

PHILIPPINE INTERNATIONAL TRADING CORPORATION
AGENCY ACTION PLAN and
STATUS OF IMPLEMENTATION
 Audit Observations and Recommendations
 For Calendar year 2017
 As of July 12, 2018

Ref	Audit Observations	Audit Recommendation	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/ Non-Implementation, If Applicable	Action Taken/Action to be taken
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					From	To			
1	<p>PPE ledger Cards (PPELC) and Property Cards (PCs) were not prepared and maintained by the Accounting Department as well as the Property & Supply Division, respectively thus the reliability of the Property, Plant & Equipment (PPE) accounts could not be assured.</p> <p>The Accounting department as well as the Property & Supply Division did not prepare and maintain the subsidiary ledger cards required to support the balances in the general ledger for the PPE accounts such as the PPELCs and the PCs. Absence thereof posed doubts on the accuracy, reliability and integrity of the property and equipment accounts as presented in the financial statements since reconciliation between property and accounting records and the results of the physical inventory taking could not be undertaken. While alternative audit procedures were undertaken to provide assurance on the more substantive and material accounts, the reliability of some could not be ascertained in the absence of a proper reconciliation of the records of the Accounting Department through the PPELCs and the</p>	<p>We recommend and Management agreed to require the Accounting Department and the Property & Supply Division to prepare and maintain the PPE Ledger Cards and Property Cards, respectively, in order to facilitate the periodic reconciliation of the PPE accounts with the results of the physical inventory taking.</p>	For implementation.	LAHRAD-ASD & ACCOUNTING DEPT.	June 2018	Dec. 2018	On-going	<p>Accounting Dept. is now starting on the preparation of PPE Ledger Cards.</p> <p>LAHRAD-ASD will hire contractual employee to assist the property Custodian on the preparation of Property Cards.</p>	

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	Property Cards required to be maintained by the Property & Supply Division.								
2	<p>The monthly extensions of the expired three-year contract by and between the PITC and the manpower service provider since February 01, 2013 was not in accordance with Items 4 and 5 of the Government Procurement Policy Board (GPPB) Resolution No. 23-2007 dated September 28, 2007, thereby casting doubt on the validity of the aforesaid monthly contracts and the payments thereon.</p> <p>2.1 GPPB Resolution No. 23-2007 pertains to the Revised Guidelines on the Extension of Contracts for General Support Services. Item 4.0 pertain to the General Conditions for Extension while Item 5.0 details the Procedural Requirement; thus:</p> <p>4.0 <i>Procuring entities may extend the duration or effectivity of an ongoing contract about to expire, under the following conditions:</i></p> <p>4.1 <i>No contract extension shall exceed one (1) year.</i></p> <p>4.2 <i>xxxx...</i></p> <p>4.3 <i>The procuring entity concerned has substantially undertaken the procurement activities required prior to award of the new contract under R.A. 9184 and its IRR-A.....xxx</i></p>	<p>We recommended and Management agreed to conduct a public bidding for the supply of manpower services;</p> <p>Notify the GPPB of any contract extension/s and ensure that any extension of contracts shall be compliant with the requirements with the GPPB guidelines.</p>	<p>For implementation.</p> <p>For implementation.</p>	<p>LAHRAD-HRD</p> <p>LAHRAD-HRD</p>	<p>July 2018</p> <p>July 2018</p>	<p>Dec. 2018</p> <p>For every contract extension</p>	<p>On-going</p> <p>On-going</p>	<p>Conflict in BAC schedules.</p> <p>Failure of Bidding may cause delay in implementation.</p> <p>To complete the Terms of Reference for endorsement to BAC before end of July 2018.</p> <p>To draft letter for GPPB as recommended.</p>	

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	<p>5.0 All contracts extensions shall be subject to the prior approval of the Head of the Procuring Entity or the duly authorized representative upon the recommendation of the Bids and Awards Committee.</p> <p>X x x if the proposed contract extension exceeds six (6) months, the Head of the Procuring Entity or the duly authorized representative shall immediately report to the Government Procurement Policy Board in writing its intent to extend beyond six months." (underscoring supplied)</p> <p>2.2. Review of the pertinent documents revealed that on February 1, 2010, a contract was entered into by and between PITC and a manpower service provider covering the period February 1, 2010 to January 31, 2012.</p> <p>2.3 In view of the increase in the volume of transactions of PITC, management felt the need to increase the manpower requirement and amend the period covered by the contract in accordance with the Condition of the Contract. Thus on August 9, 2010, the scope of the contract was modified and its duration was extended from February 2010 to January 2013.</p> <p>2.4 Prior to the expiration of the three-year contract, PITC and the service provider</p>								

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	<p>mutually agreed to extend the contract on a month-to-month basis starting February 1, 2013 and that the PITC shall notify the service provider of the effective termination date of the contract immediately after a new contract is awarded to a winning contractor.</p> <p>2.5 The Audit Team issued an Audit Query Memorandum seeking information on the status of the said contract as well as the procurement activities undertaken by PITC for the supply of manpower services prior to the expiration of the contract. We also requested that a copy of the letter submitted to GPPB expressing PITC's intention to extend the contract with the service provider for more than six months be furnished the team.</p> <p>2.6 Management, in its reply reasoned that the decision to extend the contract on a month-to-month basis was due to the following:</p> <p>a. The volume of the transactions necessitated the retention of the hired contracted personnel to augment the number of current permanent plantilla personnel;</p> <p>b. Since the start of the rationalization efforts of the government, PITC relied on the contracted personnel who ably filled-in the manpower requirement as a result of natural attrition.</p>								

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	<p>c. PITC has yet to receive the Governance Commission for Government Owned and Controlled Corporation's (GCG) action on the submitted PITC Rationalization Plan. The approval of the Plan will facilitate the hiring of permanent/ non-contractual personnel.</p> <p>d. PITC did not inform GPPB of its decision to extend the contract on a month-to-month basis because Management perceived that the GPPB provisions cover general support services only. The contracted personnel under the manpower service provider were performing tasks on a regular and routinary basis which they concluded were not included in the ambit of the general services provision.</p> <p>e. Likewise, the contracted personnel were deployed to PITC only after passing the selection and evaluation process, taking into consideration their individual qualifications.</p> <p>f. While the Contracts were for a monthly duration, PITC continuously monitored the service provider's compliance with government regulations such as the payment of employees' salaries and benefits, among others.</p>								

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2.7	<p>In one of its non-policy opinions, on the issue raised by the DOTC on <i>“Whether encoding services may be deemed included in the definition of general support services”</i>, GPPB opined on the definition of General Support Services (NPM 127-2013) and we quote:</p> <p><i>“Republic Act No. (RA) 9184 and its revised Implementing Rules and regulations (IRR) define Goods to refer to general support services, including non-personnel or contractual services, and related or analogous services. This definition broadly covers all kinds of similarly natured services that are essential to the operation of procuring entity. Moreover, in the Revised Guidelines on the Extension of Contracts for General Support services, the term “general support services” is understood to include those services that are <u>essential, indispensable, or necessary to support the operations of the procuring entity</u> or for the enhancement of the welfare of its personnel, including non-personnel or contractual services.”</i> (underscoring supplied)</p>								
2.8	<p>Personnel from the service provider were retained necessarily to cope with the increased volume of business transactions to augment the permanent plantilla personnel, thus, essential, indispensable and necessary to support the operations of PITC and fall within the</p>								

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	ambit of general support services as defined in GPPB Resolution No. 23-2007 specifically Items No. 4.1, 4.3 and 5.0 and rendered the expenditures irregular per COA Circular No. 2012-003 dated October 29, 2012.								
3.	<p>The following required records and reports in the handling and accounting for property and equipment were not prepared/maintained contrary to Sections 21 and 42, Chapter 10 of the Government Accounting Manual Volume 1 and of COA Circular No. 80-124 dated January 18, 1980:</p> <p>a. Property Acknowledgement Receipt (PARs) were not updated and/or renewed once in every three years;</p> <p>b. PPE Ledger Cards (PPELC) and Property Cards (PCs) were not prepared and maintained by the Accounting Department and the property & Supply Division, respectively; and</p> <p>c. Property Identification Number (PIN) were not issued to newly acquired equipment and to some old equipment with detached PIN before issuance to end users.</p> <p>3.1 COA Circular No. 2015-007 dated October 22, 2015 prescribes the use of the Government Accounting Manual (GAM)</p>	<p>We recommended and Management agreed to require the:</p> <p>a. Property officer to comply with the requirements in the maintenance of the PARs as prescribed in Section 21, Chapter 10 of the GAM to facilitate the ready identification of the authorized end-users of PPE.</p> <p>b. Property Officer and Accounting Department to prepare and maintain the Property Cards and the PPE Ledger Card, respectively, in order to facilitate the periodic reconciliation of the PPE items; and</p>	For Implementation.	LAHRAD-ASD & ACCOUNTING DEPT.	June 2018	Dec. 2018	On-going	<p>LAHRAD-ASD will hire contractual employee to assist the property Custodian on the preparation of Property cards and updating/preparation of PARs.</p> <p>Memorandum Receipts (MR) previously issued to employees will be replaced by PARs and ICS.</p> <p>Accounting Dept. is now starting on the preparation of PPE Ledger Cards.</p> <p>Annual Inventory Count will be taken this October 2018 to</p>	

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	<p>effective January 1, 2016 which provides under Section 21 and 42, Chapter 10, the proper handling and accounting for property, plant and equipment.</p> <p>3.2 While COA Circular No. 80-124 dated January 18, 1980 prescribes the rules and regulations for the conduct of physical inventory of Property, Plant and Equipment (PPE) and implementing the provisions of Section 102 of the Government Auditing Code of the Philippines (P.D. 1445), paragraph 2 of Item V.</p> <p>3.3 For the year under audit, noted deficiencies in the handling and accounting for PPE included the following:</p> <p>a. Property Acknowledgement Receipts (PARs) were not updated and/or renewed once in every three years.</p> <p>a.1 Required to be indicated in the PAR, which replaced the Memorandum Receipt (MR), is the name of the person accountable therefor and the date the PPE was issued.</p> <p>a.2 Verification disclosed that the required PAR had not been adopted by PITC because they are still using the Memorandum Receipts (MR) since there still pre-numbered copies on stock. Sampling of the MRs revealed that these were still not updated/renewed at least once</p>	<p>c. Property Officer to ensure that all PPE be properly labeled and identified as prescribed in Paragraph 2 of Item V of COA Circular No. 80-124 dated January 18, 1980.</p>						properly label and identify all existing PPE.	

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	<p>every three years though Management had already been previously advised on the matter. The PINs were also not indicated in the MRs, thus identification of persons accountable therefor and cross referencing of property transferred from one accountable person to another could not be facilitated. As such the previous holder of the MR may still be held accountable for an equipment no longer in his custody.</p> <p>b. PPE Ledger Cards (PPELC) and Property Cards (PCs) were not prepared and maintained by the Accounting Department as well as the Property & Supply Division, respectively.</p> <p>b.1 Verification showed that the Property officer did not maintain Property Cards to monitor the agency's PPE. The list of PPE subject of the physical inventory taking was prepared by the Accounting Department. Yet, the Accounting Department also did not prepare and maintain the PPELC contrary to Section 42, Chapter 10 of the GAM.</p> <p>b.2 In the absence of the PCs and the PPELCs, the accuracy, reliability</p>								

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	<p>and integrity of the property and equipment accounts as presented in the financial statements could not be ascertained since reconciliation between property and accounting records and the results of the physical inventory taking could not be undertaken.</p> <p>c. Newly acquired equipment not yet assigned property identification number (PIN) and some old equipment with detached/ no PINs were already issued to end users.</p> <p>c.1 The practice of issuing to end-users property and equipment without proper identification was contrary to the above-cited provision of COA Circular No. 80-124 dated January 18, 1980.</p> <p>c.2 Non-assignment of the PIN for the newly acquired property as well as failure to property tag and identify old/used PPE before their issuance to end users could lead to difficulty in identifying and tracing the persons accountable and whereabouts of said PPE items.</p>								

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4	<p>PITC incurred operating losses for more than five years. The CY 2017 net income of P127.315 million were derived mainly from interest income from bank deposits revenue earning activities do not fall within the mandate of the government corporation.</p> <p>4.1 Section of PD No. 1071 otherwise known as the "Revised Charter of the PITC" provides for corporate powers and functions of PITC, which in general is to undertake activities appropriate for an institution created for the purposes of international trading.</p> <p>4.2 By virtue of EO No. 133 s. 1987, Reorganizing the DTI, its Attached Agencies, and for other purposes, PITC is mandated to:</p> <p>a. <i>engage in both export and import trading on new or non-traditional products and markets not normally pursued by the private business sector;</i></p> <p>b. <i>Provide a wide range of export oriented auxiliary services to the private sector;</i></p> <p>c. <i>Arrange for or establish comprehensive systems and physical facilities for handling the collection, processing and distribution of cargoes and other commodities;</i></p>	<p>We recommended and Management agreed to revisit the government corporation's business plans and programs and adopt strategies that will strengthen mandated operational activities so as to increase revenues from carrying out its mandated function as the trading arm of the government both locally and internationally.</p>	<p>Management informed that one of the strategic thrusts and directions of PITC when the new President and CEO assumed office in February 2017 is the prioritization of the improvement of PITC's mandate by growing the international trade business to increase revenues and profitability. While the business activities grew and prospects multiplied, the recording of income was not immediately fulfilled and realized due to some circumstances beyond the control of PITC such as delays in receipt of terms of reference as well as of pertinent regulatory documents from the clients.</p> <p>Meanwhile, the funds held in trust were managed</p>	TOP & CORPLAN	All-year round		On-going	<p>Among the strategies adopted and actions taken to increase revenues are the following:</p> <ul style="list-style-type: none"> Partnership agreement with Microsoft Philippines under a dealership program with their accredited fulfillers or distributors. Target market for Microsoft products are government agencies. More intensive buyer-supplier base expansion and development to increase exports sales. For the first time, PITC exported colored pencils to Mexico. Participated in the Presidential Visit to India and joined the Philippine delegation in Phil-Pakistan Joint-Economic Cooperation 	

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	<p>d. Monitor or coordinate risk insurance services for existing institutions; promote or organize whenever warranted, production enterprises and industrial establishments and collaborate or associate in joint venture with any person, association, company, or entity, whether domestic or foreign, in the fields of production, marketing, procurement, and other related businesses; and</p> <p>e. Provide technical, advisory, investigatory, consultancy, and management services with respect to any and all of the functions, activities, and operations of the corporation."</p> <p>4.3 Moreover, EO 120, s. 1993, directed the DTI through PITC to "coordinate with all government agencies and GOCCs in formulating and implementing particular strategies on countertrade or similar arrangements for any planned importation or procurement of foreign capital goods, equipment, machinery, products, goods and services, with appropriate consultations to be made with the private sector."</p> <p>4.4 For CY 2017, PITC disclosed in its Statement of Comprehensive Income a net income of P127,315,049. However, review of the accounting reports and records revealed that revenues derived</p>		efficiently, resulting to increased interest income. Management is currently reevaluating the schedule of service fees of the various business group taking into consideration the various risk and services we render to our customers and clients. There are also activities lined up to increase awareness of PITC's services.					<p>Meeting in Islamabad, Pakistan to promote the Pharmazone Project and invite investors to the Philippines.</p> <ul style="list-style-type: none"> Organized the 2018 National Conference on Industrial Collaboration Program at the Philippine International Convention Center (PICC) to encourage government agencies to integrate the Countertrade Program in their procurements. Accredited one (1) new client of PITC Customs Bonded Warehouse. Working on a third country trading on a government-to-government business partnership on oil 	

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	<p>from its mandated functions/activities vis-à-vis cost of operations actually resulted to a loss of P32,542,167. Further verification also revealed that:</p> <p>a. <i>Operating losses had been continuously incurred for more than five years.</i></p> <p>b. <i>Revenues from operations were outpaced by the revenues from financing activities during the last two years.</i></p> <p>c. <i>Comparison of the contributions of the operating revenues vis-à-vis finance revenues during the last five years also showed a declining trend for the operating revenues and an increasing trend for the finance revenues.</i></p> <p>d. <i>Total finance revenues at 62.20 percent accounted for almost twice the gross revenues from PITC's mandated services at 34.68 percent of the total gross revenues earned for the year.</i></p> <p>4.5 The Audit Team, commends PITC management for its excellent financing/investing activities, which greatly helped the agency in supporting its operations. However, this is not favorable to the operations of the Corporation because it means that contracted services from client Corporations were not accomplished.</p>							<p>with Bangladesh Petroleum Corporation, a state trading corporation, in partnership with Glencore Singapore.</p> <ul style="list-style-type: none"> • More focused monitoring and follow-up of deficient requirements of procurement projects with various government clients. • Conduct a Countertrade Summit for GOCCs in collaboration with the Governance Commission for GOCC (GCG) by Q3 or Q4 2018. • As of June 2018, the income from business operations is positive P4.649M. 	

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5	<p>The PITC GAD budget of P1.860 million was still below the required five per cent of its corporate operating budget, contrary to the guidelines set forth in Dept. of Budget and Mgmt.-National Economic Development Authority-Philippine Commission on Women (DBM-NEDA-PCW) Joint Circular No. 2012-01.</p> <p>5.1 Joint Circular No. 2012-01 issued by DBM, NEDA and the Phil. Commission on Women (formerly the Natl. Commission on the Role of Filipino Women) provides for the preparation and submission of annual GAD Plans and annual GAD Accomplishment Reports.</p> <p>5.2 Among the guidelines set in subject circular is for the integration of the GAD Plan in the regular activities of the agency, utilizing at least five per cent of its budget. For this purpose, activities undertaken by the Agency that relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion and fulfillment of women's human rights, and practice of gender-responsive governance were considered sufficient compliance with said requirement. Utilization of the GAD budget will be evaluated based on the GAD performance indicators identified by the agency.</p>	<p>We recommend that Management:</p> <p>1. Prepare the GAD Plan and Budget to support the gender issues in the agency and identify GAD related activities embedded in the regular operations/activities which may be considered sufficient compliance with the required five per cent of the corporate operating budget; and</p>	For implementation.	GAD Focal Point Person (VEM/JSR)	All-year round		On-going	<p>The GAD Budget is usually submitted one year ahead before the implementation. PITC will prepare the GAD Budget based on the latest available corporate operating expenses to ensure compliance of the required 5% of COB.</p> <p>The GAD Focal Point will identify GAD-related-activities in the regular business operations that can be attributed to GAD.</p>	

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	5.3 For CY2017, PITC set a budget of P1.860 million for GAD activities which was higher compared to the previous year's GAD budget of P1.345 million but still remained below the required five per cent of the corporate operating budget. It was noted, however that although the approved budget did not meet the requirement per Joint Circular, the actual expenditures incurred during the implementation of GAD related activities amounted to P5.841 million or 314 per cent higher than the approved budget.								

Agency sign-off:


DAVE M. ALMARINEZ
 President & CEO

July 12, 2018
 Date