

## EXECUTIVE SUMMARY

### *A. Introduction*

On August 1, 2013, Department Order No. 02 series of 2013 was signed by Secretary Proceso J. Alcala of the Department of Agriculture (DA) for the consolidation of Fiber Industry Development Authority (FIDA) and Cotton Development Administration (CODA) into the Philippine Fiber Industry Development Authority (PhilFIDA).

The said Department Order was issued pursuant to Executive Order (EO) No. 366 dated October 4, 2004 re: Rationalization of the Functions and Agencies of the Executive Branch and also due to the approval of the Rationalization Plan (RP) covering the consolidation of the FIDA and CODA on May 29, 2013. As stated therein, the FIDA and CODA shall transfer to PhilFIDA all functions and powers vested to them by law.

PhilFIDA is mandated to promote the accelerated growth and development of the Philippine Fiber Industry in all its aspects through research and development (R & D), production support, extension support, education and training, fiber processing and utilization technologies, standards implementation and regulation.

PhilFIDA has six divisions, each supervised by a Division Chief, as follows: (1) Planning Division; (2) Administrative, Financial and Management Division (AFMD); (3) Regulatory Division; (4) Research Division; (5) Fiber Utilization and Technology Division (FUTD); and (6) Technical Assistance Division (TAD).

The Agency has nine Regional Offices (ROs) located in various areas which are headed by Directors/Supervising Fiber Development Officers-OIC Directors, as follows: (1) Regions I and II & CAR in Batac, Ilocos Norte; (2) Regions III and IV in Quezon City; (3) Region V in Legazpi City; (4) Region VII in Cebu City; (5) Region VIII in Tacloban City; (6) Regions IX and ARMM in Pagadian City; (7) Region X in Cagayan de Oro City; (8) Regions XI and XII in Davao City; (9) Region XIII in Butuan City, and three Regional Satellite Offices (RSOs): (1) RSO I in La Trinidad, Benguet; (2) RSO VI in Jaro, Iloilo City; and (3) RSO IX in Zamboanga City.

PhilFIDA is headed by Mr. Kennedy T. Costales, Executive Director. As of December 31, 2017, there are 361 existing plantilla positions, of which 316 are filled-up and 45 unfilled positions. In addition, it has 70 job-order workers. Further, it has one co-terminous with the official and additional 47 plantilla positions with the incumbent to be collapsed as per RP.

## ***B. Financial Highlights***

The Agency's financial position, financial performance and sources and application of funds for Calendar Year (CY) 2017 compared with the previous year are shown below.

<b>Financial Position</b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Assets	₱ 436,176,426.90	₱ 319,994,050.36
Liabilities	<u>67,503,992.04</u>	<u>51,248,403.79</u>
Net Assets/Equity	<u>₱ 368,672,434.86</u>	<u>₱ 268,745,646.57</u>
 <b>Financial Performance</b>		
Revenue	₱ 1,634,278.64	₱ 2,058,388.75
Current Operating Expenses	(276,855,708.08)	247,697,934.04
Deficit from Current Operation	(275,221,429.44)	(245,639,545.29)
Net Financial Assistance/Subsidy	<u>386,357,033.52</u>	<u>295,339,678.23</u>
Surplus for the Period	<u>₱ 111,135,604.08</u>	<u>₱ 49,700,132.94</u>
 <b>Sources and Application of Funds</b>		
Allotment Received	₱ 409,527,184.24	₱ 318,382,928.44
Obligations Incurred	<u>408,007,588.97</u>	<u>291,898,616.17</u>
Unobligated Balance	<u>₱ 1,519,595.27</u>	<u>₱ 26,484,312.27</u>

## ***C. Scope and Objectives of Audit***

The audit covered the accounts, transactions and operations of PhilFIDA for CY 2017. The audit was conducted to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior years' audit recommendations.

## ***D. Independent Auditor's Report***

A qualified opinion was rendered on the fairness of presentation of the CY 2017 financial statements due to various accounting errors/omissions and deficiencies which are discussed in detail in Part II of this report.

## ***E. Observations and Recommendations***

The following are the significant audit observations with the corresponding recommendations:

1. The reported overall fund utilization rate of PhilFIDA for CYs 2015 to 2017 is 79.88 percent, 92.37 percent and 99.63 percent. However, included in the computation for CY 2017 is the grant of cash advances which are for future

expenses and future contractual commitment, hence, the fund utilization rate of 80.98 percent only instead of 99.63 percent. **(Observation No. 2)**

We recommended that Management ensure that the reported/recorded obligations are based on current contractual agreement as provided in the Government Accounting Manual (GAM) for National Government Agencies (NGAs), Volume I, to reflect the correct utilization rate of the Agency.

2. Trust Receipts and Performance Bonds amounting to ₱15.043 million were deposited in an unauthorized bank account and not remitted to the National Treasury. **(Observation No. 3)**

We recommended that Management:

- a) strictly adhere with the provisions set forth in Sections 6 and 7 of the General Appropriations Act (GAA) for CY 2017 where all trust receipts, performance bonds and deposits collected/received shall be deposited with the National Treasury; and
  - b) remit the balances of the unauthorized bank account with the National Treasury or to the source agency and thereafter close the bank account, pursuant to EO No. 431 and COA Circular No. 2015-001.
3. The non-enforcement of the prescribed period in the liquidation of cash advances resulted in the accumulation of outstanding balances of ₱131.189 million as of year-end, which included overdue cash advances of ₱29.173 million. **(Observation No. 4)**

We reiterated our prior year's recommendations and Management agreed to:

- a) enforce the liquidation/settlement of unliquidated cash advances and immediate refund/return of any excess amount, if any;
  - b) send demand letters to all officials and employees concerned and impose sanctions to those who continue to neglect their obligations; and
  - c) consider having a centralized payroll to avoid granting of cash advances for the salaries/allowances of employees and accumulation of unliquidated advances for payroll.
4. Liquidation of fund transfers to implementing agencies (IAs) were not enforced and monitored, which resulted in long outstanding balances of fund transfers to NGAs and Government-Owned and Controlled Corporations (GOCCs) amounting to ₱9.098 million or 88.04 percent of the total outstanding balance of ₱10.334 million. **(Observation No. 5)**

We reiterated our prior year's recommendations and Management agreed to:

- a) require the concerned IAs to submit immediately the reports on the utilization of funds and return any unexpended/unutilized funds, if any; and
  - b) resort to other legal modes of settlement, in case of failure of the IAs to settle the fund transfers due for liquidation.
5. Dormant accounts amounting to ₱97.359 million were not requested to be written off, despite the issuance of COA Circular No. 2016-005 providing the guidelines and procedures for the write-off of dormant accounts. **(Observation No. 22)**

We reiterated our prior year's recommendation and Management agreed to require the Chief Accountant to conduct a thorough review and evaluation of the accounts and, if warranted, request for write-off of dormant accounts in accordance with Circular No. 2016-005.

The observations and recommendations were discussed with agency officials in an exit conference conducted on April 3, 2018. Management comments were considered in the report, where appropriate.

#### ***F. Enforcement of Settlement of Accounts***

The total suspensions and disallowances of ₱80,634,092.01 and ₱1,021,900.00 have a settlement made in CY 2017 amounted to ₱68,106,830.85 and ₱236,450.00, leaving a balance of ₱12,527,261.16 and ₱785,450.00, respectively, as of December 31, 2017.

There was no settlement made on disallowances issued prior to the effectivity of the 2009 Rules and Regulations on the Settlement of Accounts (RRSA) amounting to ₱1,357,891.36.

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

Out of the 58 prior years' audit recommendations, nine were fully implemented, 17 were partially implemented and 32 were not implemented as of December 31, 2017 and were reiterated with modifications in this report.