



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

CONSOLIDATED ANNUAL AUDIT REPORT

on the

PHILIPPINE CARABAO CENTER

For the Year Ended December 31, 2017



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. III
City of San Fernando, Pampanga

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June 18, 2018

Dr. Arnel N. Del Barrio
Executive Director
Philippine Carabao Center

Dear **Director Del Barrio**:

We are pleased to transmit the Consolidated Annual Audit Report on the audit of the Philippine Carabao Center (PCC) for the Calendar Year 2017 in compliance with Section 43 of the Government Auditing Code of the Philippines (PD No.1445).

The audit was conducted to (a) ascertain the level of assurance that may be placed on management assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit results. We rendered a qualified opinion on the fairness of presentation of the financial statements of the Philippine Carabao Center in the Independent Auditor's Report in Part I of the report, as follows:

1. The accuracy, reliability and existence of the accounts Property, Plant and Equipment (PPE) of the agency totaling ₱1,118,668,303.70 as of December 31, 2017 was doubtful due to: (a) errors in providing depreciation; (b) non-impairment of assets classified as unserviceable; (c) idle/unserviceable/obsolete assets of remained undisposed and no report of inventory for unserviceable properties was made at year-end; (d) non-recording of assets; (e) non-reclassification of completed infrastructure project to specific PPE account; (f) absence of COA representative during physical count of PPE; and (g) deficiencies in recording and management, thus, inconsistent with the pertinent provisions of Government Accounting Manual for National Government Agencies, Volume I. (*Audit Observation No. 1*)

We recommended that the Executive Director instruct the (a) Accountant of Head Office and PCC at CLSU to check depreciation of each asset and draw necessary adjusting entries; (b) Accountant of Head Office to coordinate with COA GAS to resolve the system errors which occurred in generating depreciation and determine the acquisition costs of PPE reported with negative balances and draw the necessary adjusting entries; (c) Accountant of Head Office and PCC at CLSU and DMMMSU to recognize impairment loss for unserviceable assets and evaluate the remaining assets for possible impairment; (d) Property Unit of identified regional centers (i) to prepare and

submit IIRUP in the format prescribed by GAM for NGAs to the Audit Team for appropriate action thereon; and (ii) Disposal Committee to undertake appropriate disposal proceedings in accordance with regulations; (e) Accountant of PCC at DMMMSU to recognize unrecorded assets; (f) Accountant of PCC at CLSU to reclassify completed infrastructure projects to specific PPE accounts; (g) Inventory Committee of PCC at MMSU to submit to the Audit Team an invitation to witness the conduct physical count of PPE; and Property Unit of PCC at MMSU to (i) provide tagging of all PPE pursuant to COA Circular No. 80-124 dated January 18, 1980; (ii) update/renew all PAR as provided under Appendix 71 of GAM for NGAs, Volume II; and (iii) maintain Property Cards for each class of property.

2. The Biological Assets account totaling ₱182,449,900.08 at year-end was unreliable due to (a) inconsistent application of the policy in valuation of biological assets; (b) unrecorded various research animals and 37 heads of calves born in CYs 2016 and 2017; (c) existing discrepancy between the General Ledger and the physical inventory; and (d) non-maintenance of Biological Asset Property Card and non-preparation and non-submission of Quarterly Report on Biological Asset, thus, affecting its fair presentation in the financial statements. (*Audit Observation No. 2*)

We recommended that the Executive Director instruct the (a) Accountant to (i) consistently apply the established pricing resolution on biological assets and check all valuation of every animal and draw appropriate necessary adjusting entries for the over/undervalued animals; (ii) recognize biological assets based on the recognition criteria presented in PPSAS 27 and (iii) coordinate with the Property Officer for the inclusion of the same in the report on physical inventory; (b) Accountant and Property Officer PCC Head Office and PCC at LCSF to reconcile their records on biological assets in order to eliminate the variances and to observe the accounting policies on loss of property; and (c) Officers in-charge of Biological Assets to maintain Biological Assets Property Card and prepare and submit to the Audit Team the Quarterly Report on Biological Assets.

3. Deficient inventory management casted doubt on the accuracy and reliability of the balances of the controlling accounts of Inventory reported at ₱24,902,053.68 at year-end, which was not harmonized with the provisions of Chapters 2 and 8, Volume I of GAM for NGAs and Section 490 of GAAM. (*Audit Observation No. 5*)

We recommended and the Executive Director agreed to instruct the (a) Accountant of identified regional centers to recognize unused supplies and materials in the inventory account; (b) Inventory Team at PCC at CLSU to (i) conduct the physical count of inventories at least every six months and prepare the RPCI for the inventory counted; and (ii) coordinate with the Supply and Accounting Offices for the reconciliation of the RPCI with the latter's records; (c) Supply Officer of identified regional centers to maintain the required records and reports for inventories; and (d) Accounting Office of identified regional centers to (i) observe perpetual inventory system in accounting for these assets; and (ii) coordinate with the Supply Office for the regular reconciliation of inventory balances.

The following are the other significant audit observations which require immediate action:

4. Procurement of infrastructure project amounting to ₱35,178,939.69 and several purchases of goods were not in accordance with the various existing laws, rules and regulations on procurement, thus, casting doubts on the propriety of the financial transactions. (*Audit Observation No. 4*)

We recommended and Management agreed to instruct the (a) BAC Secretariat and the Accounting Unit to coordinate and ensure the immediate submission to the Office of the Auditor of the aforementioned supporting documents for proper and complete evaluation; (b) Accounting Unit to effect the necessary adjustment in the books relative to erroneous recording of liquidated damages; and (c) BAC and other concerned personnel to strictly comply with the provisions of RA 9184 and its Revised IRR in all of its procurement activities.

5. The amount of ₱5,490,478.08 or 94.12% of the Due from NGAs account of PCC Head Office representing balances of funds transferred to various Implementing Agencies (IAs) remained unliquidated despite lapsed contract period and discrepancy totaling ₱1,010,109.79 was noted between the agency books and those of the IAs contrary with existing rules and regulations, thus, casting doubts on the validity of reported balances of unsettled accounts at year-end. (*Audit Observation No. 6*)

We recommended and the Executive Director agreed instruct the Finance Division to (a) issue demand letters on a regular basis to other concerned IAs to remind them of their duties to liquidate the funds transferred to them in accordance with the provisions of MOA; and (b) make reconciliation with the IAs especially the two agencies that reported differences in the unliquidated balances and effect the necessary adjustments in the books of PCC, if any.

6. The reliability of the carrying amount of Due to NGAs account of ₱39,371,980.12 of PCC Head Office could not be ascertained due to unexpended and unutilized funds on projects not returned or remitted to the Source Agency (SA) or National Treasury valued at ₱8,561,426.29 contrary to COA Circular No. 94-013 dated December 13, 1994 and the related Memorandum of Agreement entered by and between the SAs and PCC. (*Audit Observation No. 7*)

We recommended and the Executive Director agreed to (a) instruct the Finance Division to strictly comply with COA Circular No. 94-013 dated December 13, 1994 and to initiate the return or remittance of unexpended balances since unwarranted retention of these funds deprives the national government of additional funds which can be utilized for other programs and projects; and (b) the concerned officials are within the timelines to implement the projects/programs/activities so that the intended beneficiaries can enjoy the benefits due therefrom as planned.

The other audit observations, together with the recommended courses of action, are discussed in detail in Part II of the report. These along with the prior year's findings

not yet or partially acted upon and included in Part III of the report, were discussed with the officials and staff of that Agency.

We request that the recommended measures be implemented and we would appreciate receiving an action plan and status report, thru accomplishing the attached **Agency Action Plan and Status Implementation (AAPSI)** form, to be submitted to the Audit Team within 60 days from receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act for Fiscal Year 2017.

We appreciate the invaluable support and cooperation extended to our Audit Team by the officials and staff of the Philippine Carabao Center.

Very truly yours,


ATTY. ELENITA D.V. LUMONGSOD
Assistant Regional Director

cc: *President of the Republic of the Philippines*
Vice President of the Republic of the Philippines
President of the Senate
Speaker of the House of the Representatives
Chairperson – Senate Finance Committee
Chairperson - Appropriations Committee
Secretary of the Department of Budget and Management
Presidential Management Staff, Office of the President
The Assistant Commissioner, NGS, COA, Quezon City
The Commission Proper, COA, Quezon City
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Executive Summary

A. Introduction

The Philippine Carabao Center (PCC) is one of the Department of Agriculture's attached agencies, created by virtue of Republic Act No. 7307, otherwise known as the Philippine Carabao Act of 1992, to institutionalize the Carabao Development Program of the government. Specifically, PCC was operationalized on April 1, 1993 to conserve, propagate, and promote the carabao as a source of draft animal power, meat, milk, and hide for the benefit of rural farmers particularly smallholder-farmers and Comprehensive Agrarian Reform Program (CARP) beneficiaries through carabao genetic improvement, technology development and dissemination, and establishment of carabao-based enterprises, thus ensuring higher income and better nutrition of rural farming communities. It has a network of 12 centers strategically situated in Luzon, Visayas, and Mindanao.

The PCC likewise is the national lead agency for livestock biotechnology research and development in the Department of Agriculture per Administrative Order No. 9, series of 2008.

The PCC is headed by Executive Director Arnel N. Del Barrio. He is being supported by Deputy Executive Director Felomino V. Mamuad (retired on November 29, 2017), 12 Center Directors, and 199 rank and file employees.

B. Financial Highlights

The agency's financial condition, results of operations and sources and application of funds for CY 2017 with comparative figures for CY 2016 are as follows:

Particulars	2017	2016	Increase/ (Decrease)
Financial Condition			
Assets	1,910,873,967.93	2,451,464,718.83	(540,590,750.90)
Liabilities	232,145,788.91	207,033,476.18	25,112,312.73
Net Assets/Equity	1,678,728,179.02	2,244,431,242.65	(565,703,063.63)
Results of Operations			
Income	557,995,560.47	668,238,704.93	(110,243,144.46)
Expenses	1,067,546,625.83	829,115,118.40	238,431,507.43
Surplus (Deficit)	(509,551,065.36)	(160,876,413.47)	(348,674,651.89)

C. Scope of Audit

The audit covered the financial transactions and operations of PCC for the year ended December 31, 2017. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit

results. The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations. The thrust areas identified in the audit instructions were audited on sampling basis and the findings are incorporated in Part II of the report, as follows:

1. Financial Audit

- a. Cash and Cash Equivalents
- b. Receivables
- c. Inventories
- d. Property, Plant and Equipment
- e. Biological Assets
- f. Other Non-Current Assets
- g. Payables
- h. Inter-Agency Payables
- i. Revenues and Expenses

2. Compliance Audit

- a. Compliance with R.A. 9184
- b. Compliance with BIR Rules and Regulations
- c. Compliance with R.A. 8291 (GSIS)
- d. Compliance with R.A. 9679 (Pag-IBIG Fund Law)
- e. Gender and Development (GAD)

3. Value for Money (VFM) Audit

- a. Paiwi Program
- b. Forgone Interest Income

D. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements for the year ended December 31, 2017 because significant errors were noted in the audit of accounts, among which are:

- (1) The accuracy, reliability and existence of the accounts Property, Plant and Equipment (PPE) of the agency totaling ₱1,118,668,303.70 as of December 31, 2017 was doubtful due to: (a) errors in providing depreciation; (b) non-impairment of assets classified as unserviceable; (c) idle/unserviceable/obsolete assets of remained undisposed and no report of inventory for unserviceable properties was made at year-end; (d) non-recording of assets; (e) non-reclassification of completed infrastructure project to specific PPE account; (f) absence of COA representative during physical count of PPE; and (g) deficiencies in recording and management, thus, inconsistent with the pertinent

provisions of Government Accounting Manual for National Government Agencies, Volume I;

(2) The Biological Assets account totaling ₱182,449,900.08 at year-end was unreliable due to (a) inconsistent application of the policy in valuation of biological assets; (b) unrecorded various research animals and 37 heads of calves born in CYs 2016 and 2017; (c) existing discrepancy between the General Ledger and the physical inventory; and (d) non-maintenance of Biological Asset Property Card and non-preparation and non-submission of Quarterly Report on Biological Asset, thus, affecting its fair presentation in the financial statements; and

(3) Deficient inventory management casted doubt on the accuracy and reliability of the balances of the controlling accounts of Inventory reported at ₱24,902,053.68 at year-end, which was not harmonized with the provisions of Chapters 2 and 8, Volume I of GAM for NGAs and Section 490 of GAAM.

With the above noted observations, we recommended the following:

(1) For the doubtful validity and existence of PPE, instruct the (a) Accountant of Head Office and PCC at CLSU to check depreciation of each asset and draw necessary adjusting entries; (b) Accountant of Head Office to coordinate with COA GAS to resolve the system errors which occurred in generating depreciation and determine the acquisition costs of PPE reported with negative balances and draw the necessary adjusting entries; (c) Accountant of Head Office and PCC at CLSU and DMMMSU to recognize impairment loss for unserviceable assets and evaluate the remaining assets for possible impairment; (d) Property Unit of identified regional centers (i) to prepare and submit IIRUP in the format prescribed by GAM for NGAs to the Audit Team for appropriate action thereon; (e) Disposal Committee to undertake appropriate disposal proceedings in accordance with regulations; (f) Accountant of PCC at DMMMSU to recognize unrecorded assets; (g) Accountant of PCC at CLSU to reclassify completed infrastructure projects to specific PPE accounts; (h) Inventory Committee of PCC at MMSU to submit to the Audit Team an invitation to witness the conduct physical count of PPE; and Property Unit of PCC at MMSU to (i) provide tagging of all PPE pursuant to COA Circular No. 80-124 dated January 18, 1980; (ii) update/renew all PAR as provided under Appendix 71 of GAM for NGAs, Volume II; and (iii) maintain Property Cards for each class of property;

(2) For the unreliable balance of Biological Assets account, instruct the (a) Accountant to (i) consistently apply the established pricing resolution on biological assets and check all valuation of every animal and draw appropriate necessary adjusting entries for the over/undervalued animals; (ii) recognize biological assets based on the recognition criteria presented in PPSAS 27 and (iii) coordinate with the Property Officer for the inclusion of the same in the report on physical inventory; (b) Accountant and Property Officer PCC Head Office and PCC at La Carlota Stock Farm to reconcile their records on biological assets in order to eliminate the variances and to observe the accounting policies on loss of property; and (c) Officers in-charge of Biological Assets to maintain Biological Assets

Property Card and prepare and submit to the Audit Team the Quarterly Report on Biological Assets; and

(3) For the unreliable balance of Inventory account, instruct the (a) Accountant of identified regional centers to recognize unused supplies and materials in the inventory account; (b) Inventory Team at PCC at CLSU to (i) conduct the physical count of inventories at least every six months and prepare the RPCI for the inventory counted; and (ii) coordinate with the Supply and Accounting Offices for the reconciliation of the RPCI with the latter's records; (c) Supply Officer of identified regional centers to maintain the required records and reports for inventories; and (d) Accounting Office of identified regional centers to (i) observe perpetual inventory system in accounting for these assets; and (ii) coordinate with the Supply Office for the regular reconciliation of inventory balances.

E. Summary of Other Significant Audit Observations and Recommendations

Summarized below are the other significant audit observations with their recommendations, the details of which are presented in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. Procurement of infrastructure project amounting to ₱35,178,939.69 and several purchases of goods undertaken by PCC at CLSU and Central Mindanao University, respectively, were not in accordance with the various existing laws, rules and regulations on procurement, thus, casting doubts on the propriety of the financial transactions. (*Audit Observation No. 4*)

We recommended and Management agreed to instruct the (a) Bids and Awards Committee Secretariat and the Accounting Unit to coordinate and ensure the immediate submission to the Office of the Auditor of the aforementioned supporting documents for proper and complete evaluation; (b) Accounting Unit to effect the necessary adjustment in the books relative to erroneous recording of liquidated damages; and (c) BAC and other concerned personnel to strictly comply with the provisions of RA 9184 and its Revised IRR in all of its procurement activities.

2. The amount of ₱5,490,478.08 or 94.12% of the Due from NGAs account of PCC Head Office representing balances of funds transferred to various Implementing Agencies (IAs) remained unliquidated despite lapsed contract period and discrepancy totaling ₱1,010,109.79 was noted between the agency books and those of the IAs contrary with existing rules and regulations, thus, casting doubts on the validity of reported balances of unsettled accounts at year-end. (*Audit Observation No. 6*)

We recommended and the Executive Director agreed instruct the Finance Division to (a) issue demand letters on a regular basis to other concerned IAs to remind them of their duties to liquidate the funds transferred to them in accordance with the provisions of MOA; and (b) make reconciliation with the IAs especially the two agencies that reported differences in the unliquidated balances and effect the necessary adjustments in the books of PCC, if any.

3. The reliability of the carrying amount of Due to NGAs account of ₱39,371,980.12 of PCC Head Office could not be ascertained due to unexpended and unutilized funds on projects not returned or remitted to the Source Agency (SA) or National Treasury valued at ₱8,561,426.29 contrary to COA Circular No. 94-013 dated December 13, 1994 and the related Memorandum of Agreement entered by and between the SAs and PCC. (*Audit Observation No. 7*)

We recommended and the Executive Director agreed to instruct (a) the Finance Division to strictly comply with COA Circular No. 94-013 dated December 13, 1994 and to initiate the return or remittance of unexpended balances since unwarranted retention of these funds deprives the national government of additional funds which can be utilized for other programs and projects; and (b) the concerned officials to implement the projects/programs/activities within the timelines so that the intended beneficiaries can enjoy the benefits due therefrom as planned.

4. Unserviceable properties amounting to ₱5,172,960.55 including unreconciled beginning balance of ₱447,697.13 as of December 31, 2017 under Other Asset accounts remained in the storage facility over unreasonable length of time contrary with existing rules and regulations, thus, casting doubts on the validity of the account and failing to maximize the benefits that could have been derived from the sale of said unserviceable assets and from alternative use of storage space occupied by said properties, respectively. (*Audit Observation No. 8*)

We recommended and the Executive Director agreed to instruct the (a) Accountant of identified Regional Centers (RC) to reclassify each unserviceable property to its specific PPE account; (b) Accounting and Property Offices of PCC Head Office to identify the composition of the unreconciled beginning balance amounting to ₱447,697.13 and immediately effect corrections on the discrepancy noted to sustain the reliability and accuracy of the accounts balance as shown in the financial statements at any given time; (c) Property Officer of identified RC to prepare report of inventory of unserviceable properties in the format prescribed by GAM for NGAs and submit to the Audit Team for validation; and (d) Disposal Committee to undertake appropriate disposal proceedings in accordance with existing rules and regulations.

5. Gain on initial recognition of agricultural produce milk amounting to ₱1,500,935.00, cost of milk fed to calves, spoilage and for analysis and other purposes totaling ₱607,035.00 and raw milk sold to PCC Dairy Outlet valued at ₱893,900.00 were all not recognized, thus, affecting fair presentation of the financial statements for the period. (*Audit Observation No. 10*)

We recommended and the Executive Director agreed to instruct the Accountant of PCC at CLSU to (a) recognize gain on initial recognition of agricultural produce and costs of milk (i) sold to Dairy Outlet; (ii) fed to calves (iii) spillage; and (iv) for analysis and other purposes; and (b) effect corrections of where necessary.

6. The “Paiwi Program” of PCC National Impact Zone (NIZ) division was able to provide additional income of ₱48,941,851.44 to farmer-beneficiaries in terms of milk produced and calves born, however, relatively high mortality rate of buffaloes under the program and non-compliance with the provisions of the MOA resulted in a loss of government funds amounting to ₱3,085,128.00 and reduction of additional opportunity of farmer-beneficiaries to increase income and nutrition of rural farming communities. **(Audit Observation No. 17)**

We recommended and the Executive Director agreed to instruct the (a) NIZ division to strictly monitor the animal husbandry practices of the farmer-beneficiaries and if warranted, reclaim/retrieve the animals with poor body condition as per provision on the contract of agreement between PCC and Farmer-beneficiaries to minimize the mortalities for the succeeding periods; and (b) Paiwi and Bull Loan Program Coordinator to (i) maintain complete records on the loaned animals; and (ii) require the farmer-beneficiaries to pay the annual mortuary fund of ₱1,000.00 and insure the loaned Buffalo under the name of PCC with any member insurance company of the livestock insurance pool or any member insurance company, which may be willing to undertake the responsibility.

7. The PCC Head Office could have earned additional interests of around ₱6,059,172.86 on bank deposits which could have been used as additional capital on their Revolving Funds had the idle/unutilized funds of ₱121,500,000.00 out of the ₱143,051,159.09 average monthly deposit balance maintained under Regular Current Accounts been converted to High Yield Savings Accounts (HYSAs) or Time Deposit Accounts which offered an interest rate higher than the Regular Current Account. **(Audit Observation No. 18)**

We recommended and the Management agreed to consider the transfer of idle/unused balances of bank accounts from the regular Current Accounts to Time Deposit accounts or HYSAs to maximize the earning potential of its deposits and thus, boost the financial capacity of the Agency.

F. Status of Suspensions, Disallowances and Charges and Settlements

As of December 31, 2017, suspensions, disallowances and charges had zero balance.

G. Status of Implementation of Prior Year’s Unimplemented Audit Recommendations

Monitoring and evaluation of Management action on the 62 recommendations contained in the CY 2016 Consolidated Annual Audit Report revealed that 45 recommendations were fully implemented, 11 were partially implemented and the remaining six were unimplemented.