PHILIPPINE FISHERIES DEVELOPMENT AUTHORITY
ANNUAL AUDIT REPORT FOR CY 2011

EXECUTIVE SUMMARY

Introduction

The Philippine Fisheries Development Authority (PFDA), an attached agency of the Department of Agriculture. It is mandated to strengthen the government's developmental thrusts in fisheries through a program that would balance production ventures with adequate post-harvest support facilities.

PFDA is vested with powers and responsibilities of promoting the growth of the fishing industry and improving efficiency in the handling, preserving, marketing and distribution of fish and fishery products through the establishment and administration of fish ports, fish markets, and other infrastructure necessary for the progressive advancement of the fishing industry. It also aimed to provide essential fisheries-related post-harvest services that would improve the quality of fish products that could compete in the global market.

The corporate powers of PFDA are vested in and exercised by a Board of Directors composed of the following:

Chairman	:	Secretary, Department of Agriculture
Vice Chairman	:	Administrator, National Food Authority
Members	:	Secretary, Department of Public Works and Highways
		Secretary, Department of Trade and Industry
		Secretary, Department of Environment and Natural Resources
		Two Representatives from the private sector of the fishery Industry

The direct management of the Authority is vested in the General Manager who is appointed by the Board of Directors. He is assisted in the performance of his work by the Assistant General Manager.

Pursuant to its mandate, PFDA sustains the operations of the eight Regional Fish Port Complexes and one Municipal Fish Port, namely:

1. Navotas Fish Port Complex (NFPC),
2. Sual Fish Port Complex (SFPC),
3. Iloilo Fish Port Complex (IFPC),
4. General Santos Fish Port Complex (GFPC),
5. Zamboanga Fish Port Complex (ZFPC),
6. Lucena Fish Port Complex ,
7. Camaligan Fish Port Complex (CFPC),
8. Davao Fish Port Complex (DFPC), and
9. Infanta Municipal Fish Port (IMFP).

For the period from January to December 2011, the PFDA reported major accomplishments, among which are as follows:

1. The total volume of fish unloaded at the various fish port complexes maintained by PFDA reached a total of 297,638 metric tons. Total number of fishing and non-fishing vessel arrivals totaled 48,621.

2. Insofar as processing activity is concerned, 2,643 metric tons of fishery products were processed in ZFPC, CFPC, DFPC and GFPC. The total volume of ice produced at five Regional Fish Port Complexes was recorded at 39,940 metric tons.

3. The PFDA leased out various ice plants and cold storages to the private sector. To date, there are eight IPCS that were leased out nationwide.

4. The PFDA completed repair/improvement of port facilities in the NFPC and ZFPC, and also completed construction/improvement of four (4) Municipal Fish Ports (MFPs) with four (4) on-going projects.

5. Also, the PFDA completed infra-assessment surveys of proposed MFPs and Ice Plants in thirteen (13) municipalities, appraisal/assessment reports on fourteen MFPs, feasibility studies of one RFP and three MFPs and Ice Plants and detailed engineering studies of one (1) RFP, three (3) MFPs and three (3) Ice Plants.

Scope of Audit

The audit covered the operations of PFDA for CY 2011. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the PFDA for the year 2011 for reasons stated in the Audit Certificate in Part I of this Report.

Financial Profile

Funds generated consisted of P519.489 million from operation and P65.175 million from National Government Agencies for the implementation of projects and rehabilitation of PFDA ports.

The PFDA Management reported an increase of P9.689 million in revenue compared with last year, sourced mainly from permits and licenses and rent of spaces. However the increase in expenditures totaling P71.181 million brought about a decrease in net income of P61.492 million.

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

Comparative Financial Condition

	2011	*2010*
Assets	P1,007,261,010	P1,068,389,389
Liabilities	965,913,053	1,030,691,822
Equity	P41,347,957	P37,697,567

Results of Operations

	2011	*2010*
Income	P514,211,063	P504,522,273
Expenses	510,560,673	439,379,549
Net Income from operations	3,650,390	65,142,724
Subsidy from National Government	-	-
Income after subsidy from National Government	P3,650,390	P65,142,724

Summary of Significant Audit Observations and Recommendations

Below is a summary of significant audit observations and recommendations, with details in Part II.A of the Report.

1. **The accuracy and validity of the year-end balances of Due to National Treasury and Loans Payable-Foreign accounts stated at P340.137 million and P51.474 million, respectively, was not established due to unreconciled variances of P567.333 million and P20.179 million between the book and confirmed balances.**

   We reiterated our previous year's recommendation that Management regularly reconcile the balances of its loan accounts with that of the BTr and adjust accordingly the affected accounts to reflect the correct balances of Due to National Treasury, Loans Payable-Foreign and the Interest Expense.

   Management commented that reconciliation of balances of PFDA loan accounts with that of BTr is continuously being undertaken.

2. **The existence and accuracy of the Property, Plant and Equipment (PPE) accounts with year-end balances totaling P771.102 million could not be ascertained due to incomplete physical inventory of PPE totaling P174.200 million, non-submission of the Required Report on the Physical Count of Property, Plant and Equipment on PPE totaling P265.737 million, unreconciled differences between subsidiary ledger balances and property inventory reports totaling P19.181 million, non-reclassification of completed and turned-over projects costing P33.925 million from the Construction-in-Progress account to the appropriate**

asset account and inclusion of obsolete and unserviceable property under the PPE accounts.

We recommended that Management:

a. Conduct complete physical inventory of PPE and submit the required RPCPPE;

b. Reconcile inventory report and the accounting records periodically; identify the causes of the discrepancies, if any, and adjust affected records and accounts for accurate balances of PPE accounts;

c. Require the Operations Services and the Technical Services Departments to closely coordinate with the concerned municipalities to expedite the signing of the MOA; After completion of the project, prepare Invoice-Receipt for Property for signature of Agency and the municipality. Transfer the property and turn over the management, supervision and administration of the projects to the Municipal Government in accordance with the MOA; Submit MOA, Invoice-Receipt for Property and other required documents to the Accounting Division to support accounting entries to close the CIP and the corresponding Due from Other NGAs accounts;

d. Drop from the Inventory Report the cost of PPE which were already turned over to municipal fish port and drop from the books those property items which were already sold because the PFDA has lost its rights over those assets in view of sale or turn-over;

e. Strictly comply with the provisions of COA Circular 2009-001; and

f. Consider disposal of the unserviceable PPE; Pending disposal of PPE, prepare IIRUP to serve as bases from dropping the cost of unserviceable PPE from the books and reclassifying them to Other Assets account; Also, require Management to constantly monitor the condition of unserviceable properties to prevent further deterioration; Provide separate stockrooms for serviceable and unserviceable properties to facilitate monitoring; and Safeguard serviceable PPE from possible loss or damage.

Management gave the following comments:

a. PFDA-CO will undertake complete physical inventory of PPE for CY 2012 while NFPC's Report for PPE is being finalized and will be submitted on June 29. 2012.

b. Also, the PFDA-CO will reconcile inventory report with accounting records. NFPC Report for PPE is being finalized and will be submitted on June 29. 2012.

c. PFDA-CO will follow up liquidation documents of balance of funds transferred to the municipal government, coordinate with the Municipality of Carles, Iloilo on the submission of Invoice Receipt for property and JEV and close the cost of improvement of Loay Fish Port in April 2012.

d. PFDA-CO commented that the cost of machineries and equipment of Rawis, Legaspi IPCS in the amount of P2,600,000 was already dropped from the PFDA books of accounts in March 2012. The cost of the said machineries and equipment, installation of floodgates of Rosario MFP and market hall of Mercedes MFP will be dropped from the Inventory Report for CY 2012.

e. IIRUP is being finalized for submission to Accounting Division for dropping from the books and for disposal. Some of the items were already disposed and sold in May 2012.

3. **The validity, accuracy, and valuation of Accounts Receivables - Trade/Business with net book value of ₱276.961 million as of December 31, 2011, could not be ascertained because of unupdated subsidiary ledgers, accounts of inactive/non-existing clients totaling P66.296 million, dormant accounts of P8.600 million, accounts with abnormal balances of P5.404 million, unreconciled discrepancy of P64.372 million between book and confirmed balances, absence of lease contracts to support transactions on receivables and insufficient allowance for doubtful accounts.**

We reiterated our prior years' recommendations:

a. Update postings to subsidiary ledger to reflect the correct balance of an account as of a given period, including the names of clients; and ensure that the names of clients per Aging Schedule are the same as the names appearing in the SL for accuracy and completeness;

b. Consider submitting a request to COA for write-off of dormant accounts; and even if the write-off is approved by COA, may still exert efforts to collect from the clients;

c. Analyze accounts with negative balances and adjust accordingly the affected accounts;

d. Continue sending statements of account regularly to clients and invite them for reconciliation of their accounts with the PFDA's books;

e. Ensure that lease contract is in place before the client occupies the space to be leased; Require the Contract Monitoring Committee to initiate renewal of lease contracts two months before their expiration, specifically contracts with market traders and brokers, which normally have a contract period of one year; and

f. Provide sufficient allowance for doubtful accounts in accordance with Section 66 on the Manual on NGAS, Volume I.

Management commented the following:

a. A list of NFPC clients assigned with codes is now being prepared so that there will be uniformity/consistency of names appearing in the SL and Aging of Accounts Receivable.

b. PFDA-NFPC will prepare a request for write-off.

c. Some negative accounts represent overpayment.

d. PFDA-NFPC is continuously inviting clients for a reconciliation of accounts.

e. PFDA-NFPC is currently finalizing lease contracts drafted for Market 1 clients. In the case of SFPC, the PFDA exerted efforts to facilitate renewal of the contract with the electric cooperative which expired in December 2005. Second demand letter was sent requesting for payment of the remaining balance amounting to P57,046.28 (net of deposits). The SFP justified that the unpaid balance is equivalent to 0.68% only of the total rental paid by the electric cooperative to PFDA.

f. Sufficient allowance for doubtful accounts will be provided this year CY 2012.

4. **The validity and accuracy of Inventories account with year-end balance of P3.211 million in Navotas Fish Port Complex (NFPC) representing 23% of the aggregated balance of Inventories at P13.803 million could not be determined due to unreconciled discrepancy of P1.773 million noted between balances per books and Report on the Physical Count of Inventories.**

We recommended that Management reconcile inventory listings per RPCI with accounting records; and verify discrepancy and promptly correct the affected records.

Management committed to totally reconcile the inventory accounts. Total reconciliation will be completed in December 2012.

5. **Acquisition of petroleum products in the ZFPC totaling P0.716 million was directly charged to Expense instead of charging to the Inventory account pursuant to COA Circular Nos. 2001-004 and 2002-002.**

We recommended that Management require the Accounting Section to debit Inventory account at the time of acquisition of petroleum products, and upon receipt of the issuance report from the Property Section, close the Inventory account and debit the appropriate expense account.

ZFPC Management averred that due to the limited personnel, they prefer to charge directly to Expense account the acquisition of supplies and adjust the usage at the end of the month depending on the inventory balance on hand.

6. **In Navotas Fishing Port Complex (NPFC), lax enforcement of sanctions under the lease contracts resulted in accumulation of arrearages on lease rental, power and water and real property taxes totaling P110.665 million as of year-end, depriving the PFDA of the much needed resources in the pursuit of its mandate**.

We recommended that Management:

a. Strictly enforce the provision on the termination of contract in cases of default on the payment of rental and real property tax;

b. Require the clients, especially those whose lease contracts have terms of ten years and above, to submit annually to the Contract Monitoring Committee and the Finance Department evidence of payments of real property taxes;

c. Disconnect water and power supply of defaulting clients; and

d. Exert extra efforts in the collection of past due accounts.

Management commented that copies of real property tax payments for current year is required as one of the documents for submission to NFPC.

7. **The PFDA did not strictly adhere to Leasing Policy and Procedures, resulting in lapses in the processing of lease applications and approving of lease contracts**.

We recommended that Management strictly adhere to Leasing Policy and Procedures approved by the Board of Directors of the Agency; and revisit and update the policy to include policies and process in setting up lease maturities and rates, in recruiting clients and monitoring lease contracts.

Management commented that updating of inventory of clients/lessees is undertaken every quarter. These include lease period and escalation of rentals annually.

8. **The absence of guidelines on assignment of lease rights resulted in original lessees entering into Deed of Assignments with defaulting assignees.**

We recommended that Management set guidelines in the assignment of lease rights, evaluate financial capability of the assignees before the PFDA consents to the Deed of Assignment entered by and between original lessees (assignors) and assignees; regularly monitor the accounts of the original lessee and the assignee; and ensure that their accounts are kept up to date to avoid accumulation of arrearages.

Management commented that before a Deed of Assignment or assignment of rights is approved or given consent by PFDA, the outstanding obligations are required to be settled first or restructuring of payments is made.

9. **Compromise Agreements entered into by and between PFDA and the defaulting client was implemented without the approval of the Board of Directors. Moreover, said agreement proved disadvantageous to the PFDA**.

We recommended that the Compromise Agreement with the defaulting client be declared null and void.

We also recommended that Management:

a. Hold the responsible official liable for the said Compromise Agreement;

b. Submit justification why legal action was not filed against the defaulting client on the basis of Batas Pambansa Blg. 22 and why PFDA-NFPC resorted to CA which proved disadvantageous to the PFDA; and in case of failure to justify, the transaction will be disallowed in audit; and

c. Require the defaulting client to settle the unpaid balance as this has become due and demandable, and in case of her failure to settle, file the appropriate legal action against her.

The Compromise Agreement between PFDA-NFPC and Cailian was undertaken through the Mediation Office of the court. For the said agreement, the Port Manager of NFPC was instructed by the then General Manager of PFDA to represent PFDA in his behalf and to sign necessary documents. Attached is EXCOM Resolution No. 91010 dated May 14, 1991 granting the General Manager of PFDA and/or his duly authorized representative to represent the PFDA in all legal cases involving the PFDA.

As our rejoinder, documents that would support the statement that the Compromise Agreement between PFDA-NFPC and Cailian was undertaken through Mediation Office of the court were not submitted as promised during the exit conference. Although given the authority to represent the PFDA in all legal cases involving the PFDA, still, this Office maintains that the said Compromise Agreement should be approved by the Board of Directors.

10. **Dishonored checks remained unsettled as of December 31, 2011**.

We recommended that Management pursue the filing of appropriate legal action against clients who issued checks without sufficient fund or with accounts closed.

Management commented that returned checks are required by NFPC to be immediately replaced with Manager's check or cash. Demand letters are immediately sent to clients who issued bouncing checks. After seven days of non-compliance, the returned checks are reported to Legal Division for appropriate action.

11. **Deviations from internal control standards and procedures were noted.**

We recommended that Management strictly adhere to internal control standards and procedures on cash, supplies and property management to ensure that resources are safeguarded against waste, loss or unauthorized use, resources are used in the most economical and efficient manner and that proper recording and reporting result to reliable, accurate and timely reports.

Management gave the following comments:

i. On Cash Management -

a. Voiding of ORs issued by NFPC was due to erroneous entries. Entries in the OR will now be given due care in order to limit voiding/cancellation of ORs.

b. NFPC adheres to recommendation on accurate reporting of names of the payors/clients.

c. NFPC is in the process of hiring cash clerks to be assigned at Toll Booth Section. These cash clerks would be bonded for control purposes. The Toll Operations Systems is currently being developed by the NFPC-Information Technology personnel.

d. All disbursements already paid are being stamped "PAID" including supporting documents.

e. All payees are required to sign the "Received Payment" portion of the DV.

f. Some checks were cancelled due to change of signatories.

g. NFPC committed to update bank reconciliation.

ii. On Property Management -

h. Updating of PAR is on-going and continuing activity of the Procurement and Property Management Division of PFDA-CO.

i. The cost of one (1) motor vehicle transferred to NFPC will be dropped from the PFDA-CO's books of accounts in June 2012 and from the Inventory Report of PPE for CY 2012.

j. PFDA-CO is in the process of looking for a bigger space for storeroom of unserviceable property.

12. **Delayed turn-over of the leased property by the lessee to PFDA due to operational deficiencies deprived the PFDA-ZFPC of the benefit that would be derived from immediately leasing the area to other clients. Also, non-release of the requested cradle resulted in the lessee's filing of legal complaint against PFDA.**

We recommended and Management agreed to:

a. Strictly adhere to the provisions of the lease contract particularly on joint inventory taking, and to accomplish properly and completely the List of Property referred to as Annex B of the lease contract, with all the data on cost and property descriptions detailed in the said list; and

b. Require ZFPC authorized personnel to conduct regular inspection/inventory to determine the condition of the leased property, to facilitate turn-over when the contract expires.

13. **The PFDA failed to regularly monitor projects turned-over to municipal fish ports costing P480.254 million, resulting in poor collection of retainers' fees amounting to only P464,107.27 for CY 2011**.

We recommended that Management:

a. Comply with the provisions of the MOA on regular monitoring of the operation activities of the port, such that in the event of failure or ineffectiveness by the latter's Management Unit on its inherent tasks, the PFDA shall assert its option to implement a fitting scheme that shall guarantee and enhance Port usage and revenue-generating performance;

b. Require the concerned Municipal Governments to submit monthly and annual financial and statistical reports; and

c. Conduct regular inspection of the municipal fish ports/facilities and its premises to ensure that they are properly maintained and that the objectives for which the municipal fish ports were constructed are met.

Management commented that as per Financial Statement for CY 2011, the total collections of retainer's fees from six turned-over MFPs remitted to PFDA was P993,310.77. The low collection was due to the change of political leadership which affected the operations of the MFPs. MFPs are more of developmental and political projects, hence, very few are financially viable. Although most of the MFPs are utilized by the MGs, the generated income could not even compensate the personnel expenses, therefore, could not comply in remitting the 10% retainer's fee.

Management also commented that to address the need for regular inspection/monitoring of MFP projects, the following approach shall be adopted:

a. Monitoring of some MFPs shall be delegated to the Regional Fish Ports.

b. The MFPs that will be within the study areas for master planning shall be visited by the survey team.

c. For the rest of MFPs, monitoring shall be handled by the OSD.

As our rejoinder, total collections of P993,310.77 included remittances for CY 2010. Although MFPs are more of developmental and political projects, the Agency is duty bound to look into their operation and recommends/implements fitting schemes to ensure revenue generating performance.

14. **Northern Palawan Fisheries Development Project (NPFDP), a non-operational project, incurred an operating loss which accumulated to P289.023 million as of year-end, foreseeing further loss in terms of maintenance and depreciation expenses for the remaining property and equipment of the Project, and incidental expenses to clear the area of informal settlers.**

We recommended that Management consider disposal of the Northern Palawan Fisheries Development Project, in accordance with existing rules and regulations, or pursue the lease of the place and facilities of the Project to generate income to lessen the additional losses that may be incurred in the succeeding years.

Management will determine possible lessees for the land and the facilities.

Status of Implementation of Prior Year's Audit Recommendations

Of the 36 audit recommendations embodied in the previous year's Annual Audit Report, 10 were implemented, 16 were partially implemented, and 10 were not implemented. Details are presented in Part II.B of the Report.

COA-PFDA Audit Teams

The PFDA Head Office and the eight Regional Fish Port Complexes were audited by Team 4 – PFDA under Audit Group B – Irrigation and Fishery Group, headed by **Atty. Roberto Z. Rabulan**, Supervising Auditor, and by the Regional Audit Teams under COA Regional Offices, as follows:

Agencies	Team	Name and Designation
PFDA Head Office PFDA – Sual Fish Port Complex PFDA - Navotas Fish Port Complex Infanta Municipal Fish Port	Team 3 Audit Group B Cluster C Corporate Govt Sector	Sonia H. Alday, State Auditor IV Audit Team Leader
Davao Fish Port Complex	Team 8 Audit Group C COA Regional Office No. XI	Gloria Ladja, State Auditor IV Audit Team Leader
Zamboanga Fish Port Complex	Team 7 Audit Group C COA Regional Office No. IX	Narcisa Caballes, State Auditor IV Audit Team Leader
General Santos Fish Port Complex	Team 7 Audit Group I COA Regional Office No. XI	Evelyn P. Sevilla, State Auditor IV Audit Team Leader
Iloilo Fish Port Complex	Team 7 Audit Group C COA Regional Office No. VI	Aurora Millares, State Auditor IV Audit Team Leader
Camaligan Fish Port Complex	Team 12 Audit Group F COA Regional Office No. V	Amparo O. Albeus, State Auditor IV Audit Team Leader
Lucena Fish Port Complex	Team 23 Audit Group L COA Regional Office No. IV	Susana P. Salibio, State Auditor IV Audit Team Leader