

Republic of the Philippines  
**COMMISSION ON AUDIT**  
Quedan and Rural Credit Guarantee Corporation  
Region V



The Cluster Director  
Cluster V- Agricultural, Trading and Promotional  
Corporate Government Audit Sector  
Commission on Audit, Quezon City

Thru: The Regional Cluster Director  
Cluster V-Agricultural, Trading and Promotional  
Commission on Audit, Regional Office No. V  
Legazpi City

COMMISSION ON AUDIT  
Cluster V  
Agricultural, Trading and Promotional  
Corporate Government Audit Sector  
By: J. P. P.  
Date: 4/10/08

Sir/Madam:

In compliance with COA Unnumbered Memorandum issued by Ms. Carmen B. Barrameda, CGS- Regional Cluster Director, Cluster V, dated May 18, 2006 directing the undersigned Audit Team to conduct an audit on the specific audit issues raised in letter complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter, dated May 5, 2006, received by the Commission on Audit Regional Office No. V on May 16, 2006, we conducted an audit on the accounts and operations of Quedan and Rural Credit Guarantee Corporation, Daet District Office specifically on the specific issues raised on said letter complaint.

The audit was conducted to validate the complaint of the concerned SRT Coop and to ascertain the propriety of financial transactions and compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports.

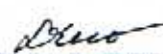
Our attached report consist of the following:

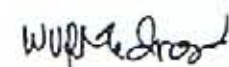
- Part I- Comments and Observations
- Part II- Annexes, Schedules and Supporting Documents

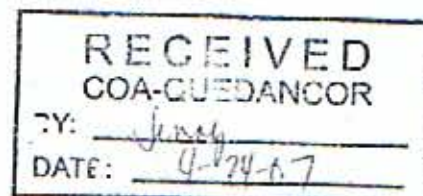
Our significant comments and observations were discussed with concerned Management officials and staff.

Our audit was conducted in accordance with generally accepted state auditing standards and we believe that it provides reasonable bases for the results of audit.

We discussed our audit comments and observations with management. Their comments and reactions to such observations and recommendations are incorporated in the report. We acknowledge the cooperation extended to us by Management personnel which facilitate the submission of this report.

  
**DELIA L. ECO**  
State Auditor III  
Team leader

  
**WILMA R. MEDROSO**  
State Auditor III  
Team Supervisor



## TABLE OF CONTENTS

	Page
I- <b>Comments and Observations</b>	I- 18
II- <b>Annexes (A and B)</b>	

## PART I

### COMMENTS AND OBSERVATIONS

#### FINDING NO. 1

Input supplies amounting to P 1,423,681.00 and feeds, biologics and Artificial Insemination (A.I.) which cannot be quantified, were not delivered to the borrowers of QUEDANCOR, Daet District who had availed of the Swine Loan Program, by the Input Supplier New Goldrock Agri Vet Co.. This is tantamount to breach of contract punishable under existing laws.

The memorandum of agreement between the Input Supplier and Quedancor stipulates, among others:

#### Duties and Responsibilities:

"The IS shall provide Quedancor's farmer-borrowers the production inputs and/or services as specified in the Purchase Order (PO) for Input of Services (CIS) presented to them; xxx "

We have conducted an audit on the Swine Loan Program of QUEDANCOR, Daet District in response to a letter complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter, dated May 5, 2006, (Annex "1.1") received by the Commission on Audit Regional Office No. V on May 16, 2006. We had focused our audit on the specific loan borrowers enumerated in the said complaint.

The sworn statements executed by the following QUEDANCOR, Daet District borrowers revealed that the inputs supplies stipulated under the purchase order issued to the input Supplier, New Goldrock Agri Vet Co. amounting to P1,423,681.00 (Annex "2") have not been delivered by the said Input Supplier to the borrowers, up to the time of the execution of their sworn statements, namely: .

1. Rosa Mia King Group	P230,460.00 (Annex "2.1.1, page 2 of 7")
2. Rodelio King Group	312,260.00 (Annex "2.1.1, page 5 of 7")
feeds not delivered (no piglets produced)	274,960.00 (Annex "2.1.1, page 5 of 7")
3. Arnulito Fernandez Group	56,800.00 (Annex "2.3.1, page 3 of 4")
4. Allan Bejerano Group	183,990.00 (Annex "2.4.1, page 3 of 5")
5. Edward Balon Group	165,191.00 (Annex "2.5.1, page 2 of 5")
6. Leland Balon Group	200,020.00 (Annex "2.6.1, page 3 of 4")
Total	<u><b>P1,423,681.00</b></u>

Moreover, there were also input supplies such as feeds, biologics and A.I. which were not delivered by the input supplier, however, the borrowers cannot quantify the undelivered inputs (Annex "3"). Input supplies such as feeds, biologics and A.I. cannot be quantified by borrowers Arnulito Fernandez Group (Annex "2.3.1, page 3 of 4") and Augusto Talento Group (Annex "3.3.1, page 2 of 4") because of the fact that the other set of sales invoice/acknowledgement receipts covering the same transaction issued to them by the Input Supplier, New Goldrock Agri Vet Co. only contain the quantity (bags) of feeds, biologics and A.I. delivered but do not contain its total cost. (Annex "4").

Likewise, the following borrowers also alleged that the undelivered feeds, biologics and A.I. cannot be quantified because of the fact that the other set of sales invoice/acknowledgement receipts covering the same transaction issued to them by the

Input Supplier, New Goldrock Agri Vet Co. only contain the quantity (bags) of feeds biologics and A.I. delivered but do not contain its total cost (Annex "3") , however the separate sales invoice/acknowledgement receipts issued to them by Input Supplier New Goldrock Agri Vet. Co were not presented to the audit team:

1. Allan Bejerano Group- cannot quantify the amount of biologics  
(Annex "2.4.1, page 4 of 5")
2. Edward Balon Group -cannot quantify the amount of Biologics and A.I.  
(Annex "2.5.1, page 2 of 5")
3. Leland Balon Group- cannot quantify the amount of biologics and A.I.  
(Annex "2.6.1, Page 3 of 4")
4. Ferdinand Yu Group-cannot quantify the amount of feeds, biologics and A.I.  
(Annex "3.1.1, page 2 of 4")
5. Zenaida Yu Group- cannot quantify the amount of feeds, biologics and A.I.  
Records are with Zenaida Yu (TL) who is presently in Manila.  
(Annex 3.2.1, page 2 of 4"- Sworn Statement of Fernand Yu)

It has been noted that QUEDANCOR, Daet District had already paid the said Input Supplier the full amount for the input supplies (Annex"10") notwithstanding the fact that no complete deliveries were made by the said input supplier.

Moreover, the aforementioned borrowers claimed that they were just made to sign the sales invoice/acknowledgement receipts for the full amount of input supplies stipulated in the purchase order ( as if they had already received the full amount of Input supplies) when the truth of the matter is that they have not completely received the same, for the reason that they were made to understand that said documents are needed in the processing of their loan and that the input supplies would be delivered on a staggered basis.

Attention is invited to the following sections viz:

Section 68 of RA 9184 and its IRR-  
A- Liquidated Damages, provides that:

"All contracts executed in accordance with the Act and this IRR- shall contain a provision on liquidated damages which shall be payable in case of breach thereof. For the procurement of goods and consulting services, the amount of the liquidated damages shall be at lease equal to one- tenth of one percent (0.1%) of the cost of the unperformed portion for every day of delay. Xxx Once the cumulative amount of liquidated damages reaches ten percent (10%) of the amount of the contract the procuring entity shall rescind the contract, without prejudice to other courses of action and remedies open to it".

Further, to be entitled to such liquidated damages, the Government does not have to prove that it has incurred actual damages. Such amount shall be deducted from any money due or which may become due the contractor under the contract and/or collect such liquidated damages from the performance bond of the contractor or contractor's surety, whichever is convenient to the government. (Source: Treatise on Government contract under Philippine Laws)

**Management Comments:** (Annex "5")

Pursuant to Quedancor No. 359 dated April 24, 2006, an accounting has been made in connection with the actual amount of undelivered feeds to determine the amount of obligation to be assumed by the Input Supplier (I.S.). And the grower/borrower had acknowledged the actual number of inputs received or undelivered by signing its

conformity to the Assumption of Liability. Those inputs not delivered are collections against the Input Supplier, thru the execution of debt assumption agreement in accordance with Circular No. 403 on remedial measure under the swine program.

Basic concept of the swine program is that the same is a loan in cash consummated upon presentation of delivery receipt and/or acknowledgement receipt by the I.S. to Quedancor. Any shortage of deliveries is the concern of the borrower as he has acknowledged the receipt of undelivered goods.

Quedancor has no legal standing to recover the amounts "advanced payment" since these amounts are consummated loan transaction of the borrowers duly delivered and received by them as shown by the delivery receipt / acknowledgement receipt/sales invoice presented to Quedancor with the signatures of the borrowers appearing thereon. Any reimbursement for the shortage of feed/inputs delivery must be done by the borrower against the I.S.

#### **Auditor's Rejoinder:**

Management had submitted to us the Statement of accounts as of April 30, 2006 prepared by Christian P. Pandeagua, Bookkeeper, Mila B. Gonzales, Accountant and Lydia P. Ibasco, District Supervisor of QUEDANCOR, Daet District Office under the Swine Program of the aforementioned borrowers (Annexes "6.1 to 6.7") and the Statement of Accounts of Rosa Mia King Group and Arnulito Fernandez Group, duly signed and conformed by the representative of the Input Supplier, New Goldrock Agri Vet. Co., but was only conformed by borrower Rosa Mia L. King Group (Annex "7.1"). Likewise a statement showing the computation and amount for assumption by borrowers Rodelio King Group, Allan Bejerano Group, Edward Balon Group, Leland Balon Group and Augusto Balon Group and duly conformed by the Input Supplier, New Goldrock Agri Vet Co. (Annexes "8.1 to 8.5") was also submitted to this office, however, Allan Bejerano Group, represented by their team Leader Allan Bejerano did not signify his conformity to the Statement on the Amount for Assumption of Liability (Annex "8.2"). Although, management had claimed during the exit conference conducted on July 11, 2006 held at QUEDANCOR, Daet, District Office, (Annex "9") that the representative of the Input Supplier New Goldrock Agri Vet Co., had already signified its conformity with the Statement showing the computation and amount for assumption of borrowers Rosa Mia King, Arnulito Fernandez, Allan Bejerano, Ferdinand Yu and Zenaida Yu, unfortunately, the audit team has not received any copy of the same. The Input Supplier-New Goldrock Agri Vet. Co. and the aforementioned borrowers have not indicated their conformity to the said Assumption of Liability as erroneously claimed by the management. Moreover, the debt assumption agreement between Quedancor, Daet District and the Input supplier has not been furnished to this office as of this writing. Further, management claimed that they are faced with difficulty in locating the whereabouts of the other borrowers because the latter are no longer residing in Daet Camarines Norte.

It is incorrect to state that the swine loan program is a loan in cash because the same is a loan in kind. It is an agreement among the three parties, Quedancor, I.S. and the borrower, where, the IS undertakes to deliver the input supplies to the borrower upon presentation of the P.O. and the payment is made by Quedancor upon presentation of the acknowledgement and delivery receipts of supplies duly signed by the borrower. Apparently, the management missed the crucial issue in this transaction, because what is being questioned here is the apparent and obvious participation of the input supplier and borrowers to submit a fraudulent delivery receipt of input supplies to Quedancor. Verily, there is breach of contract because there is incomplete delivery of supplies by the IS to the borrower in violation of the loan agreement. The failure of the input supplier to

deliver completely the supplies to borrower is tantamount to breach of contract on the part of the input supplier. There is actual prejudice on the part of the government because the agency is made to pay for goods not yet delivered by the Input Supplier to the borrower. The mechanics of the Quedancor Swine Loan Program is unique because the proceeds of the loan is released to the borrower not in cash but in kind or specifically input supplies are delivered to the borrower by the input supplier in accordance with CGA.

**Recommendation:**

Require New Goldrock Agri Vet. Co. (Input Supplier) to refund the cost of undelivered input supplies to the aforementioned borrowers amounting to P1,423,681.00. Moreover, management should make proper coordination with the input supplier and the aforementioned borrowers to establish the total amount of undelivered input supplies which cannot be quantified by the borrowers because of the absence of the unit cost and quantity in the case of biologics and A.I. in the sales invoice/acknowledgment receipts issued to said borrowers and require said Input supplier to refund the cost of the undelivered input supplies after the total cost of the aforementioned input supplies have been determined.

Conduct and submit to this Office an inventory of the input supplies delivered/not delivered to all the QUEDANCOR borrowers who had availed of its swine loan program (including those who executed and failed to execute sworn statements) with the conformity of the borrowers and the Input Supplier, New Goldrock Agri Vet. Co. Update and/or reconstruct the subsidiary ledgers of the aforementioned borrowers and the Input Supplier, New Goldrock Agri Vet. Co. and establish the undelivered input supplies and require said input supplier to refund the cost of the undelivered input supplies.

Impose sanctions as provided by law to erring Input Supplier for breach of contract.

**FINDING NO. 2**

Full payment to the Input Supplier for procured input supplies amounting to P1,423,681.00 and for the feeds, biologics and Artificial Inseminations (A.I.) which cannot be quantified but which have not yet been delivered to the borrowers is tantamount to payment in advance to Input Supplier (IS) New Goldrock Agri Vet Co., in violation of paragraph (1) Section 88 of PD 1445, The State Audit Code of the Philippines.

QUEDANCOR, in its implementation of the Swine Program, has sought the assistance of the Input Suppliers because they want to prevent the borrowers from personally handling the loan proceeds to avoid diversion of its use for other purposes.

But while Quedancor may have prevented the borrowers from managing their own fund, it appears that they have freely allowed the IS to benefit and personally use in advance a portion of the money paid to them by Quedancor, in violation of Section 88 of PD 1445 which states that:

"Except with the prior approval of the President (Prime Minister) the government shall not be obliged to make an advance payment for services not rendered or for supplies and materials not yet delivered under any contract therefore. No payment, partial or final, shall be made on any such contract except upon a certification by the head of the agency concerned to the effect that the services or supplies and materials have been rendered or delivered in accordance with the terms of



the contract and have been duly inspected and accepted"

Moreover, the prohibition on advance payment is well explained in paragraph 4, page 164 of the book entitled *A Treatise on Government Contracts Under Philippine Law*, which reads as:

"The rationale behind such a prohibition against advance payment is not hard to perceive. Any person contracting with the Government for the rendition of services or delivery of supplies and materials is presumed to be "logistically" prepared for the purpose. The assumption is that he has his own resources to rely upon in the performance of his contractual undertaking. And so, when he asks the Government to pay him in advance under the contract even before he has commenced such performance, it can only mean that he is not as yet in a financial position to perform his contract. In effect, by making such advance payment, the Government provides part of the capital for the contractor and, hence, becomes a capitalist of sorts. xxx It is in this context that the subject prohibition is deemed imposed as a matter of administrative measure and for the security of the Government."

Based on the sworn statement issued by the loan borrowers enumerated in Annexes "2.1.1 to 2.6.1", we noted that the input supplies amounting to **P1,423,681.00** were not delivered to the said borrowers by the Input Supplier New Goldrock Agri Vet Co. In addition to the aforementioned amount, there were also input supplies such as feeds, biologics and Artificial Inseminations (A.I.) which cannot be quantified by the borrowers and were not also delivered to the borrowers by said Input Supplier as shown in Annex "3". However, records would show that QUEDANCOR, Daet District had already paid the said Input Supplier in full for the input supplies (Annexes "10.1 to 10.6.1") that they are supposed to deliver as stipulated in the purchase order of each borrower consequently, this is in violation of Section 88 of PD 1445.

Moreover, a verification of the documents presented to us reveals that the various Sales Invoice/Acknowledgement receipts (Annexes "11.1 to 11.9") were attached to the disbursement vouchers (Annexes "10.1 to 10.6") and were submitted as a basis in the payment made by QUEDANCOR, Daet District to the said Input Supplier. The Sales Invoice/Acknowledgement receipt would readily reveal that the input supplies corresponding to the said amount of input supplies as indicated in said sales invoice/acknowledgement receipt have all been delivered and duly received by the aforementioned borrowers (Annexes "11.1 to 11.9"). However, the aforementioned borrowers claimed that they were just made to sign the sales invoice/acknowledgement receipts of the full amount of input supplies stipulated in the purchase order (as if they had already received the full amount of Input supplies) when the truth of the matter is that they have not yet completely received the same, for the reason that they were informed that said documentation is needed in the processing of their loan and that the input suppliers have promised to deliver the input supplies to the borrowers.

Moreover, said borrowers claimed that common sense dictates that it would be hardly possible that the input supplies such as feeds, biologics and A.I. to be delivered on a single delivery basis because the supplies are to be consumed on a staggered basis and if the supplies are stored for a considerable period of time, there is a strong possibility that the same would be spoiled.

Further, it has been noted that the concerned official of QUEDANCOR, Daet District had fully paid the Input Supplier despite their knowledge that there were undelivered goods as reported by the aforementioned borrowers. The aforementioned borrowers claimed that they had verbally informed QUEDANCOR concerned employees/officers regarding this problem and that there were also written complaints made by other borrowers to the Office of QUEDANCOR, Daet District.

Moreover, payment was made by the agency, without the appropriate certification that the input supplies have been delivered in accordance with the terms of the contract and have been duly inspected and accepted. There is no proof whatsoever, that said input supplies were duly inspected. Hence, this is in violation of the aforementioned Section 88 of PD 1445.

**Management Comments: (Annex "12")**

Disbursement made by Quedancor to the Input Supplier is the amount of loan released to the borrower through the issuance of P.O. The basis of payment is the attachment of the Sales Invoice/Acknowledgement Receipt duly signed by the borrower. They further claimed that the amount of release to the borrower through the I.S. cannot be considered as advance payment as there is no procurement to speak of and PD 1445 speaks particularly of advance payment in services or supplies and materials. Payment of IS is in accordance with the following operating principles adopted in Quedancor's guidelines:

**Payment made to Input Suppliers**

A. The provision in Quedancor Circular states that the I.S. or contractor must ensure timely delivery of inputs or services based on the PO or JO and /or contract inputs or services. The borrower shall only acknowledge receipt of inputs delivered within the specified period and in conformity with the specifications on the PO, JO and CIS. Payment of PO, JO shall be subject to the submission of original copy of PO, JO and the original copy of the same.

Further, they claimed that as lender, the obligation of Quedancor after receipt of the complete documentation is to remit to the IS the amount it has delivered to its borrower for and in behalf of the latter. Hence, since the fund used is the loan of the borrower, there is no violation of PD 1445.

Further, they claimed that Quedancor has no legal standing to recover the amounts considered as advance payments. Since these amounts are loan release to borrowers duly delivered and received by them as indicated in their signed sales invoice/acknowledgement receipts, the borrowers should be the ones to ask for reimbursement in case there has been indeed a shortage in the delivery of the inputs. The remedy of Quedancor under such instance is indicated in the promissory note, in case of loan diversion, the borrower's loan shall be considered due and demandable.

Quedancor is assisting grower-borrower in threshing out this issue with the IS. Management is doing its best in reviewing the program and remedying the problems encountered in its implementation. The interest of the farmer-borrowers as well as the collectibility of the loans is well considered by Quedancor in all its decisions for QSP.

They claimed that as of date, management is on top of the situation to remedy the swine program. Guidelines and policies were made by the agency such as the correction in the accounting treatment of the transactions, conversion from PO to cash system, conversion of accounts into term loan and the delineation of responsibilities of the parties under the CGA. Likewise, all negotiations in the remedial action of the program is fully backed-up by the Special Legal Team for Swine, to see to it that the corporation's interest is amply protected and at the same time the interest of the farmer is upheld.

**Auditor's Rejoinder:**

COA maintain its stand that procurement under the QSP should be covered by RA



9184 and its IRR. Quedancor has admitted that the fund used for the QSP is a government fund when it claimed that under the Scheme the fund was retained in their possession, and that there was no transfer of fund from Quedancor to farmer-borrower. Section 63 of PD 1445 states, that funds in the hands and held in its official capacity by the accountable officer shall be accounted for as public funds.

On this particular issue, the management believes that QSP is not government procurement hence, QUEDANCOR has released payments to IS upon presentation of the PO supported with delivery receipts and acknowledgement receipt signed by the borrower. In this regard, attention is invited to Section 2 of PD 1445, to wit:

"... all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of the government."

Further, Section 2 of PD 1445 states that:

"The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

As regards the issue on the claim of the management that the acknowledgement receipts/sales invoice and delivery receipts attached to the claims of the IS is the basis of Quedancor's payment to the IS, records reveal that input supplier New Goldrock Agri Vet. Co. had issued two sets of sales invoices covering the same transaction. Specifically one set of sales invoice was issued to cover the total amount (Annexes "11" and 11.1 to 11.9") of feeds as supporting document for purposes of claim for payment from Quedancor, while another set of acknowledgement receipt (Annexes "4" and "4.1" to 4.3) was issued to cover the actual delivery of feeds to borrower on staggered basis.

While it is true that the acknowledgement receipt signed by the borrower had been submitted to Quedancor, the fact remains that two sets of sales invoice were issued by the input supplier for the same transaction, one set of sales invoice was issued for documentation and claims purposes and the other set was issued to cover the actual delivery of feeds on staggered basis. It may be noted that Quedancor, Daet, District Office, despite personal knowledge of the fact of partial delivery of supplies to borrower, still proceeded to pay the input supplier. The management should have considered that the partial delivery of goods may virtually affect the management of the hogs by the borrowers. In which case, pursuant to the CGA, the management may be justified in rescinding the CLA and take possession of the swine. The applicable rule is Section II, paragraph 3 of the CLA, where it provides that the termination of the agreement will automatically relieve the borrower from paying the loan obligation with Quedancor and the IS shall automatically assume the payment of the outstanding loan of the borrower of Quedancor. Hence, the latter may legally collect the loan from the I.S.

As regards, the allegation that it is the borrower's fund which was used to pay the IS, hence, there was no violation of PD 1445, we strongly maintain our position based on the grounds raised in our AOM. We maintain our stand on this issue that the agency should require the Input supplier to pay for the undelivered supplies, due to the existence of incomplete deliveries of input supplies committed by input supplier (Annex "13"), hence, a breach of contract. By virtue of the loan agreement, IS undertakes to deliver the input supplies to the borrowers.

We likewise believe that there is no loan diversion to speak of on the part of the borrower on the aforementioned situation. Quedancor has directed the money of the borrower to the IS and the borrowers were not given the freedom to handle their money.

Accordingly, the remedy to be undertaken by Quedancor on the aforementioned situation as indicated in the Promissory Note, that in case of loan diversion, the borrower's loan shall be considered due and demandable is not proper under the circumstance.

However, we acknowledge the efforts of the agency in making appropriate measures to address this problem.

**Recommendation:**

Section 88 of PD 1445 should be strictly complied with.

Conduct an inventory of the input supplies delivered/not delivered to all the QUEDANCOR borrowers who availed of its swine loan program (including those who executed and did not execute sworn statements). Update and/or reconstruct the subsidiary ledgers of the aforementioned borrowers and the Input Supplier, New Goldrock Agri Vet. Co. and establish the amount paid in advance to the Input Suppliers as a result of the non deliveries of input supplies to the borrowers.

Likewise, determine the total cost of the Input supplies which were not delivered by the Input Supplier, and which cannot be quantified by the borrower because of the absence of data to establish the cost of said supplies.

Recover from the IS the amount of advance payment made to said Input Supplier. Charge them the equivalent cost of money which accrue to them due to advance payments.

Moreover, attention is invited to our existing law, the Revised Penal Code that this act may fall under the offense of falsification. The borrower and the input supplier have intentionally made it appear in the delivery receipts that complete deliveries of supplies were made, when in fact no complete deliveries were made by the input supplier to the borrowers. Worse, despite previous knowledge of this fact, the concerned Quedancor employees/officers had still proceeded to tender full payment to the input supplier to the prejudice of the government.

**FINDING NO. 3**

The collectibility of the Quedan Swine Program outstanding loan balance as of March 31, 2006 consisting of loans receivables from Swine Program Borrower, Levy Barrameda amounting to P120,000.00 is doubtful.

We have conducted an audit on the Swine loan Program of QUEDANCOR, Daet District in response to a letter complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter, dated May 5, 2006 (Annex "1.1"), received by the Commission on Audit Regional Office No. V on May 16, 2006.

Based on our audit, we noted that the collectibility of the outstanding loan under the GMA-CARES-SWINE- (SRT) as of March 31, 2006 of Levy B. Barrameda amounting to P120,000.00 is doubtful considering the fact that a certain borrower, Levy Barrameda had denied in a dialogue conducted in the presence of the acting Brgy Kagawad Rodrigo Del Valle and Brgy. Secretary, Ms. Susan Vitug of Brgy. San Isidro, Talisay, Camarines Norte (Annex "14"), having borrowed from Quedancor, Daet District. He further denied in his sworn statement (Annex "15") that the signatures appearing in the promissory notes, Memorandum of Agreement, Contract Growing Agreement and purchase order are spurious. (Annexes "3.2.3", "3.2.4" and "3.2.5")

He likewise claimed that he has never received the input supplies as stipulated in the purchase order, and has never received the proceeds of the loan.

Verification of the documents appertaining to said borrower indicates that he is one of the members of **Ms. Zenaida Yu Group** who had availed of the loan of P120,000.00 (Annex "3.2.3") as per documents under the GMA-CARES-SWINE (SRT) Program. However, the Sales Invoice No. 02833, dated April 1, 2005 amounting to P120,000.00 in the name of Levy Barrameda (Annex "11.9, page 10 of 10") which is attached to the loan documents was received by their Team Leader Zenaida Yu (Annex "11.9, page 10 of 10"). Unfortunately, we cannot get the comment of said Team leader because, said Team Leader of the group is still in Manila. (Annex "16"). Further, records show that in the Promissory Note Form No. SRT-03-030425, date granted on April 3, 2005 (Annex "3.2.3, page 1 of 2"), it could be gleaned that **there appears a certification from Jimelynn R. Sanchez that signatures appearing in the said promissory note were duly verified.**

Moreover, the same document would reveal that the loan documents were signed by the borrower in the presence of Quedancor employees Jimelynn R. Sanchez and Santiago E. Dalagan, Jr. (Annex "3.2.3, page 1 of 2")

#### **Management Comments: (Annex "17")**

As far as QUEDANCOR is concerned, they claimed that the basis for authenticity and validity of the applications is the signatures appearing in all the documents submitted. They further claimed that as shown in the Residence Certificate as well as in the PN, MOA, CGA and PO, it appears that there is consistency in the signature of Mr. Levy Brrameda. Further, it is also understood that the supplies delivered was received by their Team Leader Ms. Zenaida Yu, as evidenced by the Sales Invoice No. 02833.

With regard to the collectibility of the account, the group is jointly and severally liable in paying the loan.

During the exit conference held at QUEDANCOR, Daet District Office on July 11, 2006, Ms. Jimelynn Sanchez claimed that her principal responsibility and obligation is on the operation's promotion and evaluation of documents. She further claimed that although it is her responsibility to authenticate the signatures of the borrowers, there are instances where she signs the documents even though she has not personally witnessed the signing of the documents by the borrower. She claimed that it is not her sole responsibility to determine the authenticity of the signatures but also of Mr. Santiago E. Dalagan, Jr., who performs the Background and Credit Investigation, and verifies the authenticity of the signatures and identity of the borrowers. The aforementioned officials had claimed that they had personally witnessed the signing of the loan documents by Mr. Levy Barrameda.

#### **Auditor's Rejoinder:**

This is a case where the borrower, Levy Barrameda had strongly claimed and denied having obtained a loan from Quedancor, Daet District and that his signatures appearing in the loan documents are spurious. How can you compel said Mr. Barrameda to pay for a loan which he never obtained. The alleged forgery could have been avoided and prevented if the processing and preparation of the loan documents were done in the Office of Quedancor and in the presence of Quedancor Loan Officer. Although the concerned officials claimed that they had personally witnessed the signing of the loan documents by the borrower, Mr. Levy Barrameda, they have not bothered to confront or

inquire from Mr. Barrameda regarding the alleged forgery. They have never exerted any efforts to investigate the veracity of the alleged forgery.

While it is true that the borrower are jointly and severally liable to pay the loan, still it cannot be denied that the very purpose and intention of the swine program will certainly be defeated, which is aimed to provide livelihood to the needy and less fortunate citizens of our country.

**Recommendation:**

Appropriate action should be taken against erring parties for committing falsehood in the processing of the loan documents. Moreover, management should look into the veracity of the statements of said borrower and management should give their comment on this matter.

**FINDING NO. 4**

**The collectibility of the Quedancor Swine Program outstanding loan balance as of March 31, 2006 consisting of loans receivables from Swine Program Borrowers amounting to P6,130,000.00 is doubtful.**

We have conducted an audit on the Swine Loan Program of QUEDANCOR, Daet District in response to a letter complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter, dated May 5, 2006 (Annex "1.1"), received by the Commission on Audit Regional Office No. V on May 16, 2006. We had focused our audit on the specific loan borrowers enumerated in the said complaint.

Based on our audit, we noted that the collectibility of the outstanding Swine Program loans of the borrowers in the amount P6,130,000.00 as of March 31, 2006 (Annex "18, page 3 of 3") is doubtful because of the following factors:

A. Borrowers alleged that it is their understanding that the obligation to pay their loans would be assumed by the Input Supplier New Goldrock Agri Vet Co. under the following circumstances as stated in the contract Growing Agreement and/or in the Performance Standards and Other Conditions:

1.1 Upon pull-out by the IS of the swine produced by the borrower by virtue of the "Buy-back" provisions of the Contract Growing Agreement under the Supplier's Responsibilities, which states that:

"4. Buy-back all the produce of the Borrowers/Growers at the agreed buying price set in Exhibit "A" of this agreement;"

5. xxxx

6. Upon pull-out of the swine produce, pay QUEDANCOR in full, the outstanding loan of the Borrowers/Growers, and the Borrowers/Growers their appropriate guaranteed income."

1.2 In cases of mismanagement or unsatisfactory management by the borrower as determined by Quedancor and the stocks are pulled-out by the IS; and

1.3 Discontinuance of the project by the borrower without any fault on his/her part after the stated warranty period and he/she returns the stocks to the IS.

B. The Input Supplier (New Goldrock Agri Vet. Co.) as alleged by the borrower has

failed to fulfill their obligations (as there is no complete deliveries of input supplies) and management has not enforced appropriate sanctions on non-payment of New Goldrock Agri Vet. Co. for the liabilities (as a result of this non-deliveries) because of the absence of a valid credit instrument in support of the Input suppliers' liabilities.

C. Difficulty of identifying receivables assumed by New Goldrock Agri Vet. Co. and the balances due from the borrowers because of management's failure to properly monitor and capture the pull-out transactions.

#### **Management Comment: (Annex 18)**

Accounting of all pull-out of swine stocks and actual amount of undelivered feeds has been made already in compliance to Memo No. 359 dated April 24, 2006 to determine the amount of obligation to be assumed by the grower/borrower. The latter had signed its conformity to the said accounting.

I.S. proposed to assume the amount of obligation established by the said accounting and based on the authority to pull-out issued thru debt assumption agreement. The agency is on the process of evaluating the said proposal.

In connection with the amount of obligation of the borrowers pursuant to the said accounting, the latter will be required to sign the promissory note and other documents required by Quedancor memo circular No. 403 RE: Remedial Measure on Swine Program.

#### **Auditor's Rejoinder**

As previously mentioned in our rejoinder, management had submitted to us the Statement of accounts as of April 30, 2006 prepared by Christian P. Pandeagua, Bookkeeper, Mila B. Gonzales, Accountant and Lydia P. Ibasco, District Supervisor of QUEDANCOR, Dact District Office under the Swine Program of the aforementioned borrowers (Annexes "6.1 to 6.7") and the Statement of Accounts of Rosa Mia King Group and Arnulito Fernandez Group, duly signed and conformed by the representative of the Input Supplier, New Goldrock Agri Vet. Co., but was only conformed by borrower Rosa Mia L. King Group (Annex "7.1"). Likewise a statement showing the computation and amount for assumption by borrowers Rodelio King Group, Allan Bejerano Group, Edward Balon Group, Leland Balon Group and Augusto Balon Group and duly conformed by the Input Supplier, New Goldrock Agri Vet Co. (Annexes "8.1 to 8.5") was also submitted to this office, however, Allan Bejerano Group, represented by their team Leader Allan Bejerano did not signify his conformity to the Statement on the Amount for Assumption of Liability (Annex "8.2"). Although, management had claimed during the exit conference conducted on July 11, 2006 held at QUEDANCOR, Dact, District Office, (Annex "9") that the representative of the Input Supplier New Goldrock Agri Vet Co., had already signified its conformity with the Statement showing the computation and amount for assumption of borrowers Rosa Mia King, Arnulito Fernandez, Allan Bejerano, Ferdinand Yu and Zenaida Yu, unfortunately, the audit team has not received any copy of the same. The Input Supplier- New Goldrock Agri Vet. Co. and the aforementioned borrowers have not indicated their conformity to the said Assumption of Liability as erroneously claimed by the management.

Moreover, the debt assumption agreement between Quedancor, Dact District and the Input supplier has not been furnished to this office as of this writing. Management claimed during the exit conference that they are faced with difficulty in locating the whereabouts of the individual borrowers because some of them are no longer residing in Dact, Camarines Norte and some of the other member borrowers are now questioning the

computation on the Assumption of Liability.

In the absence of concrete remedial measures introduced by the agency, as contained in Quedancor Memorandum Circular Nos. 1347, 313, and 403, the effectiveness of the measures and solutions is still doubtful. The legal consequences of the documentary requirements should be carefully studied and its financial effects should be considered.

**Recommendation:**

Management should clearly establish the liability New Goldrock Agri Vet. Co. for the cost of pulled-out stocks. Accordingly, promissory note must be executed and corresponding collateral must be put up by New Goldrock Agri Vet. Co. to secure its obligation.

Corresponding journal vouchers must be drawn to serve as basis for booking-up the liability of New Goldrock Agri Vet. Co.. Loan Balances should be reconstructed and adjusted to establish the correct outstanding balance due from the said Input Supplier and due from the borrowers.

**FINDING NO. 5**

Preparation and execution of loan documents were done not in the Office of Quedancor, Daet District but in the respective residences of borrowers or elsewhere and allowing some of the borrowers to personally accomplish the loan documents not in the presence of Quedancor loan officers, may result to fraud, or irregularity in the preparation of documents, specifically fictitious or dummy borrower which may be used by unscrupulous borrowers or team leaders to obtain a loan from Quedancor.

We have conducted an audit on the Swine loan program of QUEDANCOR, Daet District in response to a letter complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter, dated May 5, 2006, (Annex "1.1") received by the Commission on Audit Regional Office No. V on May 16, 2006. We have focused on the loan borrowers who were cited in the said complaint.

Sworn statements executed by the following borrowers revealed that the loan documents necessary in the processing of loans under the Swine Program were prepared and signed not in the office of QUEDANCOR, Daet District. The team leaders and members claimed that they signed the documents in their respective houses. The team leaders of the group likewise claimed that they were the ones who facilitated the signing of the loan documents of the following borrowers, viz:

**a) Rosa Mia L. King Group- (Annex "2.1.1, page 1 of 7")**

Rosa Mia L. King  
Edita R. Combronero  
Sonny C. Zantua

**b) Rodelfo L. King Group- (Annex "2.2.1 page 1 of 4")**

Rodelfo L. King  
Rosalie L. King

**c) Edward R. Balon Group- (Annex "2.3.1, page 1 of 5")**

Edward R. Balon  
Edsel C. Balon  
Eleanor L. Castillo

**d) Leland R. Balon Group- (Annex "2.6.1, page 1 of 4")**

Leland R. Balon



Moreover, the team leaders of the group likewise claimed that they were the ones who facilitated the preparation and signing of the loan documents of the other members of their group.

Moreover, Mr. Agosto Talento claimed in his sworn statement (Annex "3.3.1, page 1 of 4") that he and his members signed blank documents in their respective residence. Said blank documents were given to them by Ms. Jimelynn Sanchez.

It is incumbent upon the Management to personally monitor and supervise the due execution of the loan documents and check the veracity and authenticity of all documents submitted to them. Regrettably, management has failed in this regard because the preparation and signing of the loan documents were done in their respective houses of the borrowers, which is supposed to be accomplished in the Office of Quedancor, Daet District.

It may be noted that if management will continue to allow this kind of practice, where the preparation and signing of the documents are done in their respective homes or elsewhere other than the Office, and allowing borrowers to sign blank documents, this may result to fraud, or irregularity in the preparation of documents, specifically fictitious or dummy borrower may be used by unscrupulous borrowers or team leaders to obtain a loan from Quedancor. It had been noted that we had encountered difficulty in meeting the different borrowers who availed of the loan in each group. It is always the team Leader who meets us. We also noted that most of the input supplies which are supposed to be delivered to the individual borrowers were received by the Team Leader himself, justifying that it is a communal project.

Further, records show that in the Promissory Notes (Annex "2") submitted to us, it could be gleaned that there appears a certification from Jimelynn R. Sanchez that the signatures appearing in the said promissory note were duly verified by said Ms. Sanchez. It is hard to believe that proper verification of the signature was made by the latter when the preparation and signing of the loan documents were done in the respective houses of the borrowers.

**Management Comment: (Annex "19)**

Per Quedancor guidelines on SKF program, the borrowers will form a group and select among themselves a team leader who will represent them on their behalf. One of the duties of the team leader is to help in facilitating the completion of loan requirements including the signing of loan documents. Therefore, it is not necessary that the signing of the said documents be done in Quedancor Office as long as it was signed in the presence of a Quedancor representative.

With regards to Mr. Talento's group allegation, the agency claimed that the borrowers asked for copies of loan application from LMIG officer, Ms. Sanchez, , so it is understood to mean that the loan documents were given to them in blank form and they will just be the ones to fill up the same.

The agency explained that because of these allegations, they will duly implement our recommendations and see to it that the execution of loan documents will be done in the office and the borrowers will be required to personally accomplish the loan documents in the presence of Quedancor Loan officer.

During the exit conference held at QUEDANCOR, Daet District Office on July 11, 2006, Ms. Jimelynn Sanchez claimed that her principal responsibility and obligation is on the operation's promotion and evaluation of documents. She further claimed that although it is her responsibility to authenticate the signatures of the borrowers, there are instances where she signs the documents even thou she has not personally witnessed the signing of the documents by the borrower. She claimed that it is not her sole responsibility to determine the authenticity of the signatures but also of Mr. Santiago F. Dalagan, Jr., who performs the Background and Credit Investigation, and verifies the authenticity of the signatures and identity of the borrowers.

**Auditor's Rejoinder:**

We maintain our stand that the preparation and signing of the loan documents should be done in the Office of Quedancor and in the presence of its loan officer to prevent any acts of irregularity or fraud.

We acknowledge the commitment of the agency that they will duly implement our recommendation that the execution and preparation of the loan document will be done in their office and in the presence of Quedancor Loan officer.

**Recommendation:**

Preparation and execution of loan documents must be done in the Office of Quedancor, Daet District Office and the borrowers must be required to personally accomplish the loan documents in the presence of Quedancor loan officers.

**FINDING NO. 6**

Concerned employees not entitled to quarter's privileges who are using the QUEDANCOR Office as living quarters and had enjoyed free quarters in the rented building of QUEDANCOR, Daet District should be charged of the corresponding cost of rentals therefor, as stated in Section 301e of Government Accounting and Auditing Manual (GAAM), Vol. 1.

Section 301e of the Government Accounting and Auditing Manual (GAAM), Vol I, states that "Those who enjoy free quarters in government -owned or rented buildings but who are not entitled to quarter privileges, shall be charged the corresponding cost of rentals therefor. Unless fixed by law or regulations, the rate of quarters allowance or rental, as the case may be, shall be determined by the Department of Budget and Management (Sec. 3, 1991 GAA).

Section 5.1.1 of Quedancor Circular No.380, dated September 8, 2005 and which took effect on January 1, 2006 states that "the grant of monthly housing allowance shall cover QUEDANCOR officers or executives under the following qualifications:

5.1.1 *QUEDANCOR officers/executive with salary grade 26 and above*, who were reassigned or transferred to various QUEDANCOR offices other than their domicile, including those not yet SG 26 but in acting capacity and actually performing the functions thereof, covered by a Special Order duly approved by the QUEDANCOR President and CEO, for a period of not less than 30 days as of 31 December, 2005."

Relative to the audit query No. AQ No. 2006-001-00(06), dated May 29, 2006 (Annex "20"), where Ms. Lydia Ibasco, District Supervisor of QUEDANCOR, Daet District was asked to comment on the complaint that they are using QUEDANCOR Office as their living quarters together with other employees, the reply of said officer was on the affirmative and the latter had advanced the justification that although the office

has no housing allowance privileges given to employees below grade 24, they are utilizing the office as their temporary shelter from Monday to Thursday in the meantime that they are scouting for a suitable staff house for the personnel of Daet District.

Moreover, Ms. Lydia Ibasco cited that this arrangement was made in order not to sacrifice their efficiency and not to hamper the operations due to travel distance from their respective residences to their base office.

**Management Comments: (Annex "21")**

The concerned officer assured us that they will look for a suitable lodging house the soonest possible time and refrain from using Quedancor's office for their shelter.

The concerned officers also claimed during the exit conference that they had been using the office for their lodging since the start of the operation of the District Office., Daet District, three years ago. The said employees are Lydia Ibasco, Eugenio S. Batac, Jr, Santiago E. Dalagan, Jr.

**Recommendation:**

Attention is invited to the aforementioned Section 301e of the GAAM, Vol. 1 where employees not entitled to quarter privileges and who are enjoying the free quarters in the rented building of QUEDANCOR, Daet District Office, should be charged of the corresponding cost of rentals therefor. The concerned officials and employees are advised to look for suitable quarter and to refrain from using QUEDANCOR's Office for their lodging.

**FINDING NO. 7**

**Concerned employees using telephone for personal business should minimize or regulate utilization of telephones for personal purposes to avoid additional burden to QUEDANCOR and so as not to hamper and lessen the employees effectiveness as public servants as indicated in QUEDANCOR Memorandum No. 376, dated May 8, 2006.**

*Quedancor Memorandum No. 376, dated May 8, 2006 specifically states that the telephone of Quedancor Daet District have been heavily utilized for personal purposes for the fourth quarter of 2005. It further states that in furtherance with the Administrative Order No 103 on austerity measures, they are instructed to minimize or regulate utilization of telephones for personal purposes in order not to add burden to Quedancor and not to affect concerned employees effectiveness as public servants.*

In a letter complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter, dated May 5, 2006, (Annex "1.1") received by the COA Regional Office No. V on May 16, 2006, it alleged therein that Ms. Jimelynn R. Sanchez, QOO II-LMG had been using the office telephone for her personal business.

Based on our review of telephone bills from October 9, 2004 to June 9, 2006, we noted that Ms. Sanchez had paid the amount of P18,974.39 exclusive of VAT of P1,897.44, representing her personal calls. (Annex "22.1") While, it is true that said employee have religiously paid her calls, the frequent use of office telephone for personal use may seriously disrupt the incoming calls and outgoing official calls and the smooth operations of the office, considering that Quedancor main objective is to provide prompt services to the low income group populace. Further, frequent usage of telephone for

personal purpose may effect and lessen employees effectiveness in the delivery of services to the public clientele.

**Management Comments: (Annex 23)**

Compliance with Administrative Order No. 103 to regulate or minimize utilization of telephone for personal purposes will be made.

During the exist conference held on July 11, 2006, held at QUEDANCOR, Daet District Office, Ms. Jimelynn Sanchez claimed that the telephone bills incurred for personal use is in 2004 to early part of 2005, where she had no business at that time. However, the telephone bills for personal use had declined in the later part of 2005 where she had already a business.

**Recommendation:**

Attention is invited on QUEDANCOR Memorandum No. 376, dated May 8, 2006, instructing employees of QUEDANCOR, Daet District Office to minimize and regulate utilization of telephones for personal purposes.

**FINDING NO. 8**

Management had verbally instructed the borrowers upon verbal approval of the Input Spplier New Goldrock Agri Vet Co., to pull out their hogs without the necessary Authority to Pull out and to allow these hogs/piglets to be sold in order that the proceeds would be used to buy input supplies which the IS had failed to deliver to the borrowers. This practice is not included in the procedures required on Pull out of stocks under Article VI of the Performance Standards and other conditions, (Exhibit "A" of Contract Growing Agreement and Annex "B" of Memo Circular No. 324)

Article VI of the Performance Standards and other conditions, (Exhibit "A" of Contract Growing Agreement and Annex "B" of Memo Circular No. 324) enumerates the instances where a Pull-out of stocks/Discontinuance of the project may be done.

In Section 3 of Article VI of the said Performance Standards and other conditions, it states "In cases of mismanagement or unsatisfactory management by the borrower/grower as determined by QUEDANCOR, the stock will be pulled out at any given time by the latter. In this case, the loan of the borrower/grower shall be assumed fully by the IS without paying the presumed guaranteed income."

Based on the said Performance Standards, the practice of QUEDANCOR instructing the Input supplier to pull out and sell the hogs/swine where the proceeds will be used to buy input supplies not delivered by the IS to the borrowers are not included in the Performance Standard.

**Hereunder are the following allegations of the borrowers as stated in their sworn statement, viz:**

Mr. Arnulito Fernandez (Annex "2.3.1, page 4 of 4" )claimed that there were instances that pull outs were made by the Inputs Supplier, New Goldrock Agri Vet. Co. were done upon verbal instructions of Ms. Lydia Ibasco without the necessary Authority to pull out. He further claimed that the latter was aware of the pull out because she had already identified a buyer for the said hogs. Likewise, Mr. Fernandez claimed that they had sold the hogs because they don't have feeds to feed the hogs and they have

outstanding loan from other dealers of feed which they incurred because of the failure of the Input supplier (Annex "2.3.1, page 4 of 4" ), New Goldrock Agri Vet Co. to deliver the required feeds, biologics and A.I..

Edward Balon claimed in his sworn statement (Annex "2.5.1, page 4 of 5") that the gilts were pulled out because the proceeds of the hogs would be used to pay their loans from other feeds dealer. The borrower's attention was called by the employees of Quedancor regarding this particular transaction but the former claimed that he was forced to sell the hogs because he had to pay the loans he incurred from other feeds (inputs) dealer because of the failure of the input supplier to deliver the required feeds.

Edward Balon further claimed (Annex "2.5.1, page 5 of 5") that 4 unproductive gilts pulled out by the Input Supplier, New Goldrock Agri Vet. Co. were not replaced.

Additionally, Agosto Talento claimed (Annex 3.3.1, page 4 of 4") that the pigs left in his pigpen are 24 gilts only and 1 gilt died. He claimed that upon instructions of Mrs. Lydia Ibasco, Two (2) gilts were sold on the 1st week of January, 2006, and 2 gilts on the second week of Jan, 2006, and that he had to sell the hogs in order to raise money to finance the feeds of the hogs in his possession because the Input supplier, New Goldrock Agri Vet. Co. had failed to deliver the required feeds. Moreover, upon instructions of Mrs. Lydia Ibasco again, 4 hogs were sold on April, 2006, because Mr. Talento had to pay immediately his loan to other feed dealers since he intends to transfer his residence to Vinzons, Camarines Norte.

Mr. Talento (Annex "3.3.1, page 4 of 4") likewise claimed that they were not paid with the guaranteed income for the 18 piglets pulled out by the Input Supplier.

Moreover, based on the sworn statements executed by Team Leaders, Arnulito Fernandez, (Annex 2.3.1, page 4 of 4") Edward Balon (Annex 2.5.1, page 4 of 5") and Leland Balon, (Annex "2.6.1, page 4 of 4") duplicates/copies of the Authority to pull out were not issued/furnished to them by QUEDANCOR, Daet District Office on the pull out made by the Input Supplier.

#### **Management Comments: (Annex 24)**

Management admitted that, in rare cases the Input Supplier is unable to supply the needed input supplies of the borrowers under the swine program in Daet, Camarines Norte. Further, management claimed that they have instructed the borrowers that a pull out shall be made by the Input Supplier and the gilts/swine may be sold to pay for loans obtained from other feeds supplier as well as to buy for feeds needed in the swine project. However, they stressed that the instruction is always made with the approval of the Input Supplier thru cellphone communications (Annex "25"). Mr. Reusi, representative of New Goldrock, Agri Vet Co. verbally admitted that he had verbally approved of the pull out of swine and the selling of the swine in order to buy feeds because of their failure to deliver the required input supplies.

Anent Mr. Edward Balon's claim, the authority to pull-out per policy of the agency is only given to the IS and Quedancor itself and that the proceeds of the sale of hogs are directly remitted to QUEDANCOR.

As to the allegation that 4 gilts were pulled out by the IS, the agency claimed that no authority to pull out was issued because they were not informed about the pull out made. The replacement of the stocks pulled out is the responsibility of the IS. As regards the accountability of the IS, the latter had already proposed a debt assumption agreement covering this account.

Anent Mr. Agosto's Talento's allegation, Ms. Lydia Ibasco justified that her instruction or advise to the borrowers is with prior approval of the IS (thru cellphone conversation/instruction). Likewise, she justified that accountability of all the pulled out gifts was already included in the proposed Debt Assumption Agreement submitted by the IS.

Management further asserted that the guaranteed income being claimed by the borrowers were already paid including all reimbursement and payment for artificial insemination as per acknowledgement receipt submitted.

Management likewise justified that as per office policy, authority to pull-out should be given to the Input Supplier and the other copy is given to Quedancor. Management also had furnished us copies of some of the pull out made by them.

#### **Auditor's Rejoinder**

As regards the claim of Mrs. Ibasco that in no instance where she has instructed the borrowers for the pull out and sale of the hogs (where the proceeds of the sale would be used to buy feeds) without prior instruction of Mr. Reusi representative of New Goldrock Agri Vet. Co., we noted that there were no formal communications made by Quedancor and Mr. Rommel Bernard R. Reusi regarding the said transaction. However, the Audit Team was furnished with a certification from said Mr. Reusi, dated July 13, 2006 stating therein that verbal agreements through landline and cellular phone communications were made and/or arranged with Mrs. Ibasco, District Supervisor of QUEDANOCR, Daet District Office with regards to the Quedancor Swine Program operations, however, said certification failed to state therein that he has authorized Ms. Lydia Ibasco to pull out the hogs/piglets and sell the same to buy feeds.

The Audit Team still maintains that the act of the concerned official to instruct the I.S. on the pull out of the hogs/swine from the borrowers to sell the same is not included in the guidelines set under the Contract Growing Agreement

On management justifications that copy of the Authority to pull out is given to the Input Supplier and another copy is left with their files, management is advised to furnish copies of the authority to pull out to the borrowers or a receipt should be issued by the Input supplier to the borrowers reflecting the pull-out made.

#### **Recommendation**

Concerned officials should strictly comply with the procedures on the Pull- Out of stocks and the Discontinuance of the Project stated in Article VI of the Performance Standards and other conditions, (Exhibit "A" of Contract Growing Agreement and Annex "B" of Memo Circular No. 324)

Appropriate action should be taken against the concerned parties for instructing and allowing the pull-out of the hogs without the Authority to Pull Out and to sell the hogs and use the proceeds of the same to buy the input supplies not delivered by the IS.

In addition to the audit observations made by the team created under Unnumbered Memorandum dated May 18, 2006 of the COA Regional Office No. V (Annex 1), reference should be made to the Audit Comments and Observations specifically on Quedan Swine Program for QUEDANCOR, Camarines Norte District Office, prepared and submitted by the Team Leader of QUEDANCOR, Daet District Office for CY 2005 to the Regional Cluster Director- CGS - Cluster V on February 24, 2006, which likewise substantially covers the finding and investigation on the allegations and charges mentioned in the complaint of a concerned citizen-SRT Coop, Camarines Norte Chapter.