

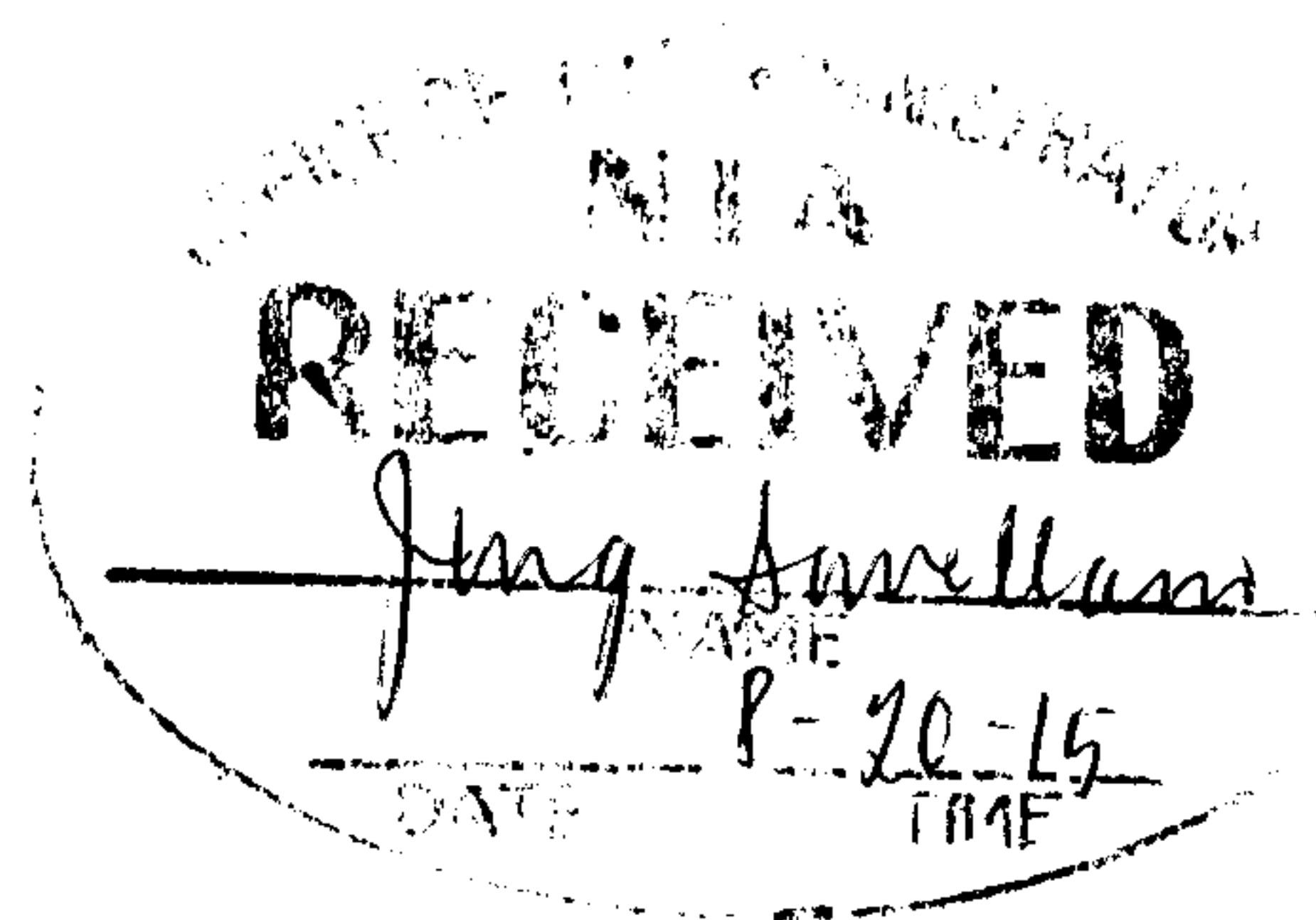


Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 5 – Agricultural and Natural Resources

August 20, 2015

MR. EDGARDO D. ZARAGOZA
Administrator
National Tobacco Administration
Scout Reyes Street, corner Panay Avenue
Quezon City



Dear Mr. Zaragoza:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the **National Tobacco Administration (NTA)**, for the year ended December 31, 2014.

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

The Auditor expressed a qualified opinion on the fairness of presentation of the financial statements of NTA as of December 31, 2014 for the following reasons:

1. The validity, reliability and probability of full recovery from several Cash, Receivables, Prepayments, Other Current Assets and Other Assets accounts totaling of P865.967 million cannot be ascertained since 42.31 per cent or P366.398 million have been dormant for more than 10 to 26 years due to undocumented balances carried over from seven defunct tobacco agencies in 1987; unsettled loans of farmers/traders/cooperatives since 1996; receivables from officers and employees no longer in the service; and unrecovered investment in bonds; and
2. The accuracy and existence of Property, Plant and Equipment (PPE) with net book value of P487.766 million as of December 31, 2014 could not be ascertained due to failure to conduct physical inventory taking of its claimed parcels of land totaling P291.770 million per property record, uncorrected discrepancy between property and accounting records of P172.920 million, partially updated PPE Ledger Cards (PPELCs), and uncorrected prior years' deficiencies in the transfer of title and ownership of claimed parcels of land.

For the above-mentioned observations which caused the issuance of a qualified opinion, we recommended and Management agreed to:

1. Instruct the Central/Regional Offices' Accountants to: (i) set time frame in complying with the documentation of dormant accounts to support the request for write off from the Commission on Audit, in accordance with existing guidelines; (ii) analyze all receivable accounts pertaining to officers and employees to establish their correct balances, thereafter send demand letters for the immediate settlement of their obligations, otherwise, deduct from whatever cash/benefits due them; and (iii) analyze the Prepayment and Other Current Assets accounts to determine accounts affected to serve as basis in preparing adjustments to close the accounts;
2. Instruct the Legal Officer to: (i) make representations with Land Bank of the Philippines (LBP) Head Office on the possible redemption of the bonds amounting to P28.634 million, and the results of which shall be the basis for succeeding action to be undertaken; and (ii) exert all legal remedies for the rescission of the Certificates of Award and for the reconveyance of the pertinent lots located in Tuguegarao, Cagayan to the government pursuant to Resolution No. 258-2012 dated April 12, 2012 of the NTA Governing Board, if the awardees and/or the occupants/possessors/successors of the 20 unpaid lots do not agree to settle in full the cost with increments for the unpaid lots;
3. Instruct the concerned Branch Managers of Vigan, Batac and Candon to make representations with the Department of Environment and Natural Resources (DENR) for the possible transfer of the reforestation project sites to the local government units so as to preserve the area;
4. Commit and submit time frame within which to create a committee which will be responsible to perform the following activities within a specified time: (i) conduct physical count of immovable properties and prepare and submit to the Audit Team the consolidated Report on the Physical Count of PPE (RPCPPE), (ii) validate status of all parcels of land claimed by NTA with the Registry of Deeds or request for survey with the Office of the Geodetic Engineers of the DENR, (iii) work out for the consolidation of Transfer Certificates of Title (TCTs) under the name of NTA of the parcels of land still registered under the names of Philippine Tobacco Administration (PTA), Philippine Tobacco Research and Training Center (PTRTC) and private companies/individuals, (iv) work out for the change of Tax Declarations of the parcels of land with the Assessor's Office of local government units to facilitate recording in the books; and
5. Require the concerned Accountants and Property Officers to complete the reconciliation of their respective accounting and property records within specified period, and effect adjustments where appropriate.

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

6. The inability to act speedily on the restructuring agreement offered by the Philippine Deposit Insurance Corporation (PDIC) for the *dacion* agreement may put NTA into paying huge accumulated interest and penalty charges which already reached P191.784 million as of year-end, thus, could deplete its financial resources.

6.1 We recommended that Management conserve the meager resources by acting expeditiously in exploring all possible options to settle the liability to PDIC, which includes the request for possible waiver of penalty charges.

7. In the absence of control records, actual expenditures had exceeded the approved budget in 2012 and 2013, and for 2014, certain expenditures under Maintenance and Other Operating Expenses (MOOE) again exceeded the approved Corporate Operating Budget (COB) by P5.403 million, thus contrary to existing guidelines set by the Department of Budget and Management (DBM).

7.1 We recommended and Management agreed to:

- a. Instruct the Budget Division, in coordination with the Accounting Division, to prepare a report/statement of approved budget, utilizations, disbursements and balances for monitoring and control purposes; and
- b. Request from DBM for the approval of realignment of savings to cover the excess expenditure incurred in 2014 and follow-up the similar request covering the excess expenditures incurred in 2012 and 2013. Absence of authority from DBM will be a ground for the suspension and disallowance of the transactions in audit.

8. The time frame within which to fully collect loans receivable under various projects was uncertain since it appeared that the capacity of the farmer-availees to pay was not objectively assessed and due to the absence of collection targets for 9 out of 11 projects, thus only P179.855 million was collected during the year, ranging from zero to 109 per cent collection rates or an average of 53.73 percent out of the estimated collectibles of P334.747 million for the year 2014.

8.1 We recommended and Management agreed to:

- a. Assess the financial capability of the farmer-availees by taking into consideration the appropriateness of existing guidelines prior to grant of loan, including full deduction from the proceeds of a new loan of farmer-availees who have outstanding balance/s to prevent the accumulation of dormant accounts;
- b. Involve the Branch Managers and tobacco technicians in setting yearly collection targets that are reasonable and attainable per project in order to intensify collection efforts, the results of which would serve as management tool to decide whether to continue or discontinue the grant of loan assistance to tobacco farmers; and
- c. Make representation with PCIC on the possibility of insuring crops and other agricultural produce of tobacco farmers to ensure recovery in cases of losses.

9. The net loss of P6.385 million on the first year of operation for hogs and poultry production was farfetched from its projected income of P12.915 million due to, among others, loan-availees of only 538 compared with the target of 3,939; not properly laid out marketing strategies resulting in low sales of meat processed products; and the absence of clear operational and financial controls, thus the risk that the return of investment of P298.858 million may be put to waste and would not be able to pursue the objective of improving the lives of tobacco farmers.

9.1 We recommended and Management agreed to:

- a. Device a plan that would attract loan-availees to increase production and to include budget allocation to expand the cold storage capacity and conduct survey on the possibility of charging the transport cost and other expenses to the loan-availees, in order to carry out the project efficiently and economically;
- b. Instruct the Plant Supervisor, Internal Audit Manager and the Chief Accountant to prepare operational and accounting manuals to serve as guide in carrying out the business operations and documenting overall financial operations to ensure that controls are in place to avoid loss or waste of government funds and property;
- c. Implement the project in accordance with implementing guidelines particularly on the granting of financial assistance to small tobacco farmers to attain the project's objectives;
- d. Consider hiring a marketing expert who will be responsible in helping out figure sales; analyze market data on a local, regional or national level; determine what people are buying, what gaps are in the market, looking at competitors and their pricing, creating and administering surveys, questionnaires and other information gathering devices and an effort to help expertly understand the best way to market the AgriPinoy products; and
- e. Instruct the Planning Division to prepare sales and income projections, among others, for any project feasibility studies that are reasonable so as to determine the sustainability and viability of proposed projects.

10. Internal control over the movement/transfer of raw materials from the holding pen to the Slaughter Section is weak, resulting in unaccounted disposals which could possibly result in the loss of raw materials; thus, raised doubt on the accuracy of the Raw Materials Inventory-Hog account balance of P1.912 million.

10.1 We recommended and Management agreed to:

- a. Evaluate the existing process flow relative to buying and selling of hogs and meat to determine where it can be improved to ensure that everything is duly accounted for, including defining the timing and frequency of reconciliation of the records of the Raw Materials Coordinator, Head of Slaughtering Section and the Accountant; and
- b. Instruct the Raw Materials Coordinator and the Head of Slaughtering Section to reconcile their records on a regular basis and furnish the Accountant of the reconciliation made as basis for adjusting the Raw Materials Inventory account.

11. The incurrence of losses for six consecutive years already amounting to P11.230 million in the operations of the Tobacco Dust Processing Plant (TDPP) due to difficulty of disposing stocks and high production and operating cost, and the probability of recovering the investment estimated at P129.614 million in a period of four years and four months per projection cast doubt as to the viability and sustainability of the project.

11.1 We recommended that Management undertake careful study of the project with the end in view to preventing incurrence of further losses and waste of government funds.

The other audit observations together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on July 8, 2015 are discussed in detail in Part II of the report. We also invite your attention to the prior years' unimplemented and partially implemented audit recommendations embodied in Part III of the report.

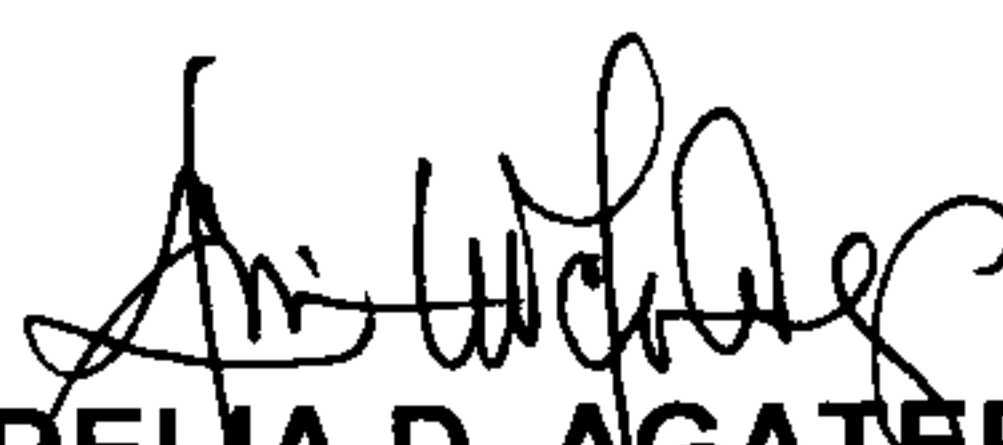
We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken thereon by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from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

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

Very truly yours,

COMMISSION ON AUDIT

By:


DELIA D. AGATEP
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
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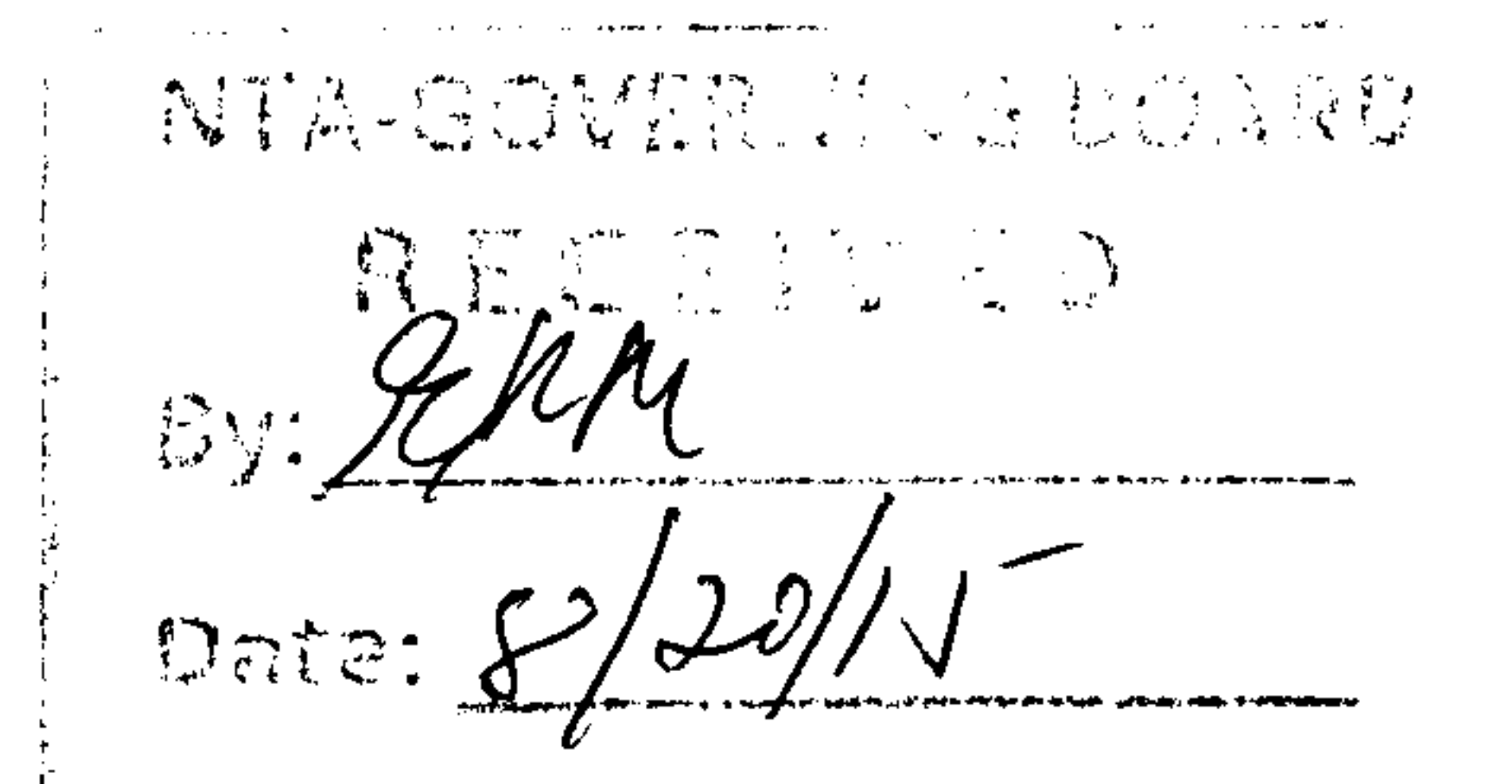
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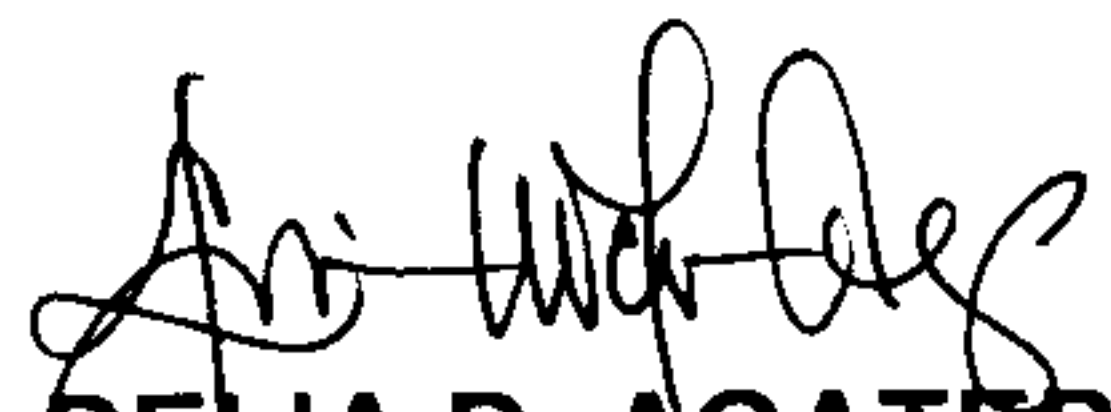
In our transmittal letter of even date, we request the Administrator of NTA to implement the recommendations contained in the report and to inform this Commission of the actions taken thereon within 60 days from receipt hereof.

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

Very truly yours,

COMMISSION ON AUDIT

By:


DELIA D. AGATEP
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