 - ii. Investigate and gather documentary evidence to determine the existence of property consisting of land, land improvement and construction equipment or whether entries in the books were recording errors; and
 - iii. Indicate proper classification of property to its appropriate PPE accounts.
- b. Require PCA Region X to prepare the inventory report/reconciliation report on a timely manner to validate the existence and accuracy of the year-end balance of the PPE accounts.

For unserviceable property, we recommended that Management require the Central Office Accounting and Property Divisions and PCA Region V to reclassify various unserviceable property to Other Assets account pending for disposal.

7. The accuracy and validity of the year-end balances of Office Supplies, Accountable Forms and Maintenance Supplies Inventory accounts totaling P1.742 million maintained at the Central Office could not be ascertained due to unreconciled variance of P1.290 million between the said balance and inventory count.

We recommended that Management require Accounting Division and Property Management Division to reconcile the balance per books and actual physical count to ensure accuracy and correctness of the year-end balance of the above-stated inventory accounts.

8. Variances in the Intra-fund accounts totaling P15.129 million had been outstanding for more than eight to 32 years.

We recommended that Management analyze/review the intra-fund accounts and immediately reconcile these accounts.

We also recommended that after exerting efforts to reconcile intra-fund accounts and after documenting the actions taken, Management may consider submission of a request for authority to write-off the accounts pursuant to COA Circular No. 97-001 dated February 5, 1997.

9. The accuracy and existence of the year-end balance of Cash in bank – Local currency current account totalling P249.016 million could not be ascertained due to the absence of bank reconciliation statements (BRS) in PCA Region IVB, resulting in the unreconciled discrepancy of P428,269 between bank balances and book balances. Also, the last BRS submitted by PCA Regions VI and X was for the period December 2009 and October 2011, respectively.

We recommended that Management require the PCA Regional Offices concerned to submit bank reconciliation statements within the prescribed period, and to prepare immediately the necessary adjustments to ensure the correct balance of the Cash in bank-local currency current account at year-end.

10. Utilization of project funds in the total amount of P17.894 million was reported by the PCA Regional Offices/Research Centers thru submission only of the Debit/Credit Advices (DCA), without the Reports of Disbursements required under COA Circular No. 94-013 to document liquidation of project funds.

We recommended that Management require:

- a. the concerned PCA Regional Offices/Research Centers to liquidate the utilization of project funds thru submission of the Report of Disbursements duly verified by the Audit Team Leader of the concerned regional offices/research centers; and
 - b. the Central Office Accounting Division to consolidate in its Report of Disbursement the expenses shown under the Report of Disbursement submitted by the PCA Regional Offices/Research Centers for the same project upon liquidation of project funds to the source agencies.
11. Unexpended balances of project funds in the total amount of P2.233 million were not returned to the source agencies pursuant to the Memorandum of Agreement and COA Circular No. 94-013.

We recommended that Management return to the NGAs concerned, NABCOR and Biodiversity International the total amount of P2.233 million representing the unexpended balance of project funds pursuant to COA Circular No. 94-013 and MOA between PCA and Biodiversity International.

12. Zamboanga Research Center did not maintain separate records and reports to properly account for the project funds, resulting in the difficulty in monitoring periodic trust fund balances.

We recommended that Management require ZRC prepare separate Report of Disbursement for each trust account to ascertain the propriety of expenditures of the special projects.

13. Collections of PCA Regions IX and X were not deposited intact and regularly by accountable officers contrary to Sections 108 and 111 of the GAAM, Volume 1, while collections of the provincial provinces of PCA Region V were remitted to the said regional office with two to 190 days delay, contrary to Section 34 of the IRR of RA 8048, thus exposing the funds to possible loss or misuse.

We recommended that Management require:

- a. the Regional Managers of the PCA Regional Offices concerned to deposit intact their collections and within the prescribed period; and
 - b. the Provincial Coconut Development Managers of Region V to remit their collections to the regional office in accordance with Section 34 of RA 8048.
14. Cash advances granted to officers and employees totaling P484,973 remained unliquidated as of December 31, 2011 in violation of COA Circular No. 97-002. These have been outstanding for more than two months to 25 years. (*Reiteration of prior years' audit observations*)

We recommended that Management submit documentation of the action taken on the unliquidated cash advances, and of the efforts that have been exerted to locate the whereabouts of the PCA officers/employees, and for those located accountable officers require them to settle immediately their unliquidated cash advances, informing COA of the action taken.

15. Inventory of 29,000 standing coconut trees was not assigned any value, hence not recorded as biological assets, affecting the fairness of presentation of the financial statements. (*Reiteration of prior years' audit observation*)

We recommended that Management submit the latest action taken on the valuation prepared by the ZRC as basis for recording of the more or less 29,000 coconut trees numbering about 29,000 in the books of accounts.

16. Shares of municipalities and barangays in permit fees as provided for under Section 34(b) of RA 8048 amounting to P7.106 million due for remittance to LGUs remained unremitted as at year-end. (*Reiteration of previous year's audit observations*)

We reiterated our recommendation that Management require the above-stated regional offices to strictly comply with Section 34 (b) of RA 8048 so that concerned LGUs could use their share in the permit fees for development purposes.

17. PCA Regions IX and XII did not procure its common-use office supplies/materials, office equipment amounting to P792,406 and P226,757, respectively, from the Procurement Service (PS) of the Department of Budget and Management (DBM), contrary to the provisions of RA 9184 and its IRR, as well as Administrative Order No. 17 and DBM Circular Letter No. 2011-6.

We recommended that Management require the concerned Regional Managers to procure their common-use supplies directly from the Procurement Service and to use the PhilGEPS in all their procurement activities in compliance with RA 9184, Administrative Order No. 17 and DBM Circular Letter No. 2011-6 dated August 25, 2011.

18. The PCA may not be able to collect from farmer-participants the value received or the corresponding number of seednuts or its copra term for the money incentives received amounting to at least P385,000 during the initial implementation of the Participatory Coconut Planting Project due to the absence of Acknowledgement Receipt and Deed of Undertaking (ARDU).

We recommended that Management issue clear policy/guidelines on the implementation of PCPP to avoid misinformation and confusion and to provide specific instructions regarding the repayments due in CY 2012 for the first batch of the Project.

19. PCA had not established a monitoring system to measure the success of the PCPP or until the replanted seedlings reached the coconut bearing stage, as no monitoring reports/information/data were submitted after completion of Phase III.

We recommended that PCA develop a monitoring mechanism whereby the status of transplanted seedlings are monitored until they become productive, and whereby the extent to which PCPP contributed to the increase in coconut production which is the ultimate goal of the program are measured.

20. PCA earmarked P36.663 million for GAD activities of the Central Office and Regional Offices/Research Centers for FY 2011 pursuant to Section 27 of the General Appropriation Act. However, some Regional Offices/Research Centers reported no accomplishments on GAD due lack of information that GAD plans/activities were integrated in the agency's regular programs.

We recommended that Management direct the Central Office GAD Focal Point to inform the Focal Point of the Regional Offices/Research Centers that the agency's GAD plans/activities are incorporated in the agency's regular programs and projects.

F. Status of Implementation of Prior Years' Audit Recommendations

Of the 33 audit recommendations embodied in the previous year's Annual Audit Report, seven were fully implemented, 20 were partially implemented and six were not implemented. Details are presented in Part II-B of this Report.

G. COA Audit Team Composition

The PCA Central Office was audited by Team I, Audit Group C, Agricultural Group, Cluster C, Corporate Government Sector. The Team was headed by a Supervising Auditor and composed of a Team Leader and seven Team Members. The Regional Audit Teams audited the PCA Regional Offices and Research Centers.