

## Executive Summary

### A. Introduction

The Philippine Carabao Center (PCC) is one of the attached agencies of the Department of Agriculture (DA), created by virtue of Republic Act (R.A.) 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. Likewise, the PCC is the national lead agency for livestock biotechnology research and development in the DA per Administrative Order (A.O.) No. 9, series of 2008.

The PCC is headed by Executive Director Arnel N. Del Barrio until his retirement in October 2020 and his successor was Dr. Claro N. Mingala who was designated as OIC – Executive Director. He is being supported by Deputy Executive Director Caro B. Salces, 12 Center Directors, and 194 rank and file employees.

### B. Financial Highlights

The Agency’s financial condition, results of operations and sources and application of funds of the PCC are as follows:

Particulars	2020	2019	Increase/ (Decrease)	%
<b>Financial Condition</b>				
Assets	₱2,038,409,093.30	₱1,960,293,902.89	₱78,115,190.41	3.99%
Liabilities	398,097,770.61	187,718,780.60	210,378,990.01	112.07%
Net Assets/Equity	1,640,311,322.69	1,772,575,122.29	(132,263,799.60)	(7.46%)
<b>Results of Operations</b>				
Revenues	557,931,737.79	889,951,998.97	(332,020,261.18)	37.31%
Expenses	671,285,125.68	737,798,568.65	66,513,442.97	9.01%
Surplus (Deficit)	(113,353,387.89)	152,153,430.32	(265,506,818.21)	(174.50%)
<b>Comparison of Budget and Actual Amount – For the year ended December 31, 2020</b>				
Particulars	Final	Actual	Difference	
Total Receipts	1,917,000.00	1,342,902.64	574,097.36	
Total Payments	567,545,953.43	408,862,732.36	158,683,221.07	
Net Receipts (Payments)	(₱565,628,953.43)	(₱ 407,519,829.72)	(₱ 158,109,123.71)	

## **C. Scope of Audit**

The audit covered the financial transactions and operations of the PCC for the year ended December 31, 2020. We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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 a sampling basis and the findings are incorporated in Part II of the report, as follows:

### **1. Financial Audit**

- a. Cash and Cash Equivalents
- b. Inter-Agency 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. No. 9184;
- b. Compliance with BIR Rules and Regulations;
- c. Compliance with R.A. No. 8291 (GSIS);
- d. Compliance with R.A. No. 9679 (Pag-IBIG Fund Law); and
- e. Gender and Development (GAD)

### **3. Other Areas**

- a. Implementation of Modified "Paiwi" - Cooperative Dairy Module (CDM);
- b. DepEd Milk Feeding Program; and
- c. Implementation of Establishment of Province-Wide Carabao-Based Business Improvement Network (CBIN)

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

As discussed in Part II of this Report, various accounting errors and omissions remained unadjusted/uncorrected as at year-end, thus, affecting the fairness of presentation of the different accounts in the financial statements such as (a) unrecorded and unadjusted reconciling items by the Philippine Carabao Center at Visayas State University (PCC at VSU), understating the Cash account by ₱9,188,862.72; (b) unreconciled variance of

₱406,476.00 between the Bank's and Agency's records as reported by the Central Mindanao University (CMU); (c) error in the valuation and recognition of losses of animals thru death, understating Other Receivables by ₱79,539,221.99; and (d) overstatement of the recorded Property, Plant and Equipment by ₱11,783,587.53 due to (i) non-provision of depreciation for some PPE items which overstated the Assets account by ₱9,702,730.77; (ii) non-derecognition of donated machineries and equipment worth ₱5,131,070.35; (iii) erroneous recognition of procured properties costing ₱714,994.00; (iv) non-reclassification of unserviceable properties amounting to ₱616,637.36 from Other Assets account to proper PPE accounts and non-disposal of the same; (v) overstatement of intra-agency transferred PPEs of ₱70,792.52; (vi) non-reclassification of completed infrastructure project of ₱3,116,480.76 from the Construction in Progress (CIP) to Other Structures account; and (vii) non-provision of depreciation of ₱197,377.11 for completed CIP.

In view of the foregoing, we recommended and the OIC-Executive Director agreed to undertake the following courses of action:

- ***On Cash and Cash Equivalent accounts***

- a) instruct the Center Directors of PCC at VSU and CMU to require the Accountant/Bookkeeper to (i) look into the details of the unrecorded reconciling items totaling to ₱9,711,818.77; (ii) effect proper adjustment of the identified reconciling items and errors in the books of accounts; (iii) henceforth, observe prudence in the recording of transactions to avoid errors; (iv) coordinate with the VSU Cashier's Division for the release of the RCI together with the paid vouchers, and a report on the unreleased checks still at the Cashier's Office to ensure the completeness and accuracy in the booking up of the transactions; and (v) request a copy of the tax remittances from the VSU Accounting Office for their proper recording in the books;
- b) direct the Center Director of PCC at CMU to instruct the Accounting Office to validate and reconcile the variance of ₱406,476.00.

- ***On Receivables accounts***

- c) instruct the Accounting Unit to determine and recognize the correct amount of receivables in the books of accounts.

- ***On Property, Plant and Equipment accounts***

- d) direct the PC Center Directors concerned to instruct the respective Accountant/Bookkeeper to (i) provide allowance for depreciation on PPE items; (ii) derecognize the donated machineries and equipment; (iii) recognize PPE items erroneously treated as supplies in their respective records; and (iv) draw the necessary journal entry vouchers (JEVs) to correct the affected accounts in the books to present fairly in the financial statements.

## **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. The Agency's non-compliance with the provisions of the Government Accounting Manual (GAM) for National Government Agencies (NGAs), Volume I, on the proper valuation and recognition of breeding stocks and biological assets resulted in the net understatement of Assets and Income by ₱122,600.00 and ₱1,677,000.00, respectively, and net understatement of Expenses by ₱1,554,400.00. (*Audit Observation No. 5*)

We recommended that the OIC-Executive Director instruct the respective Center Directors to direct the offices/units concerned to (a) consistently apply the valuation policy established by the PCC on Biological Assets; (b) recognize the calves produced and animals acquired in their respective records; (c) draw the necessary journal entry voucher (JEV) correcting the undervaluation of the animals; and (d) derecognize the dead animals in the books of accounts.

2. The accuracy and validity of some items reported under Financial Liabilities accounts were uncertain due to (a) unsubstantiated recognition of payables amounting to ₱5,088,349.39; (b) unrecognized liabilities for delivered/accepted supplies and materials worth ₱305,394.26; and (c) unsupported adjustments reducing Accounts Payable by ₱823,713.66. In sum, Financial Liabilities was overstated by a net amount of ₱3,959,241.47. (*Observation No. 6*)

We recommended that the Executive Director instruct the Accountant concerned to (a) submit to the Audit Team the documents to support the recognition of payables as at year-end for verification; (b) record as payables those obligations which have become due and demandable based on complete documentary requirements to warrant the validity and legality thereof; and (c) henceforth, ensure the submission of the required Journal Entry Vouchers (JEVs) and supporting documents to substantiate the adjusting/correcting entries made on Accounts Payable.

3. The procurement of ₱16,100,200.00 worth of fresh carabao's milk sourced from the local dairy farmers and cooperatives was successfully undertaken by the Philippine Carabao Center-National Headquarters Gene Pool (PCC NHGP) during calendar year 2020, benefitting 90,020 undernourished children enrolled under the DepEd Milk Feeding Program. Nonetheless, deficiencies and flaws were noted in the contract preparation and implementation phases, thus, contrary to relevant laws, rules and regulations. (*Observation No. 9*)

We commended the management of PCC NHGP and PCC at UPLB for the smooth implementation of the Milk Feeding Program in its first year of operation, and recommended that the Executive Director instruct the BAC and other officials and employees concerned to (a) ensure complete documentation of the transactions in compliance with the Contract

Agreement; (b) strictly comply with the prescribed period of contract execution or the issuance of Notice of Award and Notice to Proceed; and (c) see to it that the publication of the necessary information and procurement documents relative to the Milk Feeding Program is carried out in all required avenues within seven working days from the date of acceptance of the award.

4. The Modified “Paiwi” or Trusteeship Scheme of the Dairy Buffalo Module Program (DMBP) of the Philippine Carabao Center (PCC) has substantially attained its objective of providing additional income to the farmer-beneficiaries for the last two years covering CYs 2018 to 2019, realized from the milk produced and calves born, with a total amount of ₱200,029,594.16. However, for the same period, 102 instances of deaths and 167 cases of culling of buffaloes occurred due to health issues, thus, hindering the efficient implementation and attainment of optimum program results. Similarly, measures undertaken to mitigate the loss of buffaloes thru death at the NGP Center were fairly effective as manifested by the (a) decrease in mortality of three heads; (b) the decline in the number of deaths caused by ruminal tympany/bloat from nine to two heads during the year 2020; and (c) culling of animals with poor body condition dropped from 23 heads to four. The mortalities and culling of animals, regardless of cause, still posed a threat to the preservation of the animals that would otherwise contribute to the sustainability of the Agency’s Genetic Improvement Program. (*Observation No. 10*)

We recommended and the OIC –Executive Director agreed to undertake the following courses of action: (a) reassess workloads as well as the duties and responsibilities of the veterinarians and personnel responsible for the monitoring of the 7,657 buffaloes entrusted to the different farmer-beneficiaries of different cooperatives in Nueva Ecija; (b) consider hiring additional veterinarians/staff or revision of their duties and responsibilities if the result of reassessment requires for it; (c) encourage the farmer-beneficiaries to immediately report the health condition of their animals for immediate medical attention; (d) if possible, revisit the policies and guidelines of the “PAIWI” Scheme and institute safeguards to prevent numerous deaths and culling of animals; and (e) consider the statement under the dispositive portion of COA Decision No. 2018-450 dated December 21, 2018 encouraging the PCC to conduct thorough investigation on the deaths of the buffaloes to prevent further loss of government property.

5. Audit of the implementation of the Province-Wide Carabao-Based Business Improvement (CBIN) of the different Philippine Carabao Centers (PCCs) disclosed observations, such as (a) delayed project implementation; (b) late dispersal of animals to intended beneficiaries; (c) unsubstantiated distribution of buffaloes; (d) no provision in the Memorandum of Agreement (MOA) on the acquisition and disposition of motor vehicles/equipment turned over to a Cooperative; (e ) breach of contract resulting in undelivered buffaloes while animal/zoological supplies were distributed to a non-legitimate recipient; and (f) absence of list of intended farmer-beneficiaries. Such lapses hindered the full attainment of the objectives of the Program and the enjoyment of the benefits by the beneficiaries thereof. (*Observation No. 11*)

We recommended and management agreed to direct the respective Center Director to:

- PCC at Central Luzon State University
- a) instruct the Program Coordinator and other officials/personnel concerned to (i) formulate physical plans for future programs that are attainable within the target period considering the constraints encountered in the implementation of existing programs; and (ii) ensure the attainment of optimum expected benefits from the program to the advantage of the intended beneficiaries thru effective planning.
- PCC at Central Mindanao University
- b) make constant follow ups with the PCC Headquarters for the early conduct of bidding to catch up with the implementation schedule of the project and maximize the utilization of funds; and (b) fast track the implementation of the identified projects as planned (dispersal of buffaloes to the targetted beneficiaries, installation of the milk processing equipment and construction of the required structures) for the benefit of the farmers as well as the general public.
- PCC at Don Mariano Marcos State University
- c) retrieve the MOA duly signed by the recipients in order to fully support the distribution of the buffaloes and at the same time relieve the Center from liability in cases of losses or deaths of the animals.
- PCC at La Carlota State University
- d) revisit the existing MOA and prepare amendments thereto so that the responsibilities and obligations of both parties pertaining to the assets purchased and turned over to the Cooperative will be clearly specified therein.
- PCC at Mariano Marcos University
- e) bestow to the Center autonomy in the procurement of its projects, goods and services for timely enjoyment and effective implementation of the program for the benefit of its clientele. We further recommended that Management ensure that the funds of the aforesaid Program/Project be utilized and spent exclusively for legitimate/targetted beneficiaries so as not to deprive them of the intended support and benefits under the Program.
- PCC at U.P. Los Baños
- f) strictly enforce the delivery of buffaloes within the approved extension period given to the contractor; submit the list of intended farmer-beneficiaries in Palawan of the said buffaloes; and comply strictly with the prescribed period on the submission of copies of Purchase Orders (P.O.s) and perfected contracts and their supporting documents pursuant to COA Circular No. 2009-001 dated February 12, 2009.

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 recommendations not yet or partially acted upon and included in Part III of the report, were discussed with the officials and staff of the Philippine Carabao Center.

#### **F. Status of Suspensions, Disallowances and Charges and Settlements**

The PCC NHGP reported no outstanding balance of Suspensions, Disallowances and Charges as of year-end. However, the aggregate balances of Suspensions, and Disallowances for PCC at VSU, PCC at MLPC, PCC at CMU and PCC at LCSF based on their respective Management Letter (ML) stood at ₱11,231,203.13 and ₱57,659.67, respectively, as of December 31, 2020.

#### **G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations**

Of the 62 recommendations contained in the CY 2019 Consolidated Annual Audit Report (CAAR), 46 recommendations were fully implemented, 15 were partially implemented and the remaining one was not implemented.