

## EXECUTIVE SUMMARY

### A. Introduction

The Cooperative Development Authority (CDA) is mandated to promote the viability and growth of cooperatives as instruments of equity, social justice and economic development.

Pursuant to Republic Act (RA) No. 6939 dated March 10, 1990, the CDA was created, defining its powers, functions, responsibilities, and rationalizing government policies of various government agencies with cooperative functions. Upon creation, CDA was under the supervision by the Office of the President but was transferred to the Department of Finance by virtue of Executive Order No. 332 dated July 16, 2004. On year 2016, CDA was again under the supervision of the Office of the President by virtue of Executive Order No.1, s.2016 dated June 30, 2016.

A Board of Administrators, consisting of the Chairman and six members, governs the CDA. All are presidential appointees to serve for a term of six years without reappointment and are chosen from among the nominees of the cooperative sector with two representatives each from Luzon, Visayas and Mindanao.

The Executive Director, who is the Chief Operating Officer, is assisted by a Deputy Executive Director. As of December 31, 2019, the CDA has 773 total personnel complement composed of 722 permanent, 1 casual and 50 Job Order employees distributed in its Central Office (CO) and 15 Extension Offices (EOs) located nationwide.

### B. Operational Highlights

The following are the Agency's reported operational highlights and accomplishments for Calendar Year (CY) 2019:

Organizational Outcomes/Performance Indicators (PIs)	2019 GAA Targets	Actual Accomplishment	Percentage of Accomplishment
<b>COOPERATIVE DEVELOPMENT PROGRAM</b>			
<i>Outcome Indicator(s)</i>			
1. Number of compliant micro and small cooperatives graduating to small and medium asset size category, respectively	334 from micro to small 164 from small to medium	415 from micro to small 212 from small to medium	124.25 129.27
2. Number of cooperatives implementing best practices	1,211	2,208	182.33
3. Number of cooperative	300	357	119.00

<b>Organizational Outcomes/Performance Indicators (PIs)</b>	<b>2019 GAA Targets</b>	<b>Actual Accomplishment</b>	<b>Percentage of Accomplishment</b>
business process facilitated through value chain			
Output Indicator(s)			
1. Percentage and number of registered cooperatives provided with technical assistance	80% of micro and small coops	172%	215.00
2. Percentage of clients who rated the technical assistance or other development intervention as good or better	80%	119%	148.75
3. Percentage of technical assistance or other development intervention rendered within the prescribed period	80%	117%	146.25
<b>COOPERATIVE REGULATION PROGRAM</b>			
Outcome Indicator(s)			
1. Percentage of cooperatives compliant with laws, policies, and regulations	70% or 12,504	72%	102.86
Output Indicator(s)			
1. Percentage of applications for registration of cooperatives and amendments to their Articles of Cooperation and By-Laws (ACBL) acted upon within the prescribed period	100%	264%	264.00
2. Percentage of cooperatives which rated registration/ amendment processes as good or better	80%	121%	151.25
3. Percentage of registered cooperatives inspected/ examined within the year	100%	96%	96.00
4. Percentage of non-compliant cooperatives complying with sanctions and directives	60%	148%	246.67
5. Percentage of violations /complaints acted upon	80%	140%	175.00

### C. Financial Highlights

The financial position, financial performance, and the sources and utilization of funds of CDA for CY 2019 with the corresponding figures for CY 2018 are as follows:

Particulars	2019	2018
<b>Financial Position</b>		
Assets	1,311,450,718.51	1,316,821,106.35
Liabilities	45,261,307.90	65,150,110.95
Net Assets/Equity	1,266,189,410.61	1,251,670,995.40
<b>Financial Performance</b>		
Revenue	30,948,049.49	24,132,674.33
Current Operating Expenses	597,101,613.79	546,537,865.87
Subsidy from National Government	624,131,829.02	607,750,074.64
Gains/(Losses)	48,619.27	(353,497.69)
Surplus/Deficit for the period	58,026,883.99	84,991,385.41
<b>Sources and Utilizations of Funds</b>		
Appropriations	689,606,663.33	679,796,594.00
Allotments Received	683,518,715.00	679,667,207.00
Continuing Appropriations	6,087,948.33	-
Obligations Incurred	623,394,667.60	667,106,200.69
Disbursements	605,891,787.67	629,317,797.41
Unobligated Allotments	66,211,995.73	12,561,006.31

The Summary of Appropriations, Allotments, Obligations, Disbursements and Balances as of December 31, 2019 is shown in Annex A.

### D. Scope of Audit

The audit covered the accounts and operations of the CO and 15 EOs of CDA for CY 2019. The audit was conducted to: a) ascertain the level of assurance that may be placed on the Management's assertion on the financial statements; b) determine the propriety of transactions as well as extent of compliance on the applicable laws, rules and regulations; c) recommend agency improvement opportunities; and d) determine the extent of implementation of prior year's audit recommendations. Moreover, the audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs).

### E. Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the faithful presentation of the financial statements of CDA as at December 31, 2019 due to non-recognition of Allowance for Impairment on a) Investment in Stocks of ₱54,055,305.00 placed in

closed and undergoing liquidation investee-cooperative banks, ₱26,387,461.62 without corresponding certificate of stocks, and variance of stock certificates of ₱17,025,342.17 between the Cashier and Accounting records, and Other Investment of ₱14,908,091.37 without supporting documents; b) uncollected, dormant and lack of documents for Loans Receivable-Others of ₱297,488,303.79 and Other Receivables of ₱44,844,771.55.

## **F. Summary of Significant Observations and Recommendations**

The following are the significant audit observations and corresponding recommendations that were discussed with Management officials concerned, details of which were further discussed in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. Closure of 359 of the 489 cooperatives-beneficiaries granted with financial assistance totaling ₱201,518,874.52 in CDA-CO and four EOs and lack of personnel assigned to monitor the submission of the Fund Utilization Reports (FURs) resulted in the dormancy of the Due from NGOs/POs accounts of ₱244,667,915.37 or 78.57 percent of the total account balance of ₱311,410,025.47 as of December 31, 2019, thus, casting doubt on the reliability and collectability of the account balance.

We recommended and Management agreed to:

- a. Assign personnel dedicated to monitor the submission of required FURs from existing/operating cooperative-beneficiaries and for those which could no longer be located or considered inoperational, request the write-off of the dormant account balances in accordance with COA Circular No. 2016-005;
  - b. Regularly monitor the project implementation of NGOs granted with subsidies from the government and ensure that these are implemented for the benefit of its member;
  - c. Direct the Cooperative Project Development and Assistance Division (CPDAD) Head to assign personnel to monitor the submission of liquidation reports and to verify the financial records and reports of the concerned NGOs/POs, and to intensify collection of the outstanding balance granted to cooperative-beneficiaries that are still existing; and
  - d. Requires the Kidapawan EO Management for the full liquidations of the financial assistance granted to the cooperative beneficiaries of the MRTC Project, in compliance with the policy guidelines in the liquidation of the project funds.
2. Discrepancy of ₱241,678,296.75 between the book balance and result of confirmation of the Due from GOCCs due to unearned interest recognized in the books of CDA for unpaid loan balances transferred to QUEDANCOR; hence,

renders the account balance of ₱270,586,046.84 as at December 31, 2019 unreliable.

We recommended and Management agreed to request the Board of Directors to resolve the issue on the difference between CDA's book and QUEDANCOR's record, considering that the latter was already abolished in CY 2018.

3. The carrying balance of the PPE of ₱166,942,747.58 was not fairly presented in the Statement of Financial Position due to a) unreconciled balance of ₱69,211,167.15 between the books and the Report on Physical Count of Property, Plant and Equipment (RPCPPE) of the CDA-CO and two EOs ; b) no physical count conducted, PPE Ledger Cards (PPELCs) and Property Cards (PCs) not updated and/or maintained;, which may have been caused by the lack of coordination between the Accounting and the Property Units as well as CO and the EOs

We recommended and Management agreed to:

- a. For CDA-CO and CDO EO, to require the Chief of Property Division and Chief Accountant to coordinate for the reconciliation of the books and the RPCPPE;
  - b. For Tuguegarao and Pampanga EOs to require the Inventory Committee to conduct the physical on the PPE and maintenance of property records;
  - c. For CARAGA EO to designate an Inventory Committee and to maintain required property records and record in its books of accounts the cost of various equipment received from CDA-CO; and
  - d. For Calamba EO Accounting and Property Personnel to reconcile the difference between their books, and for the Property Unit to maintain the PCs and to account for the missing ICT Equipment.
4. The existence and accuracy of the balance of the Inventory accounts of ₱112,732.46 of the Pampanga and CARAGA EOs and the Supplies and Materials Expenses of ₱623,863.19 in CARAGA EO could not be ascertained due to the unreconciled balances of the Supply Ledger Cards (SLCs) and Stock Cards (SCs), non-conduct physical count and failure to prepare the Report on Physical Count of Inventories (RPCI), and non-submission of the monthly Report of Supplies and Materials Issued (RSMIs) to the Accounting Unit for recording purposes of the corresponding Inventories Expenses.

We recommended and Management agreed to:

- a. Require the Supply Officer and the Accountant to conduct periodic reconciliation of their records;

- b. Require the Inventory Committee to conduct physical count and to prepare RPCI; and
  - c. Direct the Supply Officer to submit the RSMI to the Accountant for recording of the issuances of supplies and materials
5. The reliability and existence of the Other Assets of ₱17,915,853.86 as of December 31, 2019 representing 98.10 percent of the total balance of ₱18,263,314.82 could not be ascertained, due to the inclusion of transferred accounts of ₱16,912,513.88 and ₱1,003,339.98 without subsidiary ledgers (SLs) supporting the details thereof, and the amount has been dormant for more than 20 years and unserviceable PPEs which could not be located or considered inexistent.

We recommended and Management agreed to require the Property and Accounting Divisions to locate the assets and the documents supporting the transferred assets from abolished agencies, and if found, conduct physical count thereof. In case, these could not be located, request write-off of dormant accounts as set forth under COA Circular No. 97-001 dated February 5, 1997.

6. Various claims aggregating ₱10,412,974.95 in Calamba EO were not supported with the necessary documents contrary to Section 4(6) of Presidential Decree (PD) No. 1445, Sections 5(f) and 36(f), Chapter 2 of Government Accounting Manual (GAM), Volume 1 and COA Circular No. 2012-001 dated June 14, 2012, thus, the propriety, validity and regularity of the transactions cannot be fully established.

We recommended and the Regional Director of Calamba EO agreed to require the Accountant and all responsible personnel to submit the lacking documents to facilitate the post-audit. Hereafter, ensure that disbursement vouchers (DVs) are supported with complete and relevant documents prior to processing and approval of payment, to avoid suspension in audit.

7. The financial assistance recognized under the Due from NGOs/POs account of the Kidapawan EO, totaling ₱48,466,000.00 granted to 135 cooperatives-beneficiaries of the MTRC and MNAP Projects remained unliquidated as of December 31, 2019, contrary to the policy guidelines in the liquidation of the project funds and cast doubts whether the projects were implemented and the financial assistance were received by the intended beneficiaries.

We recommended and Management agreed to require the full liquidations of the financial assistance granted to the cooperative beneficiaries of the MTRC and MPAN Projects, in compliance with the policy guidelines in the liquidation of the project funds.

8. Of the total cash allocations of ₱54,750,000.00 received by Kidapawan and Pagadian EOs for the MPAN through Cooperative Development Project, only

₱17,629,553.36, or 32.20 percent was utilized, leaving an unutilized balance of ₱37,120,446.64, hence, could delay the implementation of the project which may deprive the cooperative-beneficiaries of the benefits and usage of those resources, due to the delay in the bidding process of the Mobile Rice Mill done at the CDA-CO.

We recommended and Management agreed to require the Bids and Awards Committee (BAC) Head of the CDA-CO to fast track the procurement activities and evaluation of documents for speedy implementation of programs including the completion of the procurement process within the targeted timeframe to be able to release the financial assistance to the identified cooperative beneficiaries on time.

9. Catering Services of ₱9,554,736.85 for the MRTC Project's various activities were procured without competitive bidding and were not posted in the Philippine Government Electronic Procurement System (PhilGEPS) website, as required under the Government Procurement Reform Act (GPRA), thus, the agency was not assured of the most advantageous price for the services; and transparency, accountability and participation of the public were not fully realized; and contracts were not submitted to the Auditor within five days from its execution, thus, precluded the Audit Team from conducting its timely review.

We recommended that Management:

- a. Require the BAC of Kidapawan EO to justify and explain the reasons for awarding the procurement of catering services to Crème Top through an alternative mode of procurement, instead of competitive public bidding, and not posting the same in the PhilGEPS website; and
  - b. Adhere strictly with the regulations provided in the Implementing Rules and Regulation (IRR) of RA No. 9184, particularly on the use of the alternative modes of procurement other than public bidding, to be assured of the most advantageous offers for the purchases.
10. Lapses in the grant of financial assistance to cooperative-beneficiaries due to the a) inclusion of 28 newly created/unregistered cooperative beneficiaries; b) inconsistency of information in the needs assessment survey, project proposal and cooperative's business engagement; and c) implementation of the grant of financial assistance was not in compliance with the Policy Guidelines as to purpose and amount, hence, the objectives of the MRTC Project to reactivate the 73 existing cooperatives in Marawi City may not be attained, capacity building activities may not be focused on the identified needs of the member of the cooperatives; hence, may deprived the intended existing cooperative-beneficiaries to be reactivated and provided with business and livelihood opportunities to the beneficiaries and its members and also may result in the non-liquidation of the financial assistance of ₱30,716,000.00 granted to 64 cooperative beneficiaries.

We recommended and Management agreed to:

- a. Submit satisfactory explanations/justifications relative to the inclusion of the newly created/unregistered beneficiaries, which is inconsistent with the objective stated in the policy guidelines; and create a systematic process or defined requirement for the positive confirmation of beneficiary identity and verification of their continued eligibility to receive assistance from the MRTC project.
  - b. Submit satisfactory explanations/justifications relative to the inconsistency of information in the needs assessment survey, project proposal and cooperatives business engagement;
  - c. Validate and reconcile the needs assessment survey results with the project proposal and other documents to address the most important needs of the beneficiary cooperatives and to contribute proper planning, monitoring and evaluation of the project; and
  - d. Create a data bank of information of all cooperatives for ready reference in the processing of financial assistance
  - e. To strictly adhere to the issued policy guidelines and ensure that funds disbursed are properly utilized for public welfares; and use the need assessment reports in determining the amount to be given to the beneficiaries.
11. In Kidapawan EO, the legitimacy of the 52 cooperative-beneficiaries of the financial assistance totaling ₱13,050,000.00 for the MPN-CODE Project granted for CY 2019, to positively contribute to the normalization process in the areas of conflict in Mindanao, could not be fully validated and verified due to the failure to submit the requisite documents as a basis, and CDA-CO did not conduct post evaluation/assessment of the first phase of the MPN-CODE Project, thus, rendering the undertaking unascertained if it was supportive to the needs of the targeted beneficiaries.

We recommended that Management:

- a. Require the Kidapawan EO Management to submit the documents needed in order to establish the legitimacy of the recipients of the financial assistance from the MNP-CODE Project in armed conflict areas; and
- b. Compel the CDA-CO to conduct assessment/evaluation and monitoring of the MPN-CODE Project.

12. Of the total cash allocations of ₱54,750,000.00 received by Kidapawan and Pagadian EOs for the MPN-CODE Project, only ₱17,629,553.36, or 32.20 percent was utilized, leaving an unutilized balance of ₱37,120,446.64, hence, could delay its implementation, thus, may deprive the cooperative-beneficiaries of the benefits and usage of the resources, due to the delay in the bidding process of the Mobile Rice Mill done at the CDA-CO.

We recommended and Management agreed to:

- a. Require the BAC Head of the CDA-CO to fast track the procurement activities and the completion of the procurement process within the targeted timeframe to be able to release the financial assistance to the identified cooperative beneficiaries on time;
  - b. Pagadian EO to hasten the release of the financial assistance to the intended beneficiaries of the MNP-CODE.
13. Out of ₱529,788.63 only P257,386.65 or only 48 percent was utilized by the CDO EO for COOP SEED Project, thereby, indicating that the agency has not maximized the utilization of the fund and depriving the intended beneficiaries of the benefits of the Project.

We recommended and Management of CDO EO agreed to:

- a. To inquire from CDA-CO on what to do with the unutilized fund, either it will be returned to head office or it will be deposited to the Bureau of Treasury; and
- b. Submit justification/explanation for the expense incurred that is not related to the purpose of the fund.

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

Out of the 40 audit recommendations embodied in the CY 2018 Annual Audit Report, 15 were implemented and 25 were not implemented. The details are discussed in Part III of this Report.