A. Financial

1. **The accuracy and reliability of the year-end balance of Loans Receivable amounting to P10.472 billion (current and long-term) is doubtful as the results of confirmation from Electric Cooperatives (ECs) disclosed material net overstatement variance amounting to P136.570 million, attributed mainly to exclusion of loans, capitalized interest, unpaid amortization and excess payments in the EC confirmation.**

   Likewise, inclusion of interest/surcharge and advance payment for interest in the EC confirmation and payments not posted in NEA's books as of audit date renders the balance of loans receivable per NEA books overstated.

1.1 Loans Receivable (current and long-term) consists of receivables from Electric Cooperatives (ECs) for: Rural Electrification Loans, Calamity Loans, Single Digit Systems Loss Program, Working Capital/Relending Loans, Standby Credit Facility, and Equity Financing Schemes intended to strengthen the technical and operational requirements of the ECs.

1.2 Loans Receivable from ECs has an outstanding balance of P10,471,755,339.80 as of December 31, 2017 which is composed of matured (current) and long term receivables as follows:

SL Code	*Classification*	*Amount*
126-01-01	Current	P 403,586,249.05
126-02-01	Long Term	10,068,169,090.75
Total		**P 10,471,755,339.80**

1.3 Confirmation letters were sent to 120 ECs to verify its respective loan balances as against NEA records. Out of the total ECs confirmed, 63 ECs or 53 percent have replied with total book balance of P5,557,928,419.08 that represents 53 percent of the total Loans Receivable balance.

1.4 The amount of outstanding loans confirmed by ECs totalling P5,421,358,833.94 as against the book balance of P5,557,928,419.08, disclosed a variance of an overstatement of P472,361,415.22 and understatement of P335,791,830.08, or net overstatement of P136,569,585.14 as shown below:

Particulars	*NEA Books*	*EC Confirmation*	*Over / (Under)*
Overstated Loans	P 3,761,860,535.44	P 3,289,499,120.22	P 472,361,415.22
Understated Loans	*1,796,067,883.64	2,131,859,713.72	(335,791,830.08)
Total	**P 5,557,928,419.08**	**P 5,421,358,833.94**	**P 136,569,585.14**

**Includes receivable from NEECO II-Area II, SL Account 121-EC120*

1.5 Verification of subsidiary ledgers against EC's confirmation revealed that the overstatement of the outstanding book balance of Loans Receivable of P472,361,415.22 is attributed to the following:

Particulars	Amount	Remarks
Unreconciled Balance	P 178,807,425.65	
Loans not included in EC confirmation	260,226,175.83	Taken up in NEA's books, not included in EC Confirmation
Unpaid amortization per NEA books	10,775,740.60	Paid per EC's Confirmation
Advance payment on Interest	6,838,550.75	Deducted in EC's Confirmation
Unrecorded collections	15,452,646.12	Not taken up in NEA's books
Capitalized Interest	7,245,825.00	Not included in EC Confirmation
Advance payment on Principal	(4,680,601.17)	Not taken up in EC's Confirmation
Interest/Surcharge	(2,304,347.56)	Included in EC's Confirmation
Total	**P 472,361,415.22**	

1.6 On the other hand, the amount of understatement of P335,791,830.08 is composed mainly of unreconciled balance, interest/surcharge and advance payment on principal, to wit:

Particulars	Amount	Remarks
Unreconciled Balance	P (83,240,993.13)	
Interest/Surcharge	(249,839,131.88)	Included in EC's Confirmation
Advance payment on Principal	(3,268,661.29)	Not taken up in EC's Confirmation
Unpaid amortization per NEA books	444,716.72	Paid per EC's Confirmation
Unrecorded collections	112,239.50	Not taken up in NEA's books
Total	**P (335,791,830.08)**	

1.7 Moreover, we noted that certain collections were incorrectly posted in NEA's subsidiary ledgers resulting in the understatement/overstatement of outstanding loan balance:

Particulars	Amount	Remarks	Effect
Payment of ROMELCO	P 153,554.00	Posted in SL of INEC	Overstatement of ROMELCO loan balance and understatement of INEC loan balance
Payment of CANORECO	460,753.37	Posted in SL of CASURECO II	Overstatement of CANORECO loan balance and understatement of CASURECO II loan balance
Payment of NEECO II – Area II	942,413.00	Posted in SL of NEECO II	Overstatement of NEECO II – Area II loan balance and understatement of NEECO II loan balance
Total	**P 1,556,720.37**		

1.8 **We recommended that Management:**

a. **Analyze and identify all possible causes of variances between book balance and ECs confirmed balances;**

b. **Reconcile variances and upon acceptance by both parties, immediately make the necessary adjustments in the books and/or the ECs records to present the actual outstanding loan balance as of reporting date;**

c. **Conduct regular reconciliation of loans receivable with the ECs to thresh out differences in the accounts; and**

d. **Prepare journal entries to adjust the incorrect posting of payments in the subsidiary ledgers of ROMELCO, INEC, CANORECO, CASURECO II, NEECO II-Area 2 and NEECO II.**

1.9 Management informed that they have reconciled the accounts of 63 ECs which submitted their confirmation statements to NEA, thus, resulting in a variance of P6,928.27 broken down as follows:

Net Overstated Variance	P (6,893.41)
Net Understated Variance	(34.86)
Total Variance	**P (6,928.27)**

On the other hand, Management agreed to comply with the audit recommendation to conduct regular reconciliation of receivables with the ECs while subsidiary ledgers of ROMELCO, INEC, CANORECO, CASURECO II, NEECO II-Area 2 and NEECO II were already adjusted per journal entry vouchers (JEV) made on March 31, 2018.

1.10 As a rejoinder, to thresh out the differences in loan balances, it is further recommended that NEA update its Loan Profile and reconcile its balance against the balance per e-NGAS.

2. **The accuracy and reliability of the year-end balance of Accounts Payable amounting to P49.917 million was doubtful due to accruals of benefits without proper approvals amounting to P13.153 million, thus, overstating the Expenses by P13.153 million and Accounts Payable by the same amount.**

2.1 Under COA Circular No. 2015-010, Accounts Payable is used to recognize receipt/purchase/procurement/ acquisition of goods or services on account in the normal course of trade and business operation. It is also used to recognize liability set up against current operation for unpaid claims filed or received and other unpaid expenses and liabilities. Debit this account for payment or settlement of liabilities.

2.2 Accounts Payable amounting to P49,917,499.00 is presented in the Notes to Financial Statements under Financial Liabilities – Accrued Benefits Payable.

2.3 Review of Accounts Payable disclosed the following:

a. *Accrued Performance Based Bonus (PBB) for CY 2016 amounting to P5.628 million without approval from the GCG*

NEA did not qualify for the FY 2016 Performance Based Bonus particularly the achievement of a weighted–average score of at least 90 percent in its FY 2016 Performance Scorecard as it gained only an over-all score of 78.73 percent which resulted to its failure to satisfy the requirements of the GCG.

According to the Accountant, the reason for the book up of the accrual is due to NEA's anticipation of favorable decision on the filed appeal/petition before the GCG, however, considering that to date, no approval from GCG has been received, the accrual made should be reversed.

b. *Accrued Collective Negotiation Agreement (CNA) Incentive for CY 2017 amounting to P7.525 million without supporting Agreed Performance Scorecard between NEA and GCG as required under Budget Circular No. 2017-3 on the Guidelines on the Grant of Collective Negotiation Agreement Incentive for FY 2017*

On December 29, 2017, NEA book up an accrual for the grant of CNA Incentive to its officers and employees for the year 2017 amounting to P7,525,000.00. Validation of transaction showed that the accrual was supported only by list of names of employees with the corresponding amount of incentive to be received. No Performance Scorecard as evaluated by the GCG was attached to the Journal Voucher as required under paragraph 2 of the GCG Memorandum Circular No. 2017-02 to validate the accrual of claim.

c. As a result, Accounts Payable and Expenses is overstated by P13.153 million.

2.4 **We recommended that Management:**

a. **Reverse the entries made for the accruals of benefits without proper approval/authorization from governing bodies and without valid documentation to reflect the correct balance of the affected accounts; and**

b. **Refrain from accruing expenses without valid documentation and proper approval/authorization from the governing bodies.**

2.5 Management have reversed the entries made for the accruals of CY 2016 Performance Based Bonus (PBB) and CY 2017 Collective Negotiation Agreement (CNA) Incentive per Journal Entry Voucher (JEV) No. 2018-04-002851 dated April 2, 2018.

3. **Deposits to NEA bank accounts made by ECs amounting to P42.751 million were not recorded in NEA's books as of December 31, 2017 due to late recording of collections by the concerned Collecting Officers, thus, understating the Cash in Bank account by the same amount.**

Likewise, unclaimed/unreleased checks amounting to P93.545 million as of December 31, 2017 were not reverted/adjusted in the books, thus, understating the Cash in Bank and Accounts Payable accounts.

3.1 Cash in Bank is considered a highly liquid form of current assets comprising all currencies and other unrestricted liquid funds that have been placed on deposit with a financial institution.

3.2 Philippine Public Sector Accounting Standards (PPSAS) 1 states that:

"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful presentation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses x x X."

3.3 Assets as defined in PPSAS are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

3.4 Verification of cash in bank accounts through bank confirmation and review of bank reconciliation statements disclosed that certain collections were not yet recorded in NEA's books as of December 31, 2017 though these collections were presented as book reconciling items in bank reconciliation statements, detailed are as follows:

Table 1. Summary of Unrecorded Deposits

Date of Payment	Amount	OR Number	OR Date	Payor	Particulars/Remarks
09/27/2017	P 2,662.97	7896440	02/27/2018	SAMELCO I	Return of PKKV
09/27/2017	3,000.00	7896437	02/27/2018	LEYECO V	Registration Fee
10/10/2017	1,080.77	7896441	02/27/2018	BISELCO	Return of excess subsidy fund
10/12/2017	45,752.71	7896442	02/27/2018	DORECO	Return of excess subsidy fund
10/19/2017	11,491.20	7896439	02/27/2018	MORESCO I	Publication of General Manager Position
10/23/2017	42,843.06	7896443	02/27/2018	SORECO II	Return of excess 2013 SEP
10/30/2017	13,838.75	7896438	02/27/2018	MARELCO	GSIS Industrial All Risk Insurance
11/08/2017	4,205,258.00	7896436	02/26/2018	SOCOTECO II	Loan Amortization
11/10/2017	765,307.12	7896444	02/27/2018	DASURECO	Return of excess subsidy fund
11/10/2017	3,747,872.89	7896445	02/27/2018	DASURECO	Return of excess subsidy fund
12/05/2017	586,073.56	7896446	02/27/2018	ORMECO	Service charge – Calamity grant Typhoon Nina
12/14/2017	78,576.06	7896030	01/08/2018	SAMELCO I	Return of excess subsidy fund
12/14/2017	1,635,900.58	7896033	01/08/2018	ZAMCELCO	Return of excess subsidy fund
12/22/2017	657,409.50	7896032	01/08/2018	SAMELCO I	Return of excess subsidy fund
12/22/2017	841,701.58	7896031	01/08/2018	SAMELCO I	Return of excess subsidy fund
12/28/2017	13,838.75	7896034	01/08/2018	MARELCO	GSIS Industrial All Risk Insurance
12/28/2017	50,000.00	7895977	01/03/2018	ALECO	Refund of unliquidated cash advance
12/29/2017	3,284,369.68	7896083	01/15/2018	COTELCO	Return of excess subsidy fund
11/28/2017	15,000.00	7895532	11/28/2017	Isla Lipana and Co.	Payment for accreditation of external auditor of EC's
12/05/2017	133,006.36	7895680	12/05/2017	QUEZELCO I	Service charge – Calamity

Date of Payment	Amount	OR Number	OR Date	Payor	Particulars/Remarks
					grant Typhoon Nina
09/29/2017	297,509.93	7896182	02/09/2018	CAPELCO	Return of excess subsidy fund
12/01/2017	48,911.18	7896044	01/09/2018	OMECO	Return of excess subsidy fund
12/15/2017	2,978,590.11	7896063	01/12/2018	PROSIELCO	Return of excess subsidy fund
12/29/2017	110,463.30	7896035	01/08/2018	BOHECO I	GSIS Industrial All Risk Insurance
12/07/2017	37,633.81	7896065	01/12/2018	CELCO	Refund of interest earned from subsidy fund
09/15/2017	847,032.16	7896118	01/19/2018	MORESCO II	Return of excess subsidy
11/29/2017	1,994,581.75	7896073	01/12/2018	DORECO	Return of excess subsidy
12/06/2017	3,159,200.00	7896042	01/09/2018	ZAMSURECO I	Return of excess subsidy
12/06/2017	8,509,433.44	7896043	01/09/2018	ZAMSURECO I	Return of excess subsidy
12/29/2018	3,443,076.69	7896072	01/12/2018	DORECO	Return of excess subsidy
Sub-total	**P37,561,415.91**				
02/10/2014	21,276.34				No OR yet
12/12/2014	75,909.27				No OR yet
03/31/2015	10,000.00				No OR yet
08/14/2017	363,644.00				No OR yet
07/26/2017	253,845.84				No OR yet
09/15/2017	343.86				No OR yet
09/15/2017	2,730.96				No OR yet
09/15/2017	4,800.64				No OR yet
09/15/2017	37,001.59				No OR yet
09/15/2017	72,219.37				No OR yet
10/11/2017	3,274,604.85				No OR yet
11/02/2017	43,533.33				No OR yet
12/14/2017	50,233.65				No OR yet
12/19/2017	604,530.59				No OR yet
12/20/2017	375,317.21				No OR yet
Sub-total	**P 5,189,991.50**				
Total	**P42,751,407.41**				

3.5 Based on NEA's Billing and Collection Departmental procedures, the Credit/Collecting Officers (CCO) shall prepare collection orders for all collections received either cash, check or remitted directly to NEA's bank account.

3.6 Collection orders will be forwarded to the Cashier for issuance of Official Receipt (OR) and recording the same in the Cashbook then the designated CCO will post the OR and payment to the corresponding subsidiary ledger.

3.7 The aforementioned collections, mostly refund of excess subsidy fund from Electric Cooperatives (ECs), were directly deposited to NEA's bank account.

3.8 Inquiry with the concerned NEA personnel disclosed that ECs were not able to inform or send the copies of validated deposit slips of their payment to the concerned CCO resulting in unidentified deposits and it took some time for NEA to identify such deposits.

3.9 The said collections were recorded in NEA's books and the corresponding ORs were issued only in January and February 2018, thus, understating the Cash in Bank balance as of December 31, 2017.

3.10 To date, out of P42.751 million unrecorded deposits, P5.190 million were not yet identified as to what type of payment and at the same time, ORs have not been issued to the payor in which P107,185.61 remained as a reconciling item in bank reconciliation statements since 2014 and 2015.

3.11 Moreover, unreleased checks payable to various ECs, suppliers and other payees amounting to P93,544,796.01 as of December 31, 2017, were not adjusted in NEA's books. The amount of P14,620.00 already became stale.

3.12 **We recommended that Management:**

a. **Prepare adjusting entry to record the unrecorded deposits and unclaimed/stale checks amounting to P42,751,407.41 and P93,544,796.01 respectively, as of December 31, 2017 for proper valuation/presentation of cash in bank account in NEA's financial statements;**

b. **Identify the P5.190 million collections for issuance of official receipts and posting in the corresponding subsidiary ledgers;**

c. **Monitor collections regularly and ensure that all collections are recorded and official receipts are issued;**

d. **Require Electric Cooperatives to submit thru fax or electronic mail scanned copy of deposit slips upon payment thru bank deposits for immediate identification, recording and issuance of official receipts; and**

e. **Review the reconciling items in the bank reconciliation statements and examine items which have been outstanding for more than one month and prepare journal entries to adjust/correct the book balance.**

3.13 Management submitted the following comments:

a. As of May 9, 2018, NEA have recorded the amount of P42,654,221.80 of the unrecorded deposits.

b. Journal Entry Voucher (JEV) No. 2017-04-002543 dated April 30, 2014 was prepared to adjust the stale checks amounting to P14,620.00.

c. Of the P5.190 million, NEA has identified P5.093 million, detailed as follows:

Date of Payment	*Amount*	*OR Number*	*Payor*	*JEV No.*
03/31/2015	P 10,000.00	7897519	CENECO	2018-05-002544
08/14/2017	363,644.00	7897517	SORECO II	2018-04-002329
07/26/2017	253,845.84	7897269	OMECO	2018-04-002269
09/15/2017	343.86	7896117	CENECO	2018-01-000777
09/15/2017	2,730.96	7896117	CENECO	2018-01-000777
09/15/2017	4,800.64	7896117	CENECO	2018-01-000777
09/15/2017	37,001.59	7896117	CENECO	2018-01-000777
09/15/2017	72,219.37	7896117	CENECO	2018-01-000777
10/11/2017	3,274,604.85	7897250	ANTECO	2018-04-002271
11/02/2017	43,533.33	7897512	PALECO	2018-04-002317
12/14/2017	50,233.65	7897251	BASELCO	2018-04-002273
12/19/2017	604,530.59	7897252	ILECO III	2018-04-002275
12/20/2017	375,317.21	7897253	ESAMELCO	2018-04-002276
Total	**P 5,092,805.89**			

NEA is yet to identify the remaining P97,185.61 collections received in CY 2014.

d. Submission of scanned copy of deposit slips thru fax or electronic mail is being practiced by the Treasury Division. Management have requested Accounts Service Division (ASD) to implement the same for the deposit of return/refund of excess subsidy fund.

e. Management agreed to comply with the audit recommendation to review the reconciling items in the bank reconciliation statements and examine items which have been outstanding for more than one month and prepare journal entries to adjust/correct the book balance.

3.14 As a rejoinder, although the amount of P42.654 million has been identified, these collections were recorded only in January to May 2018 and the unreleased checks amounting to P93.545 million were not adjusted at year end, thus, understating the Cash in Bank account by P136.296 million as of December 31, 2017.

3.15 We further recommended Management to prepare adjusting entries at year end for proper valuation/presentation of Cash in Bank account in NEA's financial statements.

4. **The year-end balance of Due to Officers and Employees account classified under current liabilities amounting to P91.748 million is unreliable due to erroneous recognition and classification of accruals of employees' terminal leave benefits which are not due for settlement within 12 months after the end of the period which is not in accordance with Philippine Public Sector Accounting Standards (PPSAS) 1 and COA Circular No. 2015-010.**

4.1 Philippine Public Sector Accounting Standards I (PPSAS I) defines Liabilities as present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Liabilities are to be apportioned between current and non-current that is, on the basis of whether they are expected to be paid within 12 months. Current liabilities are liabilities that will be paid or are expected to be paid within the 12 months after the reporting period ends. All other liabilities are non-current liabilities.

4.2 Annex A of COA Circular No. 2015-010 dated December 1, 2015 describes the related accounts as follows:

Due to Officers and Employees

4.2.1. This account is used to recognize incurrence of liability to officers and employees for salaries, benefits and other emoluments including authorized expenses paid in advance by the officers and employees. Debit this account for settlement or payment to officers and employees.

Leave Benefits Payable

4.2.2. This account is used to recognize accrual of money value of the earned credits of government personnel. Debit this account for monetization of earned leave and payment of terminal leave benefits.

Other Long-Term Employee Benefits

4.2.3. Employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

4.3 As described in the Notes to Financial Statements, Due to Officers and Employees represent the cash equivalent of the employees leave credits as of reporting date. Also, per NEA's eNGAS, this account is used to recognize accrual of money value of earned leave credits by employees as well as salaries, travelling expenses and other expenses paid in advance by the officers and employees and/or expenses paid thru Petty Cash Fund.

4.4 As of December 31, 2017, Due to Officers and Employees has a year-end balance of P91,748,722.97, presented as follows:

Account Code	***Account Name***	***Amount***
403-01	**Terminal Leave Benefits**	
	Accrual in 2017	P 23, 731,488.20
	Prior balance	66, 836,299.53
	Subtotal	**90,567,787.73**
403-02	**Other Expenses**	1,180,935.24
Account Code	***Account Name***	***Amount***
	Subtotal	**1,180,935.24**
	Total	**P 91,748,722.97**

Terminal Leave Benefits/Leave Benefits Payable

4.4.1. The accrual of terminal leave benefits totaling P90,567,787.73 was recorded under account Due to Officers and Employees classified as current liabilities. Terminal Leave Benefits are not paid immediately but in the future periods. Terminal Leave Benefits should be recognized as Leave Benefits Payable classified under non-current liabilities rather than Due to Officers and Employees classified as current liabilities pursuant to COA Circular No. 2015-010.

The erroneous recognition and classification of terminal leave benefits resulted in overstatement of Due to Officers and Employees under current liabilities and understatement of Leave Benefits Payable/Terminal Leave Benefits under non-current liabilities which is not in accordance with PPSAS 1 and COA Circular No. 2015-004.

Other Expenses

4.4.2. This account was set-up on December 29, 2017 for accrual of unreplenished Petty Cash Fund, accrual of expenses for officers and employees and accrual of travelling expenses for 2017. The breakdown and nature of accrued expenses is shown below:

Particulars	***Amount***	***Remarks***
Accrual of unreplenished Petty Cash Fund	P 3,733.00	Travelling and Telephone Expenses
Accrual of expenses for NEA Officers and Employees	569,049.89	Travelling, Telephone, Internet, Representation, Miscellaneous Expenses, Repairs and Maintenance, Salaries, Bonus and other Incentives.
Accrual of travelling of Officers and Employees	608,152.35	Travelling Expenses and per diems while on official travel.
Total	**P 1,180,935.24**	

4.5 **We recommended that Management:**

a. **Recognize/reclassify accruals of money value of earned leave credits to Leave Benefits Payable from Due to Officers and Employees and determine whether portion of money value of leave credits should be classified under Current Liabilities, otherwise, classify as Non-Current Liabilities; and**

b. **Refrain from recognizing the accrual of money value of earned leave credits to account Due to Officers and Employees.**

4.6 Management commented that:

a. NEA was not able to recognize/classify the earned leave credits from Due to Officers and Employees to Leave Benefits Payable because there is no template available in e-NGAS. Also, they cannot specifically determine the dates of the employees' resignation or availment of the early retirement option.

b. NEA will reclassify the account once the PPSAS is fully implemented in conjunction with the e-NGAS and a template for Leave Benefits Payable is accessible.

4.7 As a rejoinder, the presentation and classification of accruals of earned leave credits to Due from Officers and Employees was not consistent with NEA's disclosure in the Notes to Financial Statements that their continuous provision for the leave credits is in accordance with IAS 19 - Employee Benefits which describes that IAS 19 is categorized to Short-Term Employee Benefits, Post-Employment Benefits, Other Long-Term Employee Benefits and Termination Benefits. It further disclosed that currently, the Short-Term Employee Benefit includes paid annual leave and sick leave (if payable within twelve months at the end of the period) or the monetary value of leave credits for the year. On the other hand, long-service leave or other long-service benefits not payable wholly within twelve months after the end of the period are classified under Other Long-Term Employee Benefits. Hence, determining the dates of the employees' resignation or availment of the early retirement option should not be the basis/reason of non-classification of earned leave credits as current or non-current payables. On the other hand, on the absence of specific account embedded in the e-NGAS, the usage of account can be done manually for Financial Statements (FS) presentation.

4.8 Hence, the Audit Team reiterate its recommendation that Management can recognize/reclassify accruals of money value of earned leave credits to Leave Benefits Payable from Due to Officers and Employees manually considering the absence of pertinent account for FS presentation.

5. **Out of the total outstanding Miscellaneous Receivables amounting to P52.079 million (net) as of December 31, 2016, only P2.743 million or 5.27 percent were collected and the amount of P49.332 million remained unsettled and outstanding in the books for more than 10 years with remote possibility of collection.**

5.1 This is a reiteration of prior year's audit findings with updated figures as of year-end wherein we recommended that Management (a) exhaust all possible remedies to collect the receivables from the debtors and the employees who are no longer connected with NEA and (b) expedite the evaluation and reconciliation of all overdue accounts to determine proper disposition and request authority to write-off, if warranted.

5.2 Management commented that as of May 2017, P5,058,742.12 was collected from Electric Cooperatives (ECs) for the payment of GSIS Industrial All-Risk Insurance Receivables and P19,315.08 was collected from former NEA employees. Management also commented that various collection letters were sent out to former NEA employees and detailed COA Auditors and will continue to reconcile the accounts and additional collection letters will be sent once the addresses of the liable persons are available.

5.3 For CY 2017, NEA collected a total amount of P2,723,779.70 from ECs as payment for the GSIS Industrial All-Risk Insurance Receivables, detailed in the succeeding page:

Name of EC	***Balance as of 12/31/2016***	***Collection***	***Balance as of 12/31/2017***	***Remarks***
BOHECO I	P 4,308,069.27	P 331,389.90	P 3,976,679.37	10 year installment basis
CASURECO II	2,044,855.94	2,044,855.94	0	Fully Paid – 6 monthly installments
OMECO	1,045,731.80	209,146.36	836,585.44	10 year installment
MARELCO	830,325.12	138,387.50	691,937.62	5 year installment
QUEZELCO II	520,123.09	0	520,123.09	No payment yet – 5 year installment
TIELCO	458,519.46	0	458,519.46	No payment yet – 10 year installment
Total	**P 9,207,624.68**	**P 2,723,779.70**	**P 6,483,844.98**	

- The above listed ECs requested to pay in installments and started paying their accounts except for QUEZELCO II and TIELCO wherein no payment yet was made as of audit date.

- Out of 40 ECs with unpaid accounts under GSIS Industrial All-Risk Insurance Receivables, only 14 ECs agreed to pay their accounts and six ECs questioned the legality of the GSIS Insurance. The remaining ECs did not convey their intention to pay their accounts.

5.4 In addition, NEA collected P19,315.08 from former NEA employees as payment for Christmas and Medical Loan and adjustment was made to the account of Regional Centers amounting to P5,000.00.

5.5 After the adjustments discussed in the preceding paragraphs, Miscellaneous Receivables has an updated balance of P49,331,517.49 (net) as of December 31, 2017, to wit:

SL Code	***SL Name***	***Amount***
149-006	Insurance GSIS (various Electric Cooperatives)	P 36,011,987.90
149-003	Other Receivables (various suppliers)	12,404,156.75
149-xxx	Other Receivables (various employees)	472,470.43
149-xxx	For adjustment/reconciliation	442,902.41
Total		**P 49,331,517.49**

Insurance GSIS (various ECs)

5.5.1 The amount of P36,011,987.90 (net) consisted of advance payments made by NEA for and in behalf of the ECs for brokerage, handling, demurrage, storage and other charges incurred in the withdrawal from the Bureau of Custom's custody of various equipment, materials and insurance premium. The account included negative balances amounting to P594,820.49.

5.5.2 In January 1998, the then NEA Administrator issued a Memorandum Circular to all ECs mandating the insurance coverage for all their real and personal properties mortgaged with the agency in accordance with Administrative Order (AO) No. 141. Since the previous loan contracts of the ECs with NEA included a provision requiring the insurance coverage of all insurable assets of the ECs, NEA proposed to insure the assets of all the ECs and the proposal was approved by the Philippine Rural Electric Cooperatives Association, Inc. (PHILRECA) in its Resolution No. 06-10-99.

5.5.3 The Government Service Insurance System (GSIS) provided insurance coverage for all real and personal properties of the ECs mortgaged to NEA under AO No. 141. The implementation took place on March 4, 1999 upon issuance of Cover Note No. 99-2129 by GSIS to NEA and execution of a Memorandum of Agreement. The recoverability of this amount is uncertain due to the absence of a repayment scheme adopted by NEA and considering the EC's raised objections on the payment of insurance premiums.

Other Receivables (various suppliers)

5.5.4 For the account of Strand Industries, Ltd. amounting to P9,340,411.41 which is 75 percent of the total amount of Other Receivables (various suppliers), NEA charged storage, demurrage and other charges in connection with Strand's delivery of ungalvanized steel poles and zinc ingots. However, there was no indication that these charges were acknowledged by the supplier considering the absence of a provision in the contract that the supplier will pay for said charges, nor was there any provision for retention from payments and/or performance bond as required in all government contracts where NEA could withhold a certain amount to satisfy its claim. It was previously recommended that Management should adjust the balance of Strand Industries, Ltd. without prejudice to the efforts that NEA must further exert to enforce collection.

5.5.5 Other Receivables from various suppliers remain unsettled as Management did not take any further actions/remedies for possible collection of the said overdue accounts.

Other Receivables (various employees)

5.5.6 The account comprised of receivables from various employees with an updated balance amounting to P472,470.43 which included negative balance of P42,161.81 representing Christmas loan, medical loan, accident insurance, among others.

SL Code	SL Name	Amount	Remarks
149-01X	Christmas Loan	241,600.44	Collected P18,315.08
149-001	HELP/HILP/HCL	69,343.72	No adjustments
149-011	Regional Centers	75,605.92	With adjustment – P5,000.00
149-007	Unliquidated Cash Advance – TEV	53,903.11	No adjustments
149-015	Medical Loan	17,870.00	Collected P1,000.00
149-014	Educational Loan	12,215.47	No adjustments
149-017	Accident Insurance	1,414.55	No adjustments
149-027	Lost Test Meter	447.22	No adjustments
149-021	Dental	70.00	No adjustments
Total		**P 472,470.43**	

5.5.7 Other Receivables represents receivables from former NEA employees who were legally terminated as of December 31, 2003 and were not reemployed under the new organizational structure of NEA, and other employees who are no longer connected with NEA. Likewise, the account included balances from abolished Regional Centers.

For Adjustment/Reconciliation

5.5.8 The account consisted of unreconciled balances amounting to P442,902.41 (net) which included negative balances of P10,141.90.

SL Code	Particulars	Amount	Remarks
149-005-001	EVAT-Coops	P 232,318.67	No adjustments
149-002-9999	Accrued Interest Receivables (various suppliers)	148,459.80	No adjustments
149-010-001		24,216.35	No adjustments
149-026-9999	NFA Rice	18,374.66	No adjustments
149-018-9999	NGA Mahipon Rice	14,612.84	No adjustments
149-020-9999	NSDF	4,860.87	No adjustments
149-019-9999	KADIWA	3,710.86	No adjustments
149-025-9999	Medical Exam	2,577.47	No adjustments
149-022-9999	BIR Tax Adjustment	2,198.50	No adjustments
149-023-9999	X-ray Examination	800.00	No adjustments
149-024-9999	PHILCARE	50.77	No adjustments
149-029-9999		(10,141.90)	No adjustments
149-028-9999		863.52	No adjustments
Total		**P 442,902.41**	

5.6 COA Circular No. 2016-005 dated December 19, 2016 prescribed guidelines and procedures in reconciling and cleaning the books of accounts of NGAs, LGUs and GOCCs of dormant receivable accounts, unliquidated cash advances and fund transfer for fair presentation of accounts in the FS. Paragraph 6.1 of the said Circular states that:

"All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable…x x X"

5.7 The COA Circular provides that the Head of the Agency shall file the request for authority to write off dormant receivable accounts, unliquidated cash advances, and fund transfers and shall be supported by the following documents.

a. Schedule of dormant accounts by accountable officer/debtor/government entity and by account, certified by the accountant and approved by the Head of the government entity;

b. Certified relevant documents validating the existence of the conditions, as applicable, such as:

- Death Certificate issued by Philippine Statistics Authority (formerly National Statistics Office)
- Proof of Insolvency
- Certification from the Department of Trade and Industry that the debtor has no registered business
- Certification from the Securities and Exchange Commission that the Corporation is no longer active
- Certificate of no residence in the barangay of the municipality/city of last known address
- Proof of exhaustion of all remedies to collect the receivables and demand to liquidate the cash advances and funds transfer, such as but not limited to copies of served or returned demand letters
- Certification by Legal Officer of the entity of no pending case relative to the account
- Certification by the responsible officials of the entity to the effect that there are no records/documents available to validate claim
- Other justifications, like in the case of request for write off due to loss of documents, the circumstances of the loss should be stated in the letter request

5.8 **We recommended that Management:**

a. **Exhaust all possible remedies to collect the receivables from the debtors and the employees who are no longer connected with NEA; and**

b. **Expedite the evaluation and reconciliation of all overdue accounts to determine proper disposition and request authority to write-off, if warranted.**

5.9 Management commented that:

a. As a result of NEA's collection efforts, NEA was able to collect a total of P7,120,632.05 from Electric Cooperatives (ECs) for GSIS Industrial All-Risk Insurance Receivables from CY 2016 to May 2018 as follows:

EC	***OR No.***	***Amount***
SURSECO II	7891770	P 36,322.08
MORESCO II	7891807	39,186.74
BISELCO	7891767	173,171.48
TAWELCO	7891854	249,951.79
MOPRECO	7891860	270,127.28
ILECO III	7891859	1,005,828.87
CAGELCO I	7891858	1,009,897.35
ISELCO II	7891639	1,121,783.11
CASURECO II	Various	2,044,855.94
MARELCO	Various	207,581.25
OMECO	Various	209,146.36
BOHECO	Various	662,779.80
Total		**P 7,120,632.05**

b. NEA also sent follow-up collection letters dated May 7, 2018 to QUEZELCO II and TIELCO and was able to collect a total of P19,626.28 from other accounts as follows:

Particulars	***Amount***
Christmas Loan	P 19,315.08
Regional Centers	102.10
Educational Loan	209.10
Total	**P 19,626.28**

c. JEV No. 2018-04-002316 dated April 28, 2018 was also prepared to take up additional adjustments for HELP / HILP/HCL, Medical Loan and Educational Loan accounts.

d. NEA will request to write-off the other receivable accounts totaling P12,876,627.18 (net of negative balances) based on COA Circular 2016-005 dated December 19, 2016:

- Various Suppliers
- Accident Insurance
- Christmas Loan
- Educational Loan
- HELP/HILP/HCL
- Medical Loan
- Regional Centers
- Unliquidated Cash Advance – TEV
- Others

5.10 For the request to write-off the remaining uncollected receivables, ensure that all necessary requirements as prescribed in COA Circular 2016-005 dated December 19, 2016 are complied with. However, the remaining balance of those ECs which agreed to pay the remaining GSIS Accident All Risk Insurance Receivables should not be included in the request for write off. The following are the accounts subject for write-off:

Particulars	***Amount***
Various Suppliers	P 12,404,156.75
Accident Insurance	1,478.40
Christmas Loan	241,603.44
Educational Loan	15,794.55
HELP/HILP/HCL	102,905.50
Medical Loan	22,770.00
Regional Centers	75,660.02
Unliquidated Cash Advance – TEV	53,903.11
Others	517.22
Total	**P 12,918,788.99**

6. **Receivables from Local Government Units, Non-Government Agencies (NGAs) and Private Franchise including interests/surcharges amounting to P17,591,749.55 and P17,455,247.40, respectively, totalling P35,046,996.95 remained unsettled as of audit date, thus, have become dormant for more than 20 years.**

6.1 In June 1960, due to inadequacy of power service in rural areas, Electrification Administration (EA) was created by virtue of Republic Act (RA) No. 2717 to provide economical and dependable electric power and facilities in order to promote and accelerate the agricultural and industrial development of the country.

6.2 EA was authorized P25 million to be loaned out to the electric utility operators to finance the construction and operation of generating plants, electric transmission and distribution system to provide energy, particularly in the rural areas.

6.3 EA granted various loans in 1960s among which are as follows:

a. Municipal Loans – granted to various municipalities nationwide for the purpose of financing the construction of electric power systems payable within 25 years in 100 equal quarterly installments with interest of three percent per annum.

b. Private Franchise Loans – granted to private franchise owners to operate and maintain an electric systems payable within 25 years in 100 equal quarterly installments with interest of three percent per annum. The operation of Private Franchise was approved by the President of the Philippines under the regime of President Ferdinand Marcos and the

Certificate of Public Convenience and Necessity was granted by the Public Service Commission.

c. Systems Taken Over Loans – loans granted to municipalities to operate and manage an electric system located within the territorial jurisdiction of the municipality with interest of three percent per annum.

6.4 In August 6, 1973, PD 269 was enacted transforming the EA to National Electrification Administration (NEA) as a government-owned and controlled corporation which is given certain powers to attain total electrification on an area coverage basis through the organization of various Electric Cooperatives (ECs) nationwide.

6.5 In order for NEA to attain its mandate, the agency was given the authority to consolidate electric distribution franchise systems and turn over the operation and maintenance to the ECs. The take-over of the Municipal System and Private Franchise had effectively cancelled its franchise to operate and manage an electric system.

6.6 In addition, in 1980s, NEA granted School Reforestation Loans to various Educational Institutions/Agricultural Schools all over the country to finance the establishment of Dendrothermal Tree Plantation Program of the government. The loan is payable within 15 years in 10 equal installments, the first installment being due five years after the first released of loan, with interest rate of four percent per annum.

6.7 Moreover, NEA also granted Social Program Loans to ECs in Bulacan, Rizal and Cavite. However, Manila Electric Corporation (MERALCO) was mandated to take over ECs within a radius of 60 kilometers of Metro Manila. MERALCO assumed repayment of electrification loans but did not assume repayment of Social Program Loans.

6.8 NEA set up the beginning balance of various receivables from Municipalities, Private Franchise and Educational/Agricultural Institutions to their respective accounts in e-NGAS as follows:

GL Account	***Account Name***	***Principal Balance***	***Interest***	***Total***
136	Due from NGAs (Educational/Agricultural Institutions)	P 6,902,600.76	P 2,985,269.42	P 9,887,870.18
125	Loans Receivable – LGUs (Municipalities)	7,796,031.69	11,718,285.41	19,514,317.10
126	Private Franchise	2,977,704.90	6,061,435.47	9,039,140.37
126	MERALCO	3,496,141.98	1,277,788.32	4,773,930.30
Total		**P 21,172,479.33**	**P 22,042,778.62**	**P 43,215,257.95**

6.9 From CYs 2005 to 2010, various adjustments were made by NEA to reconcile the loan balances and payments were made by Municipalities, Educational/Agricultural Institutions and MERALCO to settle their accounts.

6.10 Though the franchise of municipal and private electric plants was cancelled through the enactment of PD 269, NEA did not stop to demand payment from these electric plants as well as from agricultural/educational institutions.

6.11 As the accounts remained unsettled and have become dormant, the accounts were forwarded to Legal Service Office (LSO) and the corresponding demand letters to pay were sent to incumbent municipal Mayors of the different municipalities and Officers In Charge of different Agricultural/Educational Institutions. NEA sent demand letters to Municipal and Private Electric Plants and Agricultural/Educational Institutions on May 26, 2011, May 31, 2011 and June 16, 2011, respectively, to settle their respective accounts. From CYs 2011 to 2014, NEA was able to collect P1,043,328.50 from various Municipalities and Agricultural/Educational Institutions.

6.12 As some expressed their inability to pay the subject loans, Municipal Electric Plants and Agricultural/Educational Institutions requested condonation of interest and surcharges. In a letter dated February 23, 2012, July 29, 2013 and October 13, 2014, NEA requested for condonation of interest and surcharges of the principal loans as approved by NEA Board of Administrators (BOA) through Board Resolutions (BR). Out of the total requests for condonation totaling P4,425,331.83, P4,030,409.24 were approved by the Commission on Audit as per COA Decision Nos. 2015-207 and 2015-231 dated April 13, 2015 and COA Decision No. 2016-353 dated November 9, 2016. The request for condonation of interest and surcharges amounting to P394,922.59 for Nueva Ecija Furniture was denied as there is no evidence of financial difficulty or special circumstances showing its incapacity to pay the interest and surcharges.

6.13 NEA has written off the principal loan balance of Municipal Electric Plants and Agricultural/Educational Institutions and interest/surcharges as recorded in e-NGAS totalling P1,955,563.75 in which P962,654.17 were written off based only in BR No. 13 dated January 24, 2006 and without reference to any COA Decision, thus, depriving the government to collect funds from these entities as their incapacity to pay interest and surcharges were not verified.

6.14 After various adjustments, collections and write-offs, the balance of Due from NGAs, Loans Receivable – LGUs, Private Franchise, MERALCO and Interest/Surcharges are as follows:

GL Account	Account Name	Beginning Balance	Adjustment	Collection	Write-Off	Total
136	Due from NGAS	P 6,902,600.76	P 52,559.03	P (393,951.81)	P (144,694.35)	P 6,416,513.63
125	Loans Receivable - LGUs	7,796,031.69	(121,558.59)	(402,221.30)	(25,017.53)	7,247,234.27
126	Private Franchise	2,977,704.90	(1,114,666.25)	(202,435.00)	0	1,660,603.65
126	MERALCO	3,496,141.98	775,650.77	(2,004,394.75)	0	2,267,398.00
Subtotal		**P 21,172,479.33**	**P (408,015.04)**	**P (3,003,002.86)**	**P (169,711.88)**	**P 17,591,749.55**
129	Interest/ Surcharge	22,042,778.62	(2,722,182.76)	(79,496.59)	(1,785,851.87)	17,455,247.40
Total		**P 43,215,257.95**	**P (3,130,197.80)**	**P (3,082,499.45)**	**P (1,955,563.75)**	**P 35,046,996.95**

6.15 COA Circular No. 2016-005 dated December 19, 2016 prescribed guidelines and procedures in reconciling and cleaning the books of accounts of NGAs, LGUs and GOCCs of dormant receivable accounts, unliquidated cash advances and fund transfer for fair presentation of accounts in the FS. Paragraph 6.1 of the said Circular states that:

> *"All government entities shall conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable…x x X"*

6.16 The Circular provides that the Head of the agency shall file the request for authority to write off dormant receivable accounts and shall be supported by the following documents.

a. Schedule of dormant accounts by accountable officer/debtor/government entity and by account, certified by the accountant and approved by the Head of the government entity;

b. Certified relevant documents validating the existence of the conditions, as applicable, such as:

- Proof of Insolvency
- Certification from the Securities and Exchange Commission that the Corporation is no longer active
- Proof of exhaustion of all remedies to collect the receivables such as but not limited to copies of served demand letters
- Certification by Legal Officer of the entity of no pending case relative to the account

6.17 To date, no further collections were received nor demand were made by NEA to collect the dormant accounts, thus, depriving the government of additional funds that could be utilized for operations of NEA.

6.18 **We recommended that Management:**

a. **Exhaust all possible remedies to collect the receivables from the debtors;**

b. **Conduct regular and periodic verification, analysis and validation of the existence of the receivables;**

c. **Reverse the journal entries made on the interest/surcharges written-off totaling P962,654.17 and request for the approval of condonation of interest and surcharges; and**

d. **Assess and evaluate the dormant receivables and request for write-off of accounts as prescribed in COA Circular No. 2016-005 dated December 19, 2016.**

6.19 Management submitted the following comments:

a. NEA requested the assistance of the Bureau of Local Government Finance (BLGF) Department of Finance (DOF) in a letter dated October 19, 2010 and March 8, 2011 for possible settlement/collection of the accounts from different LGUs under the Debt Relief Program (DRP). However, the Mayors/Treasurers of the LGUs failed to confirm the accounts wherein confirmation by the said officials is one of the requirements under the DRP. Furthermore, the BLGF failed to issue guidelines for the implementation of the program.

b. On December 8, 2004, Legal Services Office (LSO) sent demand letters to various borrowers and the common responses receive by NEA are as follows:

   - Loan written-off (RA 7160);
   - Denied the existence of the loan;
   - Requested for condonation; and
   - Not a liability of the municipality

c. On May 26, 2011, the LSO sent another demand letters copies of which were provided to COA in response to Audit Query Memorandum No. 2017-002. NEA was able to collect P2,876,679.40 as of December 31, 2017.

d. On March 19, 2018, NEA sent collection letters to PELCO I and LUELCO informing them to settle their Power Use Loans as condonation is not tenable considering that they are financially capable to settle their obligations.

e. Management agreed to comply with the audit recommendation to conduct regular and periodic verification, analysis and validation of the existence of the receivables.

f. Adjustments were already made on May 16, 2018 for the amount of P913,923.61. The balance of P48,730.56 on the accounts of Western Mindanao State University formerly Zamboanga Del Sur Agricultural College and Kalinga Apayao State College formerly Bibak National Agricultural School were not adjusted as their request for write-off were approved per COA Decision No. 2015-231 dated April 13, 2015.

g. NEA will comply with the requirements of COA Circular No. 2016-005 under b.6 and b.8 of item 8.3 to support the request for write off.

7. **Payables account totaling P8.242 million which remained dormant for more than two years were not reversed contrary to Section 98 of Presidential Decree 1445.**

Also, there was no separate monitoring ledger being maintained for accounts reversed/dropped amounting to P0.705 million.

7.1 Section 98 of Presidential Decree 1445 requires the reversion of unliquidated balances of accounts payable, to wit:

> *"The Commission upon notice to the head of agency concerned may revert to the unappropriated surplus of the general fund of the national government, any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. This section shall not apply to unliquidated balances of accounts payable in trust funds as long as the purposes for which the funds were created have not been accomplished."*

7.2 COA Circular No. 99-004 dated August 17, 1999 provides, among others, that all obligations shall be supported by valid claims and Payable – Unliquidated Obligations which has been outstanding for two years or more and against which no actual claims, administrative or judicial, has been filed or which is not covered by perfected contracts on record should be reverted to the Cumulative Results of Operations Unappropriated, now to Government Equity account under COA Circular No. 2004-008 dated September 20, 2004.

7.3 DBM and COA Joint Circular No. 99-6 dated November 13, 1999 prescribe guidelines and procedures relative to the reversion of accounts payable. Section 3.1 and 3.3 of the Joint Circular states that:

> *"3.1 All documented A/Ps of all funds which have remained outstanding for two (2) years, shall be reverted to the Cumulative Results of Operations - Unappropriated (CROU), except on-going capital outlays projects.*
>
> *3.2 All undocumented A/Ps, regardless of the year they were incurred, shall immediately be reverted to the CROU."*

7.4 As of December 31, 2017, various payable accounts totaling P8,241,522.65 remained dormant for more than two years, presented as follows:

Account Code	***Account Name***	***Balance As of 12/31/2017***
401	Accounts Payable (various sub-accounts)	P 6,206,695.09
439-010	Other Payables-For Adjustment	2,034,827.56
TOTAL		**P 8,241,522.65**

7.4.1 Accounts Payable consists of Accrued Expenses, CNA and For Adjustment sub-account. Most of these payables including Other Payables-For Adjustment pertain to financial transactions way back in

2005. The table below shows the details of the Aging of Accounts Payable and Other Payable-For Adjustment account.

Account	Less than one year (Accrual/Payable during the year)	More than 1 year but less than 2 years	More than 2 years	Balance
Accounts Payable				
Various creditors	P 9,709.90	0	0	P 9,709.90
CNA	7,525,000.00	P 1,265,935.74	**P 193,087.01**	8,984,022.75
Adjustment	0	0	**212,943.43**	212,943.43
Accrued Expense	32,693,473.31	2,216,685.08	5,800,664.65	40,710,823.04
Sub-total	**P 40,228,183.21**	**P 3,482,620.82**	**P 6,206,695.09**	**P 49,917,499.12**
Other Payables				
For Adjustment	0	0	P 2,034,827.56	P 2,034,827.56
Sub-total	0	0	**2,034,827.56**	**2,034,827.56**
TOTAL	**P 40,228,183.21**	**P 3,482,620.82**	**P 8,241,522,65**	**P 51,952,326.68**

7.4.2 As of to date, P6,206,695.09 or 12.43 percent of the total Accounts Payable has been dormant for more than two years. While the Other Payables-For Adjustment amounting to P2,034,827.56 remained dormant or non-moving since 2008.

7.5 On the other hand, a reversal entry was made in 2017 for the dormant accounts that were observed to be outstanding for more than two years in CY 2016, detailed as follows:

Account No.	Account Name	Ref. No.	Amount
426	Guaranty Deposits Payable	JEV-2017-05-003053	P 55,485.45
427	Performance/ Bonds Payable	JEV-2017-05-003053	649,764.90
	TOTAL		**P 705,250.35**

7.5.1 The outstanding amount of P55,485.45 pertains to guaranty deposits payable to China National Machinery Corporation which has been dormant since 2005. While the P649,764.90 pertains to performance/bidders/bail bonds payables to various entities/contractors who are no longer doing business with NEA and pertains to claims from 2009 to 2012.

7.6 It was observed that there is no separate monitoring ledger maintained for the reversed accounts. The reversal entry above was closed to account Prior Years' Adjustment (684).

7.7 Per inquiry, the Accounting personnel informed that they are still reconciling the dormant accounts under Accrued Expenses and planning on closing the accounts on the remaining payable accounts. They also informed that there is difficulty in reconciling the dormant accounts because these have been outstanding for a long period hence, some of the supporting documents are not available and could not be traced anymore.

7.8 **We recommended that Management:**

a. **Reverse the Payable accounts that have been dormant for more than two years amounting to P8,241,522.65 following the condition specified in Section 98 of PD 1445, Sec. 3.2 of COA Circular 99- 004, and DBM and COA Joint Circular No. 99-6;**

b. **Maintain a monitoring ledger for any reversed/dropped accounts stating therein the specific condition on why it was reversed/dropped.**

7.9 Management submitted Journal Entry Voucher (JEV) No. 2018-04-002595 dated April 02, 2018 for the reversal of dormant payable accounts and Monitoring Sheet to monitor the reversed/dropped accounts.

8. **The accuracy and reliability of account Inventory amounting to P6.132 million as of December 31, 2017 cannot be ascertained due to:**

a. Unreconciled discrepancies totaling P474,593.55 between balances per book and physical count of Supplies and Spare Parts Inventory; and

b. The balance of Merchandise Inventory per Stock Ledger Card maintained by the Accounting Division amounting to P4,876,378.78 remain unreconciled.

Likewise, no Allowance for Impairment Loss was provided for account Merchandise Inventory with year-end balance of P4.876 million considering its non-existence.

8.1 **Unreconciled discrepancies totaling P474,593.55 between balances per book and physical count of Supplies and Spare Parts Inventory.**

8.1.1 Section 491, Volume I of COA Circular No. 1991-368 states that**:**

"All discrepancies between physical and book inventories must be investigated and cleared immediately. If necessary, written explanations shall be required from persons responsible."

8.1.2 Verification of the Report on the Physical Count of Inventories (RCPI) submitted by the General Services Division (GSD) against the Stock Ledger Card maintained by the Accounting Division showed net discrepancies of Office Supplies Inventory and Spare Parts Inventory amounting to P449,566.08 and P25,027.47, respectively, or an aggregate amount of P474,593.55, details shown in Annex A. Adjustments were made under JEV No. 2017-12-010417 and 2017-12-010414 both dated December 29, 2017. However, the account remain unreconciled.

8.1.3 The non-reconciliation and adjustments of the noted discrepancies between RPCI and Stock Ledger Card affect the accuracy and reliability of the year-end balance of account Inventory and its fair presentation in the Financial Statements.

8.2 **The balance of Merchandise Inventory per Stock Ledger Card maintained by the Accounting Division amounting to P4,876,378.78 remain unreconciled.**

8.2.1 Review of the Stock Ledger Card for Merchandise Inventory maintained by the Accounting Division disclosed that 11 inventory items with aggregate amount of P4,876,378.78 remain unreconciled, detailed as follows:

Code	***Description***	***Amount***
Merchandise Inventory for Sale		
154-001-05	STAGING AREA ACCOUNT (For adjustment(Other SL))	P 5,230,616.14
Merchandise Inventory in Transit		
154-002-011	IN TRANSIT (For adjustment - Other SL)	(4,006,228.23)
154-002-001	IN TRANSIT (IFB 38 - Other SL)	(2,861,133.00)
154-002-002	IN TRANSIT (IFB 46 - Other SL)	(3,159,445.97)
154-002-003	IN TRANSIT (IFB 72 - Other SL)	(79,959.90)
154-002-005	IN TRANSIT (JRI - Other SL)	7,850.03
154-002-006	IN TRANSIT (LOCAL - Other SL)	4,453.47
154-002-007	IN TRANSIT (M-429-90 - Other SL)	100.00
154-002-008	IN TRANSIT (OPEC - Other SL)	(1,521,998.07)
154-002-009	IN TRANSIT (OTHERS - Other SL)	11,979,684.00
154-002-010	IN TRANSIT (WB - Other SL)	(717,559.69)
Total		**P 4,876,378.78**

8.2.2 Merchandise Inventory for Sale pertains to the cost of equipment and materials damaged/burned in NUVELCO Staging Area, while Merchandise Inventory in Transit pertains to the Equipment and Materials In-Transit (EMIT) account which remain dormant for more than 10 years.

8.2.3 On February 05, 2008, COA issued AOM No. 2008-005 indicating that as per verification and the certification issued by then Materials Management Department (MMD), the materials procured in transit have been fully delivered and there are no more materials expected to be delivered either to the NEA warehouse or to the different staging area. The COA recommended that Management should continue the reconciliation and prepare adjustment of the account.

8.2.4 On September 14, 2010, NEA requested authority from COA to write-off the Merchandise Inventory in Transit. However, on December 23, 2013, NEA received COA Decision No. 2013-247 denying NEA's request because of COA's existing regulations which pertains only to the write-off of unliquidated cash advances and dormant accounts receivable.

8.2.5 Adjustments were made on Merchandise Inventories to reconcile the account. However, despite of the effort made, the account remains unreconciled. Non-reconciliation may result in overstatement/understatement of account Merchandise Inventory.

8.3 **No Allowance for Impairment Loss was provided for account Merchandise Inventory considering its non-existence.**

8.3.1 Paragraph 44 of PPSAS 12 for Inventories provides that:

> *"Xxx. The amount of any write-down of inventories and all losses of inventories shall be recognized as an expense in the period the write-down or loss occurs. xxX."*

8.3.2 PPSAS 12 requires all public sector entities other than Government Business Enterprises to measure Inventories at the lower of cost and net realizable value. It also provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value.

8.3.3 The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits expected to be realized from their sale, exchange, distribution or use. (Par. 38, PPSAS 12)

8.3.4 The amount of any write-down of inventories and all losses of inventories should be recognized as an expense in the financial statement in the period the write-down or loss occurs.

8.3.5 Audit disclosed that no Allowance for Impairment Loss was provided for Merchandise Inventory considering its non-existence.

8.4 **We recommended that Management:**

a. **Require the Accounting personnel and Supply Officer to reconcile, identify and trace the cause of discrepancies between RPCI and Stock Ledger Card and make corresponding adjustment in the books to reflect the correct balances of the accounts;**

b. **Require the Accounting personnel to fast track the reconciliation of the account Merchandise Inventory and make necessary adjustment in the books to reflect the correct balance of the affected accounts; and**

c. **Require the Accountant to provide Allowance for Impairment Loss for the account Merchandise Inventory.**

8.5 Management submitted the following comments:

a. Based on the report on the Physical Count of Inventories, Journal Entry Vouchers (JEVs) dated April 30, 2018 were prepared to reflect the actual balances of office supplies. Contrary to the observations, reconciliation of Supplies Ledger Card (e-NGAS) and Actual Physical Inventory Report (GSD record) as of December 31, 2017 revealed that only three items namely the aircon belt for Toyota Revo, induct switch, and thermostat switch had discrepancies.

b. Discrepancies on the Spare Parts Inventory were already adjusted on April 30, 2018.

c. The Merchandise Inventory for Sale are Merchandise Inventory in Transit (EMIT) equipment and materials stored in NUVELCO Staging Area (SA) which were lost during the fire incident in the SA in November 2001. Said account were already closed on May 31, 2010 making the EMIT account zero as said equipment and materials were already destroyed, burned, or lost during the fire incident. But per COA's AOM No. 10-016 dated August 23, 2010, the entry was reversed. A Memorandum was sent to COA dated September 14, 2010 requesting for Relief from Accountability on May 31, 2010 which was received by COA on September 20, 2010. On May 15, 2007, a Memorandum was sent to COA requesting for the write-off of the EMIT account in the amount of P6,593,083.77.

   When NEA received COA Decision No. 2013-247 dated December 23, 2013, denying NEA's request for authority to write-off, the EMIT account amounting to P3.652 million which remain dormant for more than ten years was reinstated as EMIT account for adjustment.

   Adjustments were already made closing the difference between the actual payment made by NEA to contractors against the rates used in costing equipment and materials under IFB 38 which is part of AOM No. 2007-016 dated March 12, 2017.

d. On the other hand, Allowance for Impairment Loss for Merchandise Inventory account was already provided per JEV No. 2018-05-002793 dated May 11, 2018.

8.6 As a rejoinder, the Audit Team disagreed on the contention that the basis of NEA's reconciliation is the Approved Inventory Report of Spare Parts as of December 31, 2017. The Actual Physical Inventory Report attached in their reply/answer to the AOM was dated December 26, 2017 and bears no signature of the responsible personnel. The basis of the Audit Team's observation was the Actual Physical Inventory Report as of December 31, 2017 submitted to COA on March 12, 2018.

9. **The account Receivables – Disallowances/Charges with year-end balance amounting to P0.851 million remain unsettled for more than 10 years as of audit date due to inadequacy of action taken by Management towards the settlement of disallowances.**

9.1 This is a reiteration of prior year's audit observation where we recommended that Management monitor and enforce settlement of the disallowances in accordance with the procedures under the Rules and Regulations on Settlement of Accounts (RRSA) prescribed under COA Circular No. 2009-006 dated September 15, 2009, submit certified documents such as death certificates issued by the Philippine Statistics Authority (PSA) for those who are deceased and exhaust all possible remedies to collect from the persons liable.

9.2 Based on Agency Action Plan and Status of Implementation of NEA as of December 31, 2017 on prior year's audit recommendations, although NEA has every intention to collect the receivables from the persons liable, NEA's cause of action is hindered by the prescribed statute of limitations of 10 years as stated in Article 1144 of the Civil Code of the Philippines.

9.3 Article 1144 of the Civil Code states that the following actions must be brought within ten years from the time the right of action accrues:

a. Upon a written contract;

b. Upon an obligation created by law; and

c. Upon a judgment.

9.4 However, receivables emanating from disallowances/charges in audit are not proper subjects for write-off in which the disallowance/charges resulted from illegal/irregular disbursements and that "the audit disallowance is not subject to condonation following the principle that what is prohibited directly is also prohibited indirectly. The audit disallowance cannot be circumvented and legitimized by resorting to condonation." (Philippine Deposit Insurance Corporation vs. COA, G.R. No. 171548, February 22, 2008)

9.5 Furthermore, Section 18 of the Manual on Certificate of Settlement and Balances under Commission on Audit Circular No. 94-001 dated January 20, 1994 provides for the modes of settling disallowances and charges, which include:

a. The submission of the required explanation/justification and/or documentations by the person or persons determined by the auditor to be liable therefor;

b. Payment of the amount disallowed in audit; and

c. Such other modes of extinguishment of obligation as provided by law.

9.6 Various issued disallowances which remained dormant for more than 10 years totaling P850,897.01 included the following:

SL Code	Particulars	Amount	Remarks
146-009	COA-Miscellaneous Disallowance		
	ABS/CBN Broadcasting Corp./PT BLK AG	P328,850.00	Responsible officers are no longer connected with NEA. Services contracted were delivered/fulfilled by ABS-CBN
	PHILRECA	2,400.00	Payee/Accountable Officials are no longer connected with NEA and 4 are already dead.
	Regional Office	183,103.70	
	Benefits	42,583.37	
	TEV	2,766.85	
	Board of Administrators	14,000.00	
	NEA Consultants	23,600.00	
	DENR Detailed Employees	57,875.00	
	AFP Detailed Personnel	5,275.00	
	Suppliers/Creditors	31,795.89	
146-005	NEA Hazard Pay	50,600.00	
146-001	NEA Anniversary Bonus 1997	39,000.00	
146-007	NEA Salary Standardization II	26,796.20	
146-008	NEA Signing Bonus	12,000.00	
146-003	NEA Anniversary Bonus 1999	8,000.00	
146-004	NEA Centennial Bonus	8,000.00	
146-002	NEA Anniversary Bonus 1998	6,000.00	
146-010	COA-Disallowances	4,851.00	
146-011	COA-Disallowance – Others	2,500.00	Person/s liable not identified
146-006	Rice Allowance	900.00	For adjustment
Total		**P850,897.01**	

9.7 Most of the officers/employees liable are no longer connected with the Administration. They are either retired or separated from the service.

9.8 In compliance with the prior year's audit recommendation to submit the death certificate of the deceased former employees, NEA made an effort to secure on-line the required documents from the Philippine Statistics Authority. However, there are information/fields in the application which NEA cannot provide, such as date/place of death and place of marriage. NEA requested more time to secure such information for them to submit the death certificates.

9.9 However, the audit disallowance cannot be extinguished by the death of the payee or one of the persons liable. Settlement of the disallowance can be made by other persons determined liable. (COA Decision No. 2015-258, September 29, 2015)

9.10 In addition, NEA sent various letters to the accountable persons including former NEA employees but some were returned to sender due to the reason that the recipients have already moved-out or the persons are no longer living at that address.

9.11 In view of the foregoing, actions made by NEA in compliance with the prior year's audit recommendations were not sufficient since the disallowances and charges were not settled as of audit date.

9.12 **We reiterated and Management agreed to comply with the recommendations:**

a. **Enforce settlement of the disallowances to those accountable officers whose present location/address are identified in accordance with the procedures under the Rules and Regulations on Settlement of Accounts (RRSA) prescribed under COA Circular No. 2009-006 dated September 15, 2009 and COA Circular No. 94-001 dated January 20, 1994;**

b. **Determine other persons liable in lieu of the deceased accountable person and ascertain possibility of collection/settlement;**

c. **For services contracted with ABS-CBN amounting to P328,850.00, submit certification that services were indeed rendered and such services did not result to any loss of government funds or property; and**

d. **Submit proof of exhaustion of all possible remedies to settle the disallowance from persons liable that could not be located anymore.**

10. **Unreconciled balance of account *Cash-Regional Centers (for recon*) amounting to P198,298.52 which has been existing since 2005 is not yet reconciled/adjusted which casts doubt on the existence of the balance as at year-end.**

10.1 This is a reiteration of prior year's audit finding where we recommended Management to perform a detailed review of the transactions and reconcile the balances and make the necessary adjusting entries in the subsidiary ledger to clear the balance of the account.

10.2 Management commented that it's their intention to expedite the reconciliation of Cash-Regional Centers Account. However, the complete analysis of the accounts of Regional Centers is yet to be performed due to difficulties in locating the documents of Regional Centers. Management requested for a longer period to reconcile the account to perform a detailed review and reconciliation.

10.3 NEA has 12 Regional Electrification Centers (REC) but were already closed and considered abolished as of December 31, 2003 in accordance with Rule 33, Section 3(b)(ii) of the Implementing Rules and Regulations (IRR) of RA

9136 otherwise known as The Electric Power Industry Reform Act of 2001 (EPIRA).

10.4 RECs' cash for operations/administration is still included in NEA's Statement of Financial Position under Cash and Cash Equivalents for CYs 2003 up to present despite its termination in 2003.

10.5 In March 31, 2005, NEA set up the beginning balance of the account Cash Regional Centers (for recon) in the e-NGAS amounting to P566,126.22 per Journal Entry Voucher (JEV) No. 2005-03-00001 and various adjustments were made to clear the account in which the last adjustment was made in May 31, 2006 as follows:

Particulars	*Date*	*JEV No.*	*Amount*	*Balance*
Beginning Balance	3/31/2005	2005-03-000001	P 566,126.22	P 566,126.22
Adjustment of Cash Accounts:				
Region II	6/30/2005	2005-06-001396	(10,850.03)	555,276.19
Region VII	1/31/2006	2006-01-000940	(189,425.19)	365,851.00
Region X	1/31/2006	2006-01-000945	(153,196.59)	212,654.41
Region XII	1/31/2006	2006-01-000946	(3,306.59)	209,347.82
Region V	5/31/2006	2006-05-003304	(11,049.30)	**P 198,298.52**

10.6 As of audit date, there is no adjustment made in NEA's books to correct the balance of the said account.

10.7 **We recommended that Management:**

a. **Expedite review of the transactions and reconcile the balances; and**

b. **Make the necessary adjusting entries in the subsidiary ledger to clear the balance of the account.**

10.8 Management stated that reconciliation of various Regional Electrification Offices (REOs) accounts was conducted in 2017. However, the various documents gathered were insufficient to support the adjustment of the accounts. As a remedy, NEA requested the assistance of the Philippine National Bank (PNB) and Development Bank of the Philippines (DBP) in securing copies of various REO's bank transaction history through a letter dated May 16, 2017 with a follow-up letter dated August 22, 2017. To date, NEA have yet to receive any document from either bank.

NEA requested copies of Journal Entry Vouchers (JEVs) from COA to support the reconciliation of the account. Furthermore, NEA requested for additional time to reconcile the accounts of Regional Centers to comply with the audit recommendations.

10.9 In view of the actions taken by Management, the Audit Team reiterate its recommendations to expedite the review/reconciliation of the transactions and prepare necessary adjusting entries to clear the balance of the account.

11. **Return of unexpended subsidies of Sitio Electrification Program/Priority Development Assistance Fund (SEP/PDAF) and Pantawid Kuryente: Katas ng VAT (PKKV) funds and interest earned from bank deposits of subsidy receipts amounting to P3.003 million and P4.152 million, respectively, or a total of P7.156 million, were recorded in NEA's books as Miscellaneous Income and deposited to Corporate fund. As a result, accounts Retained Earnings and Cash in Bank – Administrative Fund are overstated by P7,156,153.59 and P6,263,860.27, respectively and Other Payables, Cash in Bank – Subsidy Fund accounts are understated by P7.156 million and P6.264 million, respectively.**

11.1 Section 65 of P.D. No.1445 provides that:

> *(1)"Unless otherwise specifically provided by law, all income accruing to the agencies by virtue of the provisions of law, orders and regulations shall be deposited in the National Treasury or in any duly authorized government depository, and shall accrue to the unappropriated surplus of the General Fund of the Government."*

11.2 Section 8 of the Memorandum of Agreement (MOA) between Department of Social Welfare and Development (DSWD) and National Electrification Administration (NEA) provides that:

> *"Refund to DSWD any unutilized fund or savings generated after the project implementation"*.

11.3 Examination of account Miscellaneous Income showed that there are unexpended/unutilized balance of P3,003,712.41 from various ECs for the SEP/PDAF and PKKV funds which were returned/refunded to NEA and taken up in NEA's books as Miscellaneous Income. The details are as follows:

EC Name	Date	Reference	Amount	Remarks
NEECO II AREA 2	06/05/2015	JEV-2015-06-004691	P 476.19	Returned from acquisition of Vehicle from PDAF
MASELCO	06/18/2015	JEV-2015-06-004828	85,364.43	From 10 sitios
TARELCO I	06/17/2015	JEV-2015-06-004805	2,266.28	From 2011 SEP
Sub Total			**P88,106.90**	
CEBECO II	02/09/2015	JEV-2015-02-001222	60,291.87	Returned unexpended funds from Pantawid Kuryente-Katas ng Vat (PKKV) program
QUEZELCO II	02/11/2015	JEV-2015-02-001229	9,500.00	
NEECO I	04/08/2015	JEV-2015-04-003611	181,572.31	
FICELCO	06/10/2015	JEV-2015-06-004718	79,856.16	
NEECO II AREA 2	06/11/2015	JEV-2015-06-004730	133,070.62	
NEECO I	06/11/2015	JEV-2015-06-004731	36,500.00	
PENELCO	06/11/2015	JEV-2015-06-004741	177,000.00	
CASURECO III	06/17/2015	JEV-2015-06-004810	233,000.00	
PANELCO I	06/22/2015	JEV-2015-06-004849	87,000.00	
IFELCO	06/23/2015	JEV-2015-06-004875	52,651.47	
FICELCO	07/16/2015	JEV-2015-07-005263	22,705.89	
QUEZELCO I	07/31/2015	JEV-2015-07-005364	753,000.00	
SURNECO	11/03/2015	JEV-2015-11-008833	27,128.56	
ALECO	11/12/2015	JEV-2015-11-008878	2,228.12	
COTELCO	01/06/2016	JEV-2016-01-001461	686,587.33	

EC Name	Date	Reference	Amount	Remarks
NEECO II AREA 1	01/08/2016	JEV-2016-01-000627	7,000.00	
PROSIELCO	01/08/2016	JEV-2016-01-000636	9,561.61	
ABRECO	01/14/2016	JEV-2016-01-000669	221,386.83	
NORECO I	02/05/2016	JEV-2016-02-001073	42,886.15	
FGUIMELCO	03/07/2016	JEV-2016-03-001722	12,930.16	
COTELCO	04/04/2016	JEV-2016-04-002911	55,181.34	
BISELCO	05/02/2016	JEV-2016-05-003376	17,034.51	
DIELCO	08/16/2016	JEV-2016-08-006090	7,532.58	
Subtotal			**P 2,915,605.51**	
Grand Total			**P 3,003,712.41**	

11.4 Likewise, refunds/remittances from CY 2015-2017 for ECs bank interests earned from subsidy receipts amounting to P4,152,441.18 were also recorded as NEA's Miscellaneous Income, summarized as follows:

EC Name	Date	Reference	Amount
ABRECO	02/22/2016	JEV-2016-02-001220	P 521.42
ANECO	02/16/2016	JEV-2016-02-001142	95,496.91
ANTECO	02/02/2016	JEV-2016-02-001062	5,529.60
GUIMELCO	02/22/2016	JEV-2016-02-001222	36,970.54
IFELCO	04/14/2016	JEV-2016-04-002959	109,064.94
ILECO	02/02/2016	JEV-2016-02-001061	140,571.89
NONECO	03/01/2016	JEV-2016-03-001684	97,703.80
NORECO I	02/05/2016	JEV-2016-02-001074	244,277.32
OMECO	04/04/2016	JEV-2016-04-002907	88,372.04
PANELCO I	01/20/2016	JEV-2016-01-000713	91,063.88
SOCOTECO I	02/18/2016	JEV-2016-02-001188	201,101.03
Sub total			**P 1,110,673.37**
AKELCO	03/16/2015	JEV-2015-03-002693	97,528.32
ASELCO	11/23/2015	JEV-2015-11-008896	165,474.75
CAMELCO	07/07/2015	JEV-2015-07-005206	9,186.30
CEBECO III	03/09/2015	JEV-2015-03-002587	83,258.79
	03/09/2015	JEV-2015-03-002588	21,461.89
	03/09/2015	JEV-2015-03-002590	86,507.00
	03/09/2015	JEV-2015-03-002591	121,924.28
	03/09/2015	JEV-2015-03-002592	50,602.65
IFELCO	01/28/2015	JEV-2015-01-001185	66,279.30
KAELCO	04/14/2015	JEV-2015-04-003625	145,190.62
MARELCO	01/23/2015	JEV-2015-01-001152	10,787.50
MASELCO	06/18/2015	JEV-2015-06-004817	457,552.00
NEECO II AREA 2	06/05/2015	JEV-2015-06-004693	109,675.62
PALECO	10/08/2015	JEV-2015-10-008409	96,277.27
QUEZELCO II	02/11/2015	JEV-2015-02-001230	4,441.70
	07/27/2015	JEV-2015-07-005329	10,111.69
ROMELCO	12/08/2015	JEV-2015-12-009299	13,684.49
SURNECO	11/03/2015	JEV-2015-11-008831	82,401.34
SURSECO I	03/30/2015	JEV-2015-03-002967	110,921.75
TARELCO I	06/23/2015	JEV-2015-06-004868	293,115.39
TIELCO	12/07/2015	JEV-2015-12-009290	80,457.66
ZAMECO I	07/03/2015	JEV-2015-07-005199	4,438.97
ZAMECO II	06/30/2015	JEV-2015-06-004890	49,460.95
ZAMSURECO I	06/22/2015	JEV-2015-06-004857	186,675.44
Sub total			**P 2,357,415.67**

EC Name	Date	Reference	Amount
PANELCO I	04/30/2015	JEV-2015-04-003666	7,200.17
ZAMECO I	05/15/2015	JEV-2015-05-003797	67,576.91
	04/22/2016	JEV-2016-04-002983	4,445.23
MARELCO	04/27/2015	JEV-2015-04-003658	214,412.02
SORECO I	05/26/2015	JEV-2015-05-003826	363,413.89
QUEZELCO II	02/11/2015	JEV-2015-02-001228	27,303.92
Sub total			**P 684,352.14**
Grand Total			**P 4,152,441.18**

11.5 The EC's refunds of unexpended/unutilized SEP/PDAF and PKKV funds should not be considered as income of NEA considering that the funds were sourced from the government agencies (BTr and DSWD) intended for specific purpose, hence, should be credited back to account Other Payables to be remitted to Bureau of Treasury (BTr) and DSWD in accordance with Section 65 of P.D. No.1445 and Section 8 of the MOA.

11.6 In addition, said refunds/remittances were deposited to NEA's Corporate Fund account instead of Subsidy Fund account, detailed as follows:

SL Name	Remittances from ECs				
	Interest Earned from PKKV Funds	Unexpended PKKV Funds	Interest Earned from SEP Funds	Unexpended SEP Balance	Total
LBP-Barangay Electrification Fund	0	P 2,228.12	P 721,837.00	0	**P 724,065.12**
DBP-RE Construction Fund	0	0	88,372.04	0	**88,372.04**
LBP-Administrative Fund	P684,352.14	2,833,521.23	2,657,880.00	P 88,106.90	**6,263,860.27**
LBP-Restricted Fund	0	79,856.16	0		**79,856.16**
Grand Total	**P684,352.14**	**P2,915,605.51**	**P 3,468,089.04**	**P88,106.90**	**P7,156,153.59**

11.7 The incorrect treatment of refunds/remittances of unexpended SEP/PDAF and PKKV funds and interest earned from EC's bank deposits to account *Miscellaneous Income* resulted in overstatement of accounts *Retained Earnings* and Cash in Bank-Administrative Fund amounting to P7,156,153.59 and P6,263,860.27, respectively and understatement of Other Payables and Cash in Bank – Subsidy Fund accounts amounting to P7,156,153.59 and P6,263,860.27, respectively. Likewise, deposits of remitted unutilized balance and interest earned to NEA's Corporate fund contravenes Section 45 of PD 1445 and MOA between DSWD and NEA.

11.8 **We recommended that NEA Management:**

a. **Prepare accounting adjustments on the erroneous recording of EC's remittance of unexpended SEP/PDAF and PKKV funds and interest earned from EC's bank deposits to Miscellaneous Income and deposit to NEA's Corporate fund as follows:**

Particular	Dr.	Cr.
Cash in Bank – LBP- BE Fund or RE Construction Fund and Restricted Fund for PKKV *Retained Earnings*	*6,263,860.27* *7,156,153.59*	
Cash in Bank – Administrative Fund *Other Payables*		*6,263,860.27* *7,156,153.59*

b. **Remit the interest earned and unexpended balance for SEP/PDAF and PKKV fund amounting to P3,468,089.04 and P3,599,957.65, respectively, or a total of P7,068,046.69, to BTr and DSWD pursuant to Section 65 of the P.D. 1445 and MOA between DSWD and NEA; and**

c. **Henceforth, deposit remittance from EC's to the corresponding Subsidy Fund account, for proper monitoring of the subsidy account.**

11.9 Management informed that due to time constraints, the corresponding adjusting entries will be made after reconciliation of the accounts after which immediate remittance of the applicable amount will also be made. Management further informed that they will comply on the proper monitoring of subsidy account.

11.10 While waiting for the Management reconciliation of accounts, the Audit Team reiterated the recommendation to adjust the affected accounts and remit to BTr and DSWD the interest earned pursuant to Section 65 of the P.D. 1445 and furnish to COA the official receipt for the remittance to DSWD, for monitoring purposes.

B. Compliance

12. **Payment of differentials on salary, mid-year bonus, year-end bonus and monetization of leave credits for CY 2016 to NEA officials and employees totaling P11,710,575.69, was not in accordance with Executive Order (EO) No. 36.**

12.1 On July 28, 2017, President Duterte issued Executive Order No. 36 suspending the Compensation and Position Classification System (CPCS) under EO No. 203 s. 2016. Sections 1, 2 and 3 of EO No. 36 provides among others the following:

> "*The implementation of the CPCS and the IOS Framework for the GOCC Sector under EO No. 203 is hereby suspended."*
>
> *For SSL-covered GOCCs, the GOCC shall adopt the Modified Salary Schedule under EO No. 201 (s. 2016), as well as the allowances and benefits provided therein, upon approval by the GCG.*

The interim measure under this Order shall be implemented effective 1 January 2017, upon approval of the GCG."

12.2 However, NEA has implemented the payment of salary increase to its officials and employees covering CY 2016 in February and March 2017, one year ahead of its implementation based on approved Board Resolution No. 8 dated February 2, 2017. The Resolution approved the adoption of EO No. 201, pending the approval by the President of the NEA CPCS under EO No. 203. Except for the Administrator, the recipient NEA officials and employees executed an Affidavit of Undertaking to refund the amount received in case of disallowance by the Commission on Audit upon final judgment of the Supreme Court that the same is without legal basis. The payments included differentials of salary, mid-year bonus, year-end bonus and monetization of leave credits totalling P11,710,575.69, detailed as follows:

Particulars	***Reference***	***Date Granted***	***Amount***
Salary differential covering January -December 2016	DV No. 01-17-02-342 ADA-PVB-342 BUR –PS 217-02-297	02/08/17	P 9,830,011.72
Mid-year bonus differential – 2016	Same as above	02/08/17	818,270.00
Year-end bonus differential – 2016	Same as above	02/08/17	822,396.00
Monetization of leave credits differential - 2016	JEV No. 403-2017-03-001801	03/27/17	239,897.97
Total			**P11,710,575.69**

12.3 The grant of salary rate and bonuses differential to NEA officials and employees pertaining to CY 2016 was based on the difference between the rate on the 4th tranche of SSL 3 -NBC 540 dated May 10, 2012 and the rate under the 1st Tranche of SSL 4 of EO 201 dated February 19, 2016 while the monetized leave credit differential consists of the difference on value of the leave credits under the SSL 4 applied on the Monetization of Leave Credits by 134 employees for CY 2016, which are both not in accordance with EO No. 36.

12.4 EO No. 201 was issued on February 19, 2016 modifying the salary schedule for government personnel and authorizing the grant of additional benefits. Under Section 13 of the same EO, GOCCs governed by the CPCS established by the Governance Commission for GOCCs (GCG) and approved by the President of the Philippines under RA 10149 are not covered by the said EO. They shall be governed by their respective CPCS which shall be made effective upon the recommendation of the DBM or the GCG and approval by the President of the Philippines.

12.5 NEA submitted its Total Compensation Framework (TCF) and the actual salaries, benefits and allowances under the first tranche of EO No. 201, s. 2016 to the GCG. The GCG noted that the amounts indicated as monthly basic salary of all NEA employees appear to be equivalent to the rates provided under the first tranche of EO No. 201. The GCG emphasized that the provisions of EO No. 201 do not apply to GOCC covered by RA 10149.

Hence, NEA, a GOCC covered by RA 10149 does not fall within the coverage of EO No. 201 and is therefore not entitled to the rates provided therein.

12.6 On the other hand, EO No. 203, s. 2016 was issued on March 22, 2016 approving the CPCS and the IOS Framework for the GOCC Sector effective to all GOCCs, GFIs, GICPs/GCEs including their subsidiaries, which are covered by RA No. 10149. However, under Section 8 of EO 203, all GOCCs that have not been subjected to rationalization or reorganization and those covered by pending recommendations from the GCG for abolition, dissolution, or privatization, **shall maintain their current compensation framework.**

12.7 On June 30, 2017, NEA informed the GCG that pending its compliance of the requirements such as Restructuring Plan, Job Levelling proposal and other relevant requirements and the approval of the President for a CPCS, NEA shall maintain its current compensation framework anchored on Section 8 of EO No. 203 as mentioned in par. 6. NEA believe that the current compensation framework applied to NEA employees is the Salary Standardization Law (SSL) known as SSL 4 per EO No. 201. Hence, the 1st tranche computation of salary increase was used and implemented in February and March 2017 covering CY 2016 without the GCG's authorization. However, NEA wrongly interpreted the current compensation framework used which should have been the current compensation received by its employees (SSL 3) prior to issuance of EO No. 201 and not the compensation package provided under SSL 4 of the same EO.

12.8 Therefore, the advance implementation in 2016 of the compensation package under EO No. 201 which became effective in January 2017, is not authorized, hence without legal basis.

12.9 It is noteworthy to mention that upon the issuance of EO No. 36, NEA requested for GCG's authorization to adopt the interim Compensation Framework under EO No. 36, s. 2017. GCG approved its request for authorization reminding NEA that the grant of allowances and/or benefits outside of EO No. 36 may be a ground for a corrective action by the GCG and/or imposition of the sanctions under the GCG Memorandum Circular. Hence, attention is invited to Sections 14 and 15 of GCG Memorandum Circular No. 2017-03 dated August 24, 2017 which states:

> *"Responsibility of GOCCs – xxx. The responsible officers shall be held liable for any payment not in accordance with the provisions hereof without prejudice to the refund by the employees concerned of any excess or unauthorized payments."*
>
> *"Failure to comply with the terms and conditions of this Circular shall be considered a serious offense of the GOCC in general, and the Governing Board and Management of the GOCC in particular. Upon prior notice and an opportunity to be heard, the GCG may impose any, or a combination of the following sanctions. xxx."*

12.10 ***We recommended that Management cause the refund by the NEA officials and employees of the payments made on differentials of salary, mid-year bonus, year-end bonus and monetization of leave credits computed under the first tranche of SSL 4 amounting to P11,710,575.69 to avoid issuance of Notice of Disallowance and imposition of sanctions provided under Section 15 of GCG Memorandum Circular No. 2017-03.***

12.11 Management justified that NEA has implemented the payment of salary adjustment first tranche under Executive Order (EO) No. 201 based on the issuance of DBM Circular No. 562 dated February 24, 2016 approved by the Board of Administrators under Resolution. No. 8 on February 2, 2017. NEA is still and currently covered by the Compensation Position Classification System (CPCS) under RA No. 6758 and Joint Resolution. No. 4, s. 2009 in which the current compensation framework implemented by NEA is the SSL 4 under EO 201.

12.12 As a rejoinder, National Budget Circular No. 562 dated February 24, 2016 was issued to prescribe the guidelines, rules and regulations of EO 201 dated February 19, 2016. The coverage of the EO No. 201 (Modified Salary Schedule) is applied to all civilian personnel in the Executive, Legislative and Judicial Branches, Constitutional Commissions and other Constitutional Offices, Government-Owned or Controlled Corporations (GOCCs) not covered by RA No. 10149. Hence, it is reiterated that NEA, a GOCC covered by RA 10149 does not fall within the coverage of EO No. 201 and is therefore not entitled to the rates provided therein. In addition, NEA's compensation framework is SSL3 and not SSL4.

Under Section 8 of EO 203, all GOCCs that have not been subjected to rationalization or reorganization and those covered by pending recommendations from the GCG for abolition, dissolution, or privatization, shall maintain their current compensation framework. NEA's current compensation is SSL 3.

On February 9, 2017 NEA submitted to GCG its Total Compensation Framework wherein the amounts indicated is equivalent to the rates provided in EO 201, however, this was disapproved by the GCG on May 30, 2017 citing Section 13 of EO 201.

GCG MC No. 2017-03 on the IRR of EO 36 s.2017 suspending the implementation of the CPCS under EO 203 on its application states that the effectivity of the compensation adjustments authorized under EO 36 under the prescribed rates of EO 201 shall retroact January 1, 2017.

12.13 The Audit Team reiterated that the advance implementation in 2016 of the compensation package under EO 201 which became effective in January 2017 is not authorized, hence without legal basis.

13. **Payment of Collective Negotiation Agreement (CNA) Incentive for CY 2016 amounting to P7.054 million was not in accordance with Paragraph 4 of Department of Budget and Management (DBM) Budget Circular No. 2016-7 dated December 1, 2016 and COA Circular No. 2012-003 dated October 29, 2012.**

13.1 Paragraph 4.4.1.2 (b) of Department of Budget and Management (DBM) Budget Circular No. 2016-7 on the Guidelines on the Grant of Collective Negotiation Agreement Incentive for FY 2016 states:

> "(*b) GOCCs covered by RA No. 10149 should have accomplished, by October 31, 2016, <u>at least an average of 70% of all the targets under their respective Performance Scorecard as agreed upon between the Governance Commission for GOCCs (GCG) and the GOCC</u> pursuant to GCG Memorandum Circular No. 2013-02 (Re-issued) dated June 24, 2014."*

13.2 Likewise, GCG Memorandum Circular No. 2013-02 states that the overall score of the GOCC is determined by the number of measures actually fulfilled out of the total number of measures set for the Social Impact, Customers/Stakeholders, and Finance Perspectives. Some or all of the measures for Internal Process and/or Learning and Growth Perspectives may be included in the determination of the overall score of the GOCC only upon agreement between the GCG and the GOCC.

13.3 Moreover, COA Circular No. 2012-003 dated October 29, 2012 defines "Irregular Expenditures" as an expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. They are incurred if the funds are disbursed without conforming to the prescribed usages and rules of discipline.

13.4 On December 15, 2016, NEA granted its officers and employees CNA incentive for CY 2016 amounting to P7,054,166.66 on the basis of NEA's attainment of accomplishment of 77.80% of all the targets which is more than 70% average in all its targets, as of October 31, 2016 as required by the DBM Budget Circular No. 2016-7 and Board Resolution No. 01 dated February 2, 2017.

13.5 To determine whether NEA is performing or non-performing, the GCG and NEA shall agree on the target overall score. However, verification of supporting documents showed that the basis for the grant of the CNA incentive was the performance scorecard prepared by Corporate Planning Office approved by NEA Administrator only and not the validated and agreed performance scorecard by NEA and GCG as stated in the DBM Budget Circular. NEA misconstrued the provision of Budget Circular that even without the agreed performance scorecard, the payment for such incentive is still considered valid, which is not in accordance with DBM Budget Circular No. 2016-7.

13.6 Moreover, the grant of CNA incentive is considered irregular although not among the enumerated cases that are considered irregular expenditures as it departs from or does not comply with the standards set by the DBM with regard to its policy guidelines/conditions for the grant of CNA incentive which is Budget Circular No. 2016-7, hence, the payment lacked legal authority or legal basis.

13.7 **We recommended that Management provide a validated and agreed performance scorecard by the GCG as basis for the grant of the CNA incentive for CY 2016, otherwise, this will be disallowed in audit.**

13.8 Management submitted the Performance Agreement Negotiation (PAN) between NEA and Governance Commission for GOCCs per GCG Memorandum Circular No. 2013-02 as agreed upon on September 2, 2015 and the uploaded in the NEA website under Transparency Seal supported by the monitoring report of performance targets for three quarters of CY 2016.

Also, Management submitted the transmittal and acknowledgement receipt of the GCG on the Performance Scorecard (PS) report as of September 30, 2016 submitted as requirement for the grant of CNA Incentive on November 3, 2016. In the PS report as of October 31, 2016, NEA has accomplished an average of 787.80% of all its target in accordance with DBM Budget Circular No. 2016-7 dated December 01, 2016. Thus, complaint to 4.1.2b of the Circular which states that, “GOCCs covered by RA No. 10149 should have accomplished by October 31, 2016, at least an average of 70% of all the targets under their respective Performance Scorecard as agreed upon between the GCG and the GOCC pursuant to GCG MC No. 2013-02.

13.9 As a rejoinder, we noted that the PAN between the NEA and GCG pertains to the guidelines for the grant of PBB to NEA officials and employees and PBI to its governing boards and not the validated/agreed PS. Although the same PS for the Performance-Based Bonus is being used in the validation, the cut-off date of the report is different which is as of October 31 of the current Year for CNA.

The Audit Team acknowledged that NEA submitted the required PS for the 3rd quarter of CY 2016 to the GCG in compliance with the Budget Circular, however, such PS was not validated or agreed by the GCG, hence should not be the basis of approval for the grant of CNA incentive. As provided in the circular, the PS should be the agreed upon between the NEA and the GCG.

13.10 The Audit Team therefore recommended that NEA should make a follow up on the action of the GCG agreeing the PS as of October 31, 2016 which is one of the essential requirement for the grant of the CNA and submit to COA Office for verification.

14. **NEA procured expensive models/brand of electronic gadgets in 2010-2017 totaling P1.114 million which is not in accordance with Section 4 of COA Circular No. 2012-003. Further, expensive electronic gadgets were issued to NEA Board of Administrators (BOA) which was not compliant with Section 12 of Executive Order (EO) No. 24.**

14.1 **NEA procured 30 units of expensive models/brand of electronic gadgets in 2010-2017 totaling P1,114,314.75 which is not in accordance with Section 4 of COA Circular No.2012-003.**

14.1.1 Section 4 of COA Circular No. 2012-003 dated October 29, 2012 states that:

> "*Xxx. Unnecessary expenditure are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation. This would also include incurrence of expenditure not dictated by the demand of good government, and those the utility of which cannot be ascertained at a specific time. An expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary...*"

14.1.2 The purchase of expensive models/brands of electronic gadgets such as mobile phones, desktops, laptops, etc. unless justified by circumstances is a case considered as unnecessary expenditure pursuant to COA Circular No. 2012-003.

14.1.3 Review of the Property, Plant and Equipment Schedule as of December 31, 2017 showed 51 units of Apple iPad with aggregate cost of P1,618,104.75. These Apple iPad were distributed/issued for the use of NEA officers and employees. However to date, NEA has no written guidelines or policy for the issuance of expensive gadgets (Apple iPad) to its officers and employees.

14.1.4 Out of the 51 units of Apple iPad, 21 units valued at P503,790.00 donated by the Development Bank of the Philippines (DBP) were recorded in the books. Moreover, 30 units costing P1,114,314.75 were procured in 2010-2017 out of the Administration's General Fund, detailed as follows:

No.	Description	Date Donated	Property No.	End-user	Acquisition Cost
			Donation		
1	Ipad 16 GB	Sep 10, 2012	12-PAD-003	Officers	P23,990.00
2	Ipad 16 GB	Sep 10, 2012	12-PAD-004		23,990.00
3	Ipad 16 GB	Sep 10, 2012	12-PAD-005		23,990.00
4	Ipad 16 GB	Sep 10, 2012	12-PAD-006		23,990.00
5	Ipad 16 GB	Sep 10, 2012	12-PAD-007		23,990.00
6	Ipad 16 GB	Sep 10, 2012	12-PAD-008		23,990.00
7	Ipad 16 GB	Sep 10, 2012	12-PAD-009		23,990.00
8	Ipad 16 GB	Sep 10, 2012	12-PAD-010		23,990.00
9	Ipad 16 GB	Sep 10, 2012	12-PAD-011		23,990.00
10	Ipad 16 GB	Sep 10, 2012	12-PAD-012		23,990.00
11	Ipad 16 GB	Sep 10, 2012	12-PAD-013		23,990.00
12	Ipad 16 GB	Nov 23, 2012	12-PAD-031		23,990.00
13	Ipad 16 GB	Nov 23, 2012	12-PAD-032		23,990.00
14	Ipad 16 GB	Nov 23, 2012	12-PAD-033		23,990.00
15	Ipad 16 GB	Nov 23, 2012	12-PAD-034		23,990.00
16	Ipad 16 GB	Nov 23, 2012	12-PAD-035		23,990.00

No.	Description	Date Donated	Property No.	End-user	Acquisition Cost
17	Ipad 16 GB	Nov 23, 2012	12-PAD-036		23,990.00
18	Ipad 16 GB	Nov 23, 2012	12-PAD-037		23,990.00
19	Ipad 16 GB	Nov 23, 2012	12-PAD-038		23,990.00
20	Ipad 16 GB	Nov 23, 2012	12-PAD-039		23,990.00
21	Ipad 16 GB	Nov 23, 2012	12-PAD-040		23,990.00
Sub-total			**21**		**P 503,790.00**

No.	Description	Acquisition Date	Property No.	End-user	Acquisition Cost
Procurement					
1	Ipad 3G 64GB	Nov 19, 2010	10-IPAD-001	Officer	P42,100.00
2	Ipad 64GB	Feb 8, 2011	11-IPAD-002	None	38,295.00
3	Ipad3 64GB	Oct 11, 2012	12-PAD-014	Officers	36,602.00
4	Ipad3 64GB	Oct 11, 2012	12-PAD-015		36,602.00
5	Ipad3 64GB	Oct 11, 2012	12-PAD-016		36,602.00
6	Ipad3 64GB	Oct 11, 2012	12-PAD-017		36,602.00
7	Ipad3 64GB	Oct 11, 2012	12-PAD-018		36,602.00
8	Ipad3 64GB	Oct 11, 2012	12-PAD-019		36,602.00
9	Ipad3 64GB	Oct 11, 2012	12-PAD-020		36,602.00
10	Ipad3 64GB	Oct 11, 2012	12-PAD-021		36,602.00
11	Ipad3 64GB	Oct 11, 2012	12-PAD-022		36,602.00
12	Ipad3 64GB	Oct 11, 2012	12-PAD-023		36,602.00
13	Ipad3 64GB	Oct 11, 2012	12-PAD-024		36,602.00
14	Ipad3 64GB	Oct 11, 2012	12-PAD-025		36,602.00
15	Ipad3 64GB	Oct 11, 2012	12-PAD-026		36,602.00
16	Ipad3 64GB	Oct 11, 2012	12-PAD-027		36,602.00
17	Ipad3 64GB	Oct 11, 2012	12-PAD-028		36,602.00
18	Ipad3 64GB	Oct 11, 2012	12-PAD-029		36,602.00
19	Ipad3 64GB	Oct 11, 2012	12-PAD-030		36,602.00
20	Ipad3 64GB	Jan 10, 2013	12-PAD-041		42,995.00
21	Ipad3 64GB	Dec 12, 2012	12-PAS-042	None	42,995.00
22	Ipad 4	Nov 29, 2013	13-PAD-046	Officer	39,995.00
23	Ipad 4	Nov 29, 2013	13-PAD-047	BOA	39,995.00
24	Ipad 16GB	Jan 21, 2014	14-PAD-048	Officers	24,850.00
25	Ipad 16GB	Jan 21, 2014	14-PAD-049		24,850.00
26	Ipad Air2 64GB	Apr 23, 2015	15-PAD-051		38,505.75
27	Ipad Air2 64GB	May 12,2015	15-PAD-052		39,000.00
28	Ipad Air2 64GB	Jul 15, 2015	15-PAD-053	Property Officer	34,500.00
29	Ipad Air2 128GB	Feb 1, 2017	17-PAD-054	BOA	42,000.00
30	Ipad Air2 128GB	Mar 17, 2017	17-PAD-055	Property Officer	42,000.00
Sub-total			**30**		**P1,114,314.75**
Grand Total			***51***		**P1,618,104.75**

14.1.5 The Apple iPads were issued for communication on top of the Telecommunication Plan subscribed by NEA for its officers and employees to cover the provision for medium of communication. These telecommunication plan caters fast and real time exchange of information through text messaging, voice calls and electronic mails.

14.1.6 Apple iPads are of superior quality compared to other units/brands of portable electronic gadgets and usually has a higher price in the market. The Apple iPad are considered as expensive model/brand of electronic gadgets. Non-procurement of these expensive and high-end communication gadgets would not affect the ability of the NEA officers and employees to accomplish their duties and responsibilities since they are also provided with desktop computers ready for internet connections.

14.1.7 Procurement of expensive models/brands of electronic gadgets are considered unnecessary expenditure and not compliant with Section 4 of COA Circular No. 2012-003 dated October 29, 2012. Management must exercise due prudence in the procurement of communication gadget which shall be within the bounds as to its necessity and responsiveness to the exigencies of the service and observing economy in the interest of the government.

14.2 **Expensive electronic gadgets were issued to NEA Board of Administrators (BOA) which is not compliant with Section 12 of Executive Order (EO) No. 24.**

14.2.1 Under Section 12 of EO No. 24 dated February 10, 2011, only reimbursable expenses are granted to the Board of Administrators (BOA) for NEA, to wit:

> *““**Reimbursable Expenses-** All necessary expenses of member of the Board of Directors/Trustees to attend Board and other meetings and discharge their official duties shall be paid directly by the GOCC. However, when due only to the exigency of the service and subject to the submission of receipt, it is necessary for member of the Board of Directors/trustees to advance the same, they may be reimbursed but only for the following items incurred in the performance of official functions subject to budgeting, accounting, and auditing rules and regulation:*
>
> *a. Transportation expenses in going to and from the place of meeting;*
> *b. Travel expenses during official travel;*
> *c. **Communication expenses**; and*
> *d. Meals during business meeting.”*

14.2.2 For CY 2017, two units of Apple iPad were procured and recorded in NEA’s books. These items were issued to NEA BOA. The issuances were supported by Property Acknowledgement Receipt (PAR) signed by the two BOA end-users. Details are as follows:

Description	Property No.	Acquisition Date	Cost	End User
iPad Air 2 64gb	17-PAD-054	01-Feb-17	P 42,000.00	BOA
iPad Air 2 64gb	17-PAD-055	17-Mar-17	42,000.00	BOA
Total			**P 84,000.00**	

14.2.3 Further verification from the property officer disclosed that to date, one BOA is no longer a member of the Board. The iPad issued to him was already surrendered and the other unit remains in the possession of the other BOA.

14.2.4 The receipt of property is not explicitly specified under EO 24, hence, the BOAs are not allowed to be issued with such expensive property.

14.3 **We recommended that Management:**

a. **Submit justification for the procurement of expensive models/brands of electronic gadgets which is considered as unnecessary expenditure pursuant to COA Circular No. 2012-003 dated October 29, 2012; and**

b. **Stop the issuance of any gadget and/or equipment to the members of the Board of Administrators pursuant to Section 12 of EO No. 24 dated February 10, 2011.**

14.4 Management justified that the iPad Equipment in 2012 were acquired as electronic monitoring tools/device for power distribution/EC performance monitoring, disaster response for ECs during calamities for quick decision making and information exchange of NEA Management and to immediately/directly comply, respond and meet the different standards of document format of attachment/mails/documents. The IT resource acquisition was a strategic decision based on the functional and exigent requirements of the Agency.

NEA will no longer issue/distribute on what COA considers as expensive gadgets (Apple iPad) to its officers and employees.

The issuance of Apple iPads for Communication on top of the Telecommunication Plan subscribed by NEA for its officers and employee to cover the provision for medium of communication is not duplication due to the following:

a. NEA preferred document management processing and exchange online due to the geographical location of the NEA Board of Administrators (BOA), time constraints and availability;

b. With the use of an iPad with SIM Card utilizing the Data Plan Services, the members of the NEA BOA can exchange and download voluminous documents anytime, anywhere through email and other applications necessary for information exchange using an internet. The SIM card in the Ipad is not used for oral communication, but more of internet use for data, information exchange and internet browsing. Hence, it cannot be considered a duplication of the existing Telecommunication Plan subscribed by NEA;

c. To use information exchange and download of voluminous data/information can be hardly provided by mobile handsets because Ipads have comprehensive processors and memory which are also used in ordinary computer application and processing. Using a handset, one cannot encode or type voluminous documents because of its size, capacity, capability and limitations. Handsets are primarily designed for voice communication. Data plan in the handset is more of viewing/sending limited emails/documents purposes but not much of complete data processing and information exchange as what the BOA are using in their data processing and medium of communication practice at NEA.

At the time the NEA procured iPads in 2012, the cost per unit was at par or comparable with the medium end laptop/netbook and other comparable devices for quality processing and cost then was not equivalent to the price of expensive equipment. The Apple iPads purchased then were only 64GB and were in the category of midrange computing. During that period there are already 128 and 256GB Ipads available in the market which are considered high-end; but NEA opted to purchase lower configuration Ipad which were suited and responsive to NEA's computing requirements.

Apple iPad issued to the Board Member was surrendered to the Property Officer under the General Services Division's custody. The iPad previously issued to the other Board Member is still with him for use in exchanging and downloading voluminous documents, through email and other applications necessary for information exchange using an internet as he is an incumbent member of the NEA BOA.

14.5 The Audit Team will monitor NEA's compliance on the non-procurement of expensive models/brands of electronic gadgets and its commitment to stop the issuance of expensive gadgets to its officers and employees and members of the Governing Boards.

15. **Procurement procedures conducted by the NEA Bids and Awards Committee (BAC) were not in accordance with RA 9184 and its Revised Implementing Rules and Regulations (RIRR), to wit:**

15.1 **Observers from duly organized private group and non-government organization were not invited to sit during the procurement stage/activity contrary to Section 13 of RIRR of RA 9184;**

15.1.1 Section 13 of RIRR of RA 9184 provides that:

> *"13.1. To enhance the transparency of the process, the BAC shall, during the eligibility checking, shortlisting, pre-bid conference, preliminary examination of bids, bid evaluation, and post-qualification, invite, in addition to the representative of the COA, at least two (2) observers, who shall not have the right to vote, to sit in its proceedings where:*

1. *At least one (1) shall come from a duly recognized private group in a sector or discipline relevant to the procurement at hand,*

2. *The other observer shall come from a non-government organization (NGO).*

13.2. The observers shall come from an organization duly registered with the Securities and Exchange Commission (SEC) or the Cooperative Development Authority (CDA), and should meet the following criteria:

a) Knowledge, experience or expertise in procurement or in the subject matter of the contract to be bid;

b) Absence of actual or potential conflict of interest in the contract to be bid; and

c) Any other relevant criteria that may be determined by the BAC."

15.1.2 Section 16, Article XIII of the 1987 Philippine Constitution ensures that "the right of the people and their organizations to effective and reasonable participation at all levels of social, political, and economic decision-making shall not be abridged. The State shall, by law, facilitate the establishment of adequate consultation mechanisms."

15.1.3 This idea of citizen's participation is consistent with the Government Procurement Reform Act's (GPRA) general principle and policy of promoting transparency, accountability, efficiency, and public monitoring in government procurement. Accordingly, the presence of observers in the procurement process is a way to ensure adherence to the law and the prevention of graft and corruption.

15.1.4 Inquiry from the member of the BAC Secretariat revealed that invitation for observers to attend in every stages of procurement activity was sent only to COA and the resident Ombudsman. Representative from a duly organized private group and non-government organization were not invited to participate as an observer in any stage of procurement activities which is contrary to the provision of Section 13.1 of RIRR of RA 89184.

15.1.5 The practice of not inviting observers from a duly organized private group and non-government organization which are duly registered with the SEC or CDA in addition to the representative of COA is a violation of the provision of Section 13 of RIRR of RA 9184. Moreover, the essence for inviting observers from these groups which is to promote greater awareness and a more empowering participation of citizen stakeholders was not met.

15.2 **Procurement contract was not awarded in favor of the supplier with the lowest calculated and responsive quotation.**

15.2.1 Rule XVI, Section 48.1 of 2016 RIRR for RA 9184 states that:

> *"Subject to the prior approval of the HoPE, and whenever justified by the conditions provided in this Act, the Procuring Entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement provided in this Rule. In all instances, the Procuring Entity shall ensure that the **most advantageous price** for the Government is obtained."*

15.2.2 Section V, Specific Guidelines for shopping procedure under Annex "H", Guidelines for the Alternative Method of Procurements, of the RIRR states that:

> *"viii. Upon confirmation and ascertainment of such capability, the BAC shall recommend to the HoPE the award of contract in favor of the supplier with the Lowest Calculated and Responsive Quotation. In case of approval, the HoPE shall immediately enter into a contract with the said supplier."*

15.2.3 Three POs were not awarded to the supplier with the Lowest Calculated and Responsive Quotation (LCRQ), detailed as follows:

Particulars	Purchase Order no.	Date	Winning Bidder		Supplier with the Lowest Calculated and Responsive Quotation		Reason for Disqualification
			Supplier	Amount	Supplier	Amount	
Procurement of One unit Colored Laser Printer	17-04-122	May 24, 2017	Supplier 1	P33,500.00	Supplier 2	P16,125.00	Offered different model of printer
Procurement of one unit Multi-Wan Router	17-03-057	March 1, 2017	Supplier 3	432,856.00	Supplier 2	385,000.00	Inclusive in the offer was one year technical support warranty which was not indicated in the RFQ.

15.2.4 Specifications for the procurement of Goods should be based on relevant characteristics, functionality and/or performance requirements. Hence, a description or specification of the product should be considered instead of its model or brand.

15.2.5 Request for Quotations (RFQ) were sent to the suppliers to quote their latest price for the items to be procured. The quotations received will be evaluated to determine its compliance to the Approved Budget of the Contract (ABC) and the technical specification requirements. If found to be compliant with the requirements, the procurement should be awarded to the supplier with the Lowest Calculated and Responsive Quotation.

15.2.6 All items from the suppliers are subject to actual testing and inspection upon delivery of the goods. When the supplier fails to satisfactorily deliver the goods with the required specifications or did not deliver the same item as they offer, NEA may refuse to accept the goods.

15.3 **Preparation of Procurement Monitoring Report (PMR) was not in accordance with the form prescribed by the Government Procurement Policy Board (GPPB) pursuant to Section 12.2 of IRR of RA 9184.**

15.3.1 Section 12.2 of RIRR of RA 9184 states that:

> *"The BAC shall be responsible for ensuring that the Procuring Entity abides by the standards set forth by the Act and this IRR, and it shall prepare a Procurement Monitoring Report (PMR) in the form prescribed by the GPPB. The PMR shall cover all procurement activities specified in the APP, whether ongoing and completed, from the holding of the pre-procurement conference to the issuance of notice of award and the approval of the contract, including the standard and actual time for each major procurement activity. The PMR shall be approved and submitted by the HoPE to the GPPB in printed and electronic format within fourteen (14) calendar days after the end of each semester."*

15.3.2 Procurement Monitoring Report is used to monitor the procurement activities of government projects, and to ensure that these projects are completed within the least period of time and in compliance with RA 9184 and its RIRR.

15.3.3 Review of NEA's PMR posted on the website showed that it was prepared on a quarterly basis. The PMR prepared by the BAC was not in accordance with the format prescribed by the GPPB, in which it only covers the date of posting of invitation to bid, notice of award, approved contract and notice of award. Likewise, it does not have the approval from the Administrator.

15.3.4 The PMR should cover all phases of procurement activities from the holding of pre-procurement conference up to the approval of the contract. The date of issuance of Notice to Proceed, delivery/completion, Inspection and Acceptance and other relevant information should also be included. Moreover, it should be approved by the Head of the procuring entity.

15.4 **We recommended that Management:**

a. **Require the BAC to invite at least two (2) observers from a duly recognized private group and NGOs in every stages of procurement activity to enhance the transparency of procurement process;**

b. **Require the BAC to ensure that the most advantageous price for the Government contract should be obtained. Likewise, submit justification for not awarding the contracts in favour of the supplier with the Lowest Calculated and Responsive Quotation; and**

c. **Require the BAC to prepare PMR in the form prescribed by GPPB with the approval of the Administrator.**

15.5 Management commented the following:

a. The BAC for local and in-House Procurement sends an invitation to the Commission on Audit and Office of the Ombudsman during the procurement stages/activities. Based on previous experience, the agency sent invitations to private sector (NGOs etc), however, they were not interested, thus, the agency stopped sending formal invitations.

From here on, the BAC shall issue formal invitations to the private sector from among those listed in the GPPB Website.

b. Some POs were not awarded to the supplier with the Lowest Calculated and Responsive Quotation (LCRQ) because of the following reasons:

- *Procurement of One unit Colored Laser Printer (PO No. 17-04-122 dated May 24, 2017)*

  The recommendation for the awarding of the PO to the winning supplier with the lowest calculated and responsive quotation was based on the need of the end user. Thus, on this basis, it was compliant to award the said supplier, at that point, considered to have the lowest calculated and responsive quotation.

- *Procurement of one unit Multi-Wan Router (PO No. 17-03-057 dtd March 1, 2017)*

Supplier 2 seemingly with a lowest calculated and responsive quotation was not awarded because it submitted a very generic/general “warranty” statement. It was declared non-complying because of the non-responsiveness of the warranty offered.

c. Detailed notation in the RFQs and the recommended action on the abstract for quotation regarding the reason of awarding to a winning bidder will be indicated in order to avoid confusion on some instances when a Purchase Order is not awarded to a supplier who appears to have the lowest calculated and responsive quotation.

d. In case of defects found during the actual testing and inspection upon delivery of goods, and supplier fail to satisfactorily deliver the goods with the required specifications or did not deliver the same item as they offered. NEA as had been done in the past shall refuse to accept the said goods.

e. The Procurement Monitoring Report shall be revised and prepared in accordance with the prescribed format by the GPPB and to be signed by the Administrator or any duly authorized NEA personnel to whom authority will be delegated as the case may be, and shall cover all phases of procurement activities from the pre-procurement conference up to the approval of the contract.

15.6 For the procurement of colored printer, the printer offered by Supplier 2 also qualifies with the specification requirement listed in the RFQ based on the need of the end user and offered the lowest calculated bid but did not qualify because it offered a different brand/model. The description or specification of the product should be considered instead of its model or brand pursuant to Section V – Annex H of the RIRR of RA 9184.

15.7 The Audit Team will monitor NEA's compliance with RA 9184 on its future procurement process.

16. **Grant of monthly communication allowance in the form of postpaid plan subscription to the NEA Board of Administrators (BOAs) is contrary to Section 12 of Executive Order (EO) No. 24 dated February 10, 2011. Also, charges in excess of monthly plan subscriptions were paid by NEA instead of the end-user, which is contrary to NEA guidelines for amended mobile phone plan for the NEA assembly of leaders and Board of Administrators.**

Further, procurement of cellular phone for replacement of lost unit is contrary to NEA internal policy on property accountability for the loss of issued mobile phone.

Related discussions on the above observations are as follows:

16.1 **Grant of monthly communication allowance in the form of mobile postpaid plan subscription to the NEA Board of Administrators (BOAs).**

16.1.1 Section 12 of EO No. 24 dated February 10, 2011 state that:

> *"**Reimbursable Expenses-** All necessary expenses of member of the Board of Directors/Trustees to attend Board and other meetings and discharge their official duties shall be paid directly by the GOCC. However, when due only to the exigency of the service and subject to the submission of receipt, it is necessary for member of the Board of Directors/trustees to advance the same, they may be reimbursed but only for the following items incurred in the performance of official functions subject to budgeting, accounting, and auditing rules and regulation:*
>
> *a. Transportation expenses in going to and from the place of meeting;*
> *b. Travel expenses during official travel;*
> *c. Communication **expenses**; and*
> *d. Meals during business meeting."*

16.1.2 NEA granted Telecommunication Plan to its four BOAs in the form of two-year cellphone subscription. The plan includes cost of cellphone and usage charges paid on a monthly basis amounting to P3,500.00. The following are NEA BOAs who were granted monthly mobile postpaid plan subscription:

Name	***Mobile Phone Unit***	***Subscription Plan***
BOA No. 1	Samsung Galaxy S7 Edge	3,500.00
BOA No. 2	Samsung Galaxy S7 Edge	3,500.00
BOA No. 3	Apple Iphone 6S	3,500.00
BOA No. 4	Apple Iphone 6	3,500.00

16.1.3 As of December 31, 2017, the post-paid plan cellphone subscription issued to BOA No. 3 and 4 were already expired and not renewed, while post-paid plan cellphone subscription issued to BOA No. 2 was surrendered to Property Officer and temporarily disconnected. Only the post-paid plan cellphone subscription issued to BOA No. 1 remain active.

16.1.4 While medium of communication is a necessity in the performance of duties/functions as Board of Administrator in the NEA operation, a fix amount of communication allowance in the form of mobile postpaid plan amounting to P3,500.00 per month is contrary to Section 12, of EO No. 24 dated February 10, 2011.

16.1.5 The BOAs are allowed to reimburse communication expenses when due only to the exigency of the service and subject to the submission of receipt as stated in EO No. 24. It is also necessary that the reimbursable expenses were incurred only during the performance of official functions.

16.2 **Charges in excess of the monthly plan subscriptions were paid by NEA instead of the end-user, which is contrary to NEA Guidelines for Amended Mobile Phone Plan for the NEA Assembly of Leaders and Board of Administrators.**

16.2.1 Section V of Amended Mobile Phone Plan for the NEA Assembly of Leaders and Board of Administrators states that:

> *"Usage by all plan subscribers except for the NEA Board of Administrators, Deputy Administrators and Office of the Administrator (OA) are limited to their respective monthly plan subscriptions. Any amount exceeding the allowed coverage shall be paid for by the end-user. Xxx"*

16.2.2 Apart from mobile postpaid plan subscription, some officers were also granted broadband plan subscription.

16.2.3 The amount of charges in excess of the monthly subscriptions were paid and shouldered by NEA, detailed as follows:

Account	Subscription Plan (a)	Billing Period	Check No.	Amount Paid (b)	Excess (a-b)
Globe 1050473396	1,000.00	Jun.24- Jul.23, 2017	57460865	1,500.00	500.00
Globe 1050471571	1,000.00	Jun.24-Jul.23, 2017	57460866	1,500.00	500.00
Globe 1050471598	1,000.00	Jun.24- Jul.23, 2017	57460875	1,500.00	500.00
		Jul.24-Aug.23, 2017	59766040	1,500.00	500.00
TOTAL					**2,000.00**

16.2.4 Telecommunication plan granted to the officers are limited only to their respective monthly plan subscription and any amount exceeding the subscribed plan should be borne by the end-user.

16.2.5 Payment of excess charges constitutes additional expense on the part of NEA and is contrary to the NEA Guidelines for Amended Mobile Phone Plan for the NEA Assembly of Leaders and Board of Administrators.

16.3 **Procurement of cellular phone for replacement of lost unit is contrary to the NEA Guidelines for Amended Mobile Phone Plan for the NEA Assembly of Leaders and Board of Administrators.**

16.3.1 Section V of Amended Mobile Phone Plan for the NEA Assembly of Leaders and Board of Administrators states that:

> *"In case of Loss of the unit within the lock-in period, the official/employee concerned shall replace or pay the same for the cost of the unit but shall enjoy the same coverage/plan."*

16.3.2 One unit of Samsung Galaxy J5 Prime cellular phone was procured on June 23, 2017 costing P9,990.00 for the use of BOA No. 1 in replacement of the lost previously issued cellular phone allegedly stolen which is part of the postpaid plan cellphone subscription.

16.3.3 Procurement of another unit as replacement for the stolen item entails additional expense for NEA. The cost of replacement unit should be borne personally by the Board Member as stated in Section V of the Amended Mobile Phone Plan of NEA.

16.4 **We recommended that Management:**

a. **Submit justification on the grant of communication allowance to the BOAs in the form of mobile postpaid plan subscription which is contrary to Section 12 of EO No. 24 dated February 10, 2011;**

b. **Require the three end-users to refund the excess amount paid by NEA for the broadband subscription amounting to P2,000.00; and**

c. **Require the BOA No. 1 to return the amount paid by NEA for the procurement of cellular phone costing P9,990.00.**

16.5 Management submitted their comments and justifications:

a. The granting of Mobile Plans to BOA was based on previous issuance in accordance with the Amended Mobile Plan for the NEA Assembly of Leaders and Board of Administrators to provide an efficient communication system in facilitating management decision making with the advent of R.A. 9136 and R.A. 10531. The agency undertook a communication plan which will cater to fast and real time exchange of information.

Given that the members of the BOA are availing of the existing Mobile Plan, it will be more practical and cost saving to use this monthly plan, otherwise, additional cost to NEA will be incurred if the contract will be pre-terminated prior to the end of the contract which is on October 2, 2019.

b. Accounts pending settlement of on-going disputes with Globe Telecom, where the excess payments were absorbed by NEA:

- Broadband unit of account 105047198 was turned over to GSD last November 7, 2017 because of its recurring charges billed under the employee's name. Despite the non-usage of the plan, excess browsing charges on top of its allowed coverage are still incurred. NEA requested Globe for Voluntary Temporary Disconnection (VTD) to stop the charges billed on this account.

- The first two excess charges for this account was paid despite the employee's protest amounting to P1,000.00 under OR No. 7893880 dated June 28, 2017.

- For accounts 1050473396 and 105471571, the unusual billing happened in the period of June 24 to July 23, 2017. User of the account 1050471571 paid the excess charges under protest. These accounts were coordinated with the concerned parties and Globe Telecom was informed of the said issue.

- NEA scheduled a follow-up/meeting with Globe's Account Manager as no positive action from their end was received up to this date regarding the complaints raised by the respective users. Since the accounts have a lock-in period of two years ending April 12, 2019, NEA is arranging a VTD as NEA employees are not willing to accept/use the broadband units due to excess charging.

  Likewise, a meeting with the National Telecommunication Commission (NTC) shall be set as another option.

c. NEA's Policy on Usage and Property Accountability on mobile phones states that, in case of loss of unit within the lock-in period, the official/employee concerned shall replace or pay the same for the cost of the unit but shall enjoy the same coverage/plan.

However, considering that a robbery took place in the house of BOA No. 1 as evidenced by a Police Report, the loss cannot be attributed against him for there was no negligence on his part.

17. **Duplicate copy of Transfer Certificate of Titles (TCTs) surrendered to NEA as collateral for loans granted to various Electric Cooperatives (EC) were not annotated and registered with the Registry of Deeds (RD), contrary to Section 54 and 61 of Presidential Decree No. 1529. Likewise, mortgaged TCTs were not original copies.**

17.1 Section 54 and 61 of Presidential Decree No. 1529 states that:

> *"Sec. 54 [A]ll interest in registered land less than ownership shall be registered by filing with the Register of Deeds the instrument which creates or transfers or claims such interests and by a brief memorandum thereof made by the Register of Deeds upon the certificate of title, and signed by him. A similar memorandum shall also be made on the owners duplicate. The cancellation or extinguishment of such interests shall be registered in the same manner.*
>
> *Section 61.Registration. Upon presentation for registration of the deed of mortgage or lease together with the owner's duplicate, the Register of Deeds shall enter upon the original of the certificate of title and also upon the owner's duplicate certificate a memorandum thereof, the date and time of filing and the file number assigned to the deed, and shall sign the said memorandum. He shall also note on the deed the date and time of filing and a reference to the volume and page of the registration book in which it is registered."*

17.2 Article 2125 of the Civil Code of the Philippines states that *"Xxx, <u>it is indispensable, in order that a mortgage may be validly constituted, that the document in which it appears be recorded in the Registry of Property. If the instrument is not recorded, the mortgage is nevertheless binding between the parties.</u> The persons in whose favor the law establishes a mortgage have no other right than to demand the execution and the recording of the document in which the mortgage is formalized."*

17.3 In CY 2016 Annual Audit Report, we reported and recommended that Management (a) register all Deed of Mortgage together with the original TCTs to the Registry of Deeds for annotation in compliance with Sections 54, and 61 of PD No. 1529, (b) require the ECs to have the executed Affidavit of Surrender of Certificate of Title annotated with the Register of Deeds; and (c) require the electric cooperatives/borrowers to submit/surrender to NEA all duplicate copy of TCTs for safekeeping until loans are fully paid.

17.4 However, the recommendations were not implemented except for partial delivery of EC's duplicate copy of TCTs. Management commented that due to the high registration cost and the present practice of Banks, Government Financial Institutions (GFIs) and Financial Institutions (FIs) of unregistered Deed of Mortgage, ECs requested NEA to dispense the registration of Deed of Mortgage in connection with Section 58 of RA 9136, that NEA shall develop and implement programs to strengthen the technical capability and financial viability of rural electric cooperatives. The NEA Board approved the request of one EC to dispense with the registration of the Mortgage Contract on July 10, 2014, subject to the following terms and conditions:

(1) Execution of the Mortgage Contract in favor of NEA;
(2) Delivery of the owner's duplicate copy of TCT to NEA;
(3) Execution and submission to NEA of an affidavit that the certificate of title has been surrendered with NEA and that coop will not mortgage the said properties without the written consent of NEA. A board Resolution authorizing the EC Board President or any authorized representative from the Board to execute the affidavit shall also be submitted to NEA;
(4) Continuing Deed of Assignment of power receivables subject to MOA with DBP;
(5) Issuance of Post-Dated Checks to cover quarterly loan amortization for one year and yearly thereafter;
(6) Inclusion of the following in the Loan Agreement
    - Step-in rights of NEA subject to compliance with the requirements of the law
    - The non –registration by NEA of the REM with the Registry of Deeds shall not be considered as waiver thereof. Thus, at any time and in the exercise of its sole discretion, NEA may register the REM and charge all expenses as part of the loan obligation of the EC.
(7) Other conditions that NEA may require to secure the loan; and
(8) Similar request of ECs for the Waiver of the registration of the mortgage contract may likewise be granted subject to the foregoing terms and conditions, and to variations, as may be needed.

With these requirements, NEA stressed that it is fully protected as well as its officers and officials.

17.5 Furthermore, on the annotation of the Affidavit of Surrender of Certificate of Title with the Registry of Deed, Management commented that the following are the requirements for the registration of Affidavit of Surrender of Certificate of Title from the Land Registration Authority (LRA) (a) owner's copy of TCT-original, (b) registered First Mortgage, and (c) Affidavit of Surrender. These requirements defeats the main purpose of the non-registration of the REM to save on registration fees.

Moreover, Management commented that the Affidavit of Surrender of Certificate of Title serves only as a safety net/measure in case of non-payment of the EC. But with the other requirements enumerated in the Board Resolution, NEA is very much secured. The reason why NEA required the execution of the Affidavit is for additional protection and if the Affidavit cannot be registered without registering the REM, then Management may likewise suspend its registration until they deem it necessary.

17.6 However, as the delivery of owner's duplicate copy of TCT is required as security, which is one of the conditions for the dispensation with the registration of the Mortgage Contract, this must be registered with the Registry of Deeds for annotation.

17.7 The main purpose of mortgage annotation is to protect the rights of NEA over property surrendered as collateral. The annotation of original TCT remains until the EC fully satisfies its obligation guaranteed by the mortgage. Status of prior year's observation is as follows:

Particular	***TCTs w/o Annotation in CY 2016 (a)***	***TCTs of ECs w/o Outstanding Loan Balance (b)***	***Balance (c=a-b)***
TCTs without Annotation	203	15	188

17.8 NEA's non-registration and annotation of the owner's duplicate copy of TCTs violates Sections 54 and 61 of PD No. 1529.

17.9 On the other hand, in compliance with the CY 2016 third audit recommendation, Management required all ECs with outstanding loan balance to submit/surrender to NEA all duplicate TCTs used as collateral. However, review of submitted transmittal letters from various ECs for the submission of original TCTs showed that out of the 136 TCTs not submitted in CY 2016, 98 remain unsubmitted, detailed as follows:

Particular	***No. of Unsubmitted TCT in CY 2016***	***No. of Original TCT Submitted in CY 2017***	***TCTs No Longer Required for Submission - ECs w/o Outstanding Loan***	***Balance***
	(a)	**(b)**	**(c)**	**(a-b-c)**
Unsubmitted Original TCT	136	33	5	98

17.10 **We recommended that Management:**

a. **Cause the Account Management and Guarantee Division (AMGD) to immediately register the mortgaged duplicate copy of TCTs to the Registry of Deeds for annotation pursuant to Sections 54, and 61 of PD No. 1529 to protect the rights of NEA; and**

b. **Require the ECs to submit/surrender to NEA all duplicate copy of TCTs for safekeeping until such loans are fully paid.**

17.11 Management explained that:

- Although the First Mortgage Contract is not registered, the Mortgage Contract is valid and binding between NEA and ECs (Art. 2125 of the New Civil Code). NEA is also in possession of the owner's copy of TCT.

- The operation of EC is imbued with public interest and the foreclosure of mortgaged properties is remote. Moreover, NEA's collection efficiency is between 99%-100%.

- To protect NEA's interest, it also requires that the ECs execute Deed of Assignment of Power Receivables and issuance of post dated checks.

- The high registration cost is an added cost that is not recoverable in the rate of ECs under the existing RSEC-WR. For a P100 million loan, the cost of registration is P1,355,160.70 which can already finance 387 pcs of kwh meter and house wiring of 22 units of 10kvA pole transformers.

- There are other legal remedies of NEA under RA 10531 particularly Section 4.a on the Supervisory power of NEA and Section 4.b on the Step-in power of NEA.

- Under Article VI, Section 2 of the Loan Contract, NEA may exercise certain legal remedies in case of default such as assignment of designation of an Acting General Manager and/or a Project Supervisor, take over the construction, operation, management and control of the System, and take any other lawful remedial measure.

- NEA already required the ECs to submit Owner's copy of TCT. Out of the 136 photocopies of TCTs mentioned in CY 2016 audit recommendation, following is the status:

Submitted	38
No O/S loan	12
With DBP (MSI)	1
For Transfer of Ownership	20
Tax Declaration	32
For submission (14EC)	33
Total	**136**

17.12 As a rejoinder, the Audit Team recognizes NEA's justification, however, it only desires the protection of NEA's interest.

18. **The required posting of Performance Security on the subsidy fund released to the Electric Cooperatives (EC's) remain unenforced, thus, posing risk of non-compliance with project implementation within the prescribed completion date and not in conformity with COA Circular No. 2007-001.**

18.1 COA Circular No. 2007-001 dated October 25, 2007 is the revised guidelines in the granting, utilization, accounting and auditing of the funds released to

Non-Governmental Organizations (NGOs) and People's Organizations (POs). It provides among others the following procedures for the availment, release and utilization of fund assistance to NGOs/POs which must be strictly complied with:

4.5.6 "No NGO/PO shall be recipient of funds where any of the provisions of this Circular and the MOA entered into with the GO has not been complied with, in any previous undertaking with funds allocated from the GO.

4.5.7 For infrastructure projects, the NGO/PO shall post a performance security upon signing of the MOA, in the form of a surety bond callable on demand, issued by the Government Service Insurance System (GSIS) or an insurance company duly accredited by the Office of the Insurance Commission equivalent to 30% of the total funds to be granted. If the project is not completed within 90 days after the prescribed completion date due to the NGOs/POs fault, the bond shall be forfeited in favor of the GO, by its filing of the claim to the GSIS or the bonding company as the case maybe. If necessary, a supplemental MOA to govern the prosecution of the project during the project so extended may be executed by and between the NGO/PO and the GO, the terms of reference of which, however, must not be contrary to provisions of the original MOA."

18.2 The Performance Security is the guarantee to be posted by the ECs with NEA upon signing of the MOA, which pertains to the subsidy releases, and not the performance security posted by the contractor/winning bidder for the projects awarded by the ECs. The performance bond posted by contractors for their project/s with ECs is rightfully assigned to ECs.

18.3 In the examination of subsidy funds releases to ECs for CY 2017, no performance bond was posted by ECs. The posting of performance security with NEA is to be done by NGO/PO specifically the ECs for the implementation of rural electrification projects which is equivalent to 30 percent of total subsidy funds released pursuant to COA Circular No. 2007-001.

18.4 The MOA between NEA and ECs has no specific mandatory requirement to obligate the ECs in posting the necessary Performance Security. The MOA only indicated the following:

a. *"The project (s) should be implemented and **completed within six months** after receipt of the subsidy appropriations by the Recipient from NEA;*

b. *Pursuant to COA Circular No. 2012-01 xxx, the Recipient shall submit regular Accomplishment Reports on the progress of the project implementation including an accounting of the subsidy fund and disbursements made to implement the project (s) on a per project basis, and such other data and information, as may be required by NEA from time to time. A final report on the project (s) to include original copies of Accounting of Funds, Status Report of NEA subsidy fund releases and Certificate of Final Inspection and Acceptance and other documents provided in Schedule B must be submitted by the Recipient to NEA within three months from completion of the project which shall be the basis for liquidation. Also, the Recipient shall conduct close-out of project within three months after NEA's final inspection and* *acceptance to facilitate the take-up of completed projects in the EC books; and*

c. *NEA shall institute appropriate actions and/or may suspend release of the subsidy fund in the event of failure of the Recipient to strictly comply with the provisions of this agreement."*

18.5 This has been our audit observation since CY 2015-2016. We then recommended to require the ECs to post performance security to guarantee completion of projects funded out of government subsidy within 90 days as required under Section 4.5.7 of COA Circular No. 2007-001 and include a provision to this effect in the MOA between NEA and ECs. However, the same were not enforced. Only the winning bidders/contractors of ECs were required by NEA to post performance security of 10 percent of contract price to ensure project completion.

18.6 It is worth mentioning that for the nine ECs audited in CY 2017, four ECs have incurred delay in the completion of the project and three ECs have 278 sitios delayed in the completion within the set timeframe. Moreover, two EC's have 19 unimplemented sitios. The details are presented below:

EC Name		Project		Sitio				Audit Remarks
		No. of Project Delayed Within the Timeframe	No. of Days Delayed	No. of Project	No. of Sitios Delayed Within the Project	No. of Days Delayed	No. of Unimplemented Sitios within the Project	
1.	CENECO	1	1,350	6	0	0	16	Funds allocated for the unimplemented sitios were deducted from the AF;
2.	CEBECO I	0	0	15	231	5-319	0	
3.	MOELCI I	0	0	1	31	91-172	0	
				9	16	7-150		
4.	OMECO	1	5	0	0	0	0	
5.	NORECO II	2	27-223	0	0	0	0	
6.	NOCECO	0	0	2	0	0	3	Realigned to other sitios without prior approval from NEA.
	Total	**4**		**33**	**278**		**19**	

18.7 As shown in the above table, 278 sitios of the 33 projects of three EC's were delayed in the implementation ranging from 5 to 319 days from the required six months completion of the project as stated in the MOA and four projects of the three EC's were delayed in the project implementation ranging from 5 – 1,350 days. Likewise, project for the 19 sitios were not implemented by the two ECs. The delays and/or unimplemented sitios hindered the beneficiaries of the maximum benefits that could be derived from the program.

18.8 Though, there were delays in the timeline completion or unimplemented sitios, NEA continuously release subsidy funds from the said ECs. Should there be a performance bond posted, this should have been forfeited if found the ECs are at fault.

18.9 To ensure prompt completion of the project within the timeline, there is a need to require the ECs to post performance security in the form of a surety bond callable on demand, issued by the GSIS or any insurance company duly accredited by the Office of the Insurance Commission as required under COA Circular No. 2007-001. If the project is not completed within 90 days after the prescribed completion date, the bond shall be forfeited in favour of NEA.

18.10 The non-imposition of performance security poses risk of ECs not complying with the project completion timeline and other provisions of the MOA executed with NEA. Had this been made mandatory, delayed implementation or non-implementation of projects could have been avoided/minimized.

18.11 NEA Management provided their explanations on the non-implementation of posting of performance bond as follows:

a. The beneficiaries of the SEP/BLEP are mostly marginalized member consumers who are lifeliners. The revenue generated from these consumers does not commensurate the additional operating expense such as the cost of premiums that the ECs will incur; and

b. The ECs are already required to follow RA 9184 where performance security from the winning bidder is a requirement to comply with the project timeline and completion.

18.12 The purpose of NEA's requiring the ECs to post performance security is to guarantee the ECs completion of projects funded out of subsidy from the NG. While the performance security required by ECs to the Contractors/winning bidders is to guarantee the completion/performance of their projects to the ECs.

18.13 **We reiterated our previous recommendations that Management:**

a. **Seek approval from the Department of Budget and Management (DBM) citing the above mentioned justifications, otherwise, enforce the ECs to post performance security to guarantee completion of projects funded out of government subsidy within 90 days as required under Section 4.5.7 of COA Circular No. 2007-001; and**

b. **Include a provision in the MOA between NEA and ECs requiring the mandatory posting of performance security by the latter and no release of subsidy should be made unless the performance security is presented to NEA.**

18.14 Management commented the following:

NEA's inquiry from DBM (over the phone) disclosed that DBM will not include in the project cost the amount of Performance Security and no additional funding will be given. Thus, NEA sent a letter to the Assistant Commissioner, Legal Services Sector and Office of the General Counsel, COA on 09 May

2018 requesting for NEA's exemption from the coverage of Section 4.5.7 of COA Circular No. 2007-001 for the following reasons:

a. Additional Operating Expenses (OPEX)

b. Effect on System Loss and Collection Efficiency

c. Cost of Premium

The ECs are non-stock and non-profit cooperatives where system rate is just enough to cover the operating expenses. The cost of premium is an added cost to the ECs which is not recoverable from their tariff.

In a consultation, the ECs proposed to include the cost of premium in the total project cost. However, this proposal may not prosper considering that the DBM will not include the cost of premium in the project cost and no additional funding will be given according to the said Office;

d. The ECs are already required to follow RA 9184 where performance security from the winning bidder is a requirement to comply with the project timelines and completion. The winning bidders of ECs are required to post a performance bond. Admittedly, this bond is posted in favor of the ECs and not the NEA; but, they serve to ensure the timely completion of the project; and

e. NEA also learned from the ECs that they are not required to post Performance Security for other projects like NIHE and ER1-94 of the Department of Energy (DOE) which are of the same class as that of SEP/BLEP subsidies. Hence, we share the view that posting of Performance Bond/Security should not be applied to SEP/BLEP Projects as well.

18.15 As a rejoinder, while waiting for the reply on the requested exemption to COA Circular No. 2007-001 on the required posting of performance bond, the Audit Team maintain its audit recommendation that NEA should require the ECs to post the required performance security bond.

19. **Procurement procedures conducted by the BAC on the ECs audited in CY 2017 for SEP and BLEP subsidy funded projects were not in accordance with RA 9184 and its RIRR, to wit:**

a. Payment of mobilization fee paid to the Contractor exceeded the allowable 15 percent as prescribed under Section No. 4.1 on Contract Implementation Guidelines for the Procurement of Infrastructure Projects of the RIRR of RA 9184;

b. Non-posting and/or posting below the required amount of performance security bond by the Contractors was not in accordance with Sections 37.2.1, 39.1, 39.2 and 39.4 of the RIRR of RA 9184;

c. **The contract price exceeded the NEA approved cost or approved budget cost (ABC) contrary to the provisions of Section 31.1 of the RIRR of RA 9184 and Section 3 of the MOA between NEA and ECs;**

d. **CEBECO I and ILECO III contracts for supply of materials and labor under 2015 SEP were awarded to the bidder with higher bid price which is not in accordance with Section 37.1.1 of RIRR of RA 9184;**

e. **The Net Financial Contracting Capacity (NFCC) in CENECO was not considered in the determination of prospective bidder's eligibility for the awarded contractors as required in Sections 23.4.2.6 and 25.2 of the RIRR of RA 9184;**

f. **OMECO contracts under SEP/BLEP projects were not paid/issued with a Bid Security which is not in accordance with Section 27 of RA 9184;**

g. **No bidding was conducted for contracts awarded to contractor for the construction of distribution lines under 2011 to 2013 SEP which is not in accordance with Sections 3 of the MOA and No. 1 Policy Statement of Appendix 14 on Guidelines on Non-Governmental Organization Participation in Public Procurement of the RIRR of RA 9184;**

h. **No observer was invited in the conduct of public bidding of the infrastructure projects which is not in accordance with Sections 13.1 of the RIRR of RA 9184;**

i. **Deficiencies in the compliance with the bidding process as well as its documentation in SAMELCO I, NOCECO, CENECO, BILECO, MOELIC I, OMECO and CELCO;**

j. **Laxity in the processing and awarding of contracts by the BAC resulted in lacking documentary requirements as required under RIRR of RA 9184; and**

k. **Lack of training to enhance capability of BAC officers and concerned personnel in implementation of RA 9184 for the subsidy funded by the NG.**

19.1 Section 3 of the Memorandum of Agreement signed by NEA and EC's states that:

> *"Procurement of equipment and materials and/or engagement of contractors for the project(s) shall be guided by RA 9184 and its Implementing Rules. X xx"*

19.2 Section 12.2 Rule V of the RIRR of Republic Act (RA) 9184 – Bids and Awards Committee states that:

> *"The BAC shall be responsible for ensuring that the procuring entity abides by the standards set forth by the Act and this IRR, x xx."*

19.3 However, deficiencies were noted in the procurement procedures conducted by the respective BAC of ECs[1] audited in CY 2017 which are not in accordance with the RIRR of RA 9184 as follows:

19.3.1. **Payment of mobilization fee or advance payment by CENECO, BOHECO I, CEBECO I, CELCO, OMECO, MOELCI I and NORECO II exceeded the allowable 15 percent as prescribed under Section No. 4.1on Contract Implementation Guidelines for the Procurement of Infrastructure Projects of the RIRR of RA 9184.**

19.3.1.1. Section 4.1 of the RIRR of RA 9184 states that:

> *4.1 "The procuring entity shall, upon a written request of the contractor which shall be submitted as a contract,* ***make an advance payment to the contractor in an amount not exceeding fifteen percent (15%) of the total contract price****, to be made in lump sum or, at the most, two installments according document to a schedule specified in the Instructions to Bidders and other relevant Tender Documents." (emphasis ours)*

19.3.1.2. Certain contractors/suppliers for materials and labor were paid with an advance payment of 20-38 percent of the contract price representing mobilization fee instead of the required 15 percent which is contrary to the provision of Section 4.1 of RIRR of RA 9184, thus, resulting in overpayment of P70,777,280.58, detailed as follows:

Table 1: ECs with Excess Payment of Mobilization Fee

Name of EC	No. of Reviewed Contracts	Total Amount of Contract	% of Payment	Total Amount Paid	Amount of Required 15% Mobilization fee per RA 9184	Excess Amount
OMECO	17	P311,373,827.58	20 - 38	85,851,360.37	P46,706,074.14	P39,145,286.23
CEBECO I	27	106,583,433.81	25	26,645,858.45	15,987,515.07	10,658,343.38
NORECO II	5	69,067,322.00	30	20,720,196.60	10,360,098.30	10,360,098.30
BOHECO I	1	24,999,865.00	30	7,499,959.50	3,749,979.75	3,749,979.75
CELCO	9	16,633,506.50	30	4,990,051.95	2,495,025.98	2,495,025.98
SAMELCO I	6	14,568,144.86	30	4,370,443.46	2,185,221.73	2,185,221.73
BILECO	2	25,799,733.01	20	5,159,946.60	3,869,959.95	1,289,986.65
MOELCI I	2	17,611,771.50	20	3,522,354.30	2,641,765.73	880,588.58
CENECO	1	85,000.00	30	25,500.00	12,750.00	12,750.00
Total		**P586,722,604.26**		**P158,785,671.23**	**P88,008,390.64**	**P70,777,280.59**

19.3.2. **Non-posting and/or posting below the required amount of performance security bond by the Contractors in CENECO, BOHECO I, CEBECO I and OMECO, BILECO, SAMELCO and**

[1] CENECO, NOCECO, BOHECO I & II, OMECO, NORECO II, CEBECO, CELCO, MOELCI I, BILECO, SAMELCO I, ILECO III

ILECO III were not in accordance with Sections 37.2.1, 39.1, 39.2 and 39.4 of the RIRR of RA 9184.

19.3.2.1. Sections 37.2.1 and 39.1 of the RIRR of RA 9184 states that:

> *37.2.1 "The winning bidder shall post the required Performance Security and enter into contract with the procuring entity within ten (10) calendar days from the receipt by the winning bidder of the Notice of Award; and*
>
> *39.1 To guarantee the faithful performance by the winning bidder of its obligation under the contract in accordance with the Bidding Documents, a performance security prior to the signing of the contract shall be posted."*

Section 39.2 also provides that performance security shall be in an amount not less than the required percentage of the total contract price in accordance with the following schedule:

Form of Performance Security	***Amount of Performance Security (Equal to Percentage of the Total Contract Price)***
a) Cash or cashier's/manager's check issued by a Universal or Commercial Bank	*Goods and Consulting Services – Five percent (5%)* ***Infrastructure Projects – Ten percent (10%)***
b) Bank draft/guarantee or irrevocable letter of credit issued by a Universal or Commercial Bank: Provided, however, that it shall be confirmed or authenticated by a Universal or Commercial Bank, if issued by a foreign bank	
c) Surety bond callable upon demand issued by a surety or insurance company duly certified by the Insurance Commission as authorized to issue such security.	***Thirty percent (30%)***
d) Any combination of the foregoing.	*Proportionate to share of form with respect to total amount of security*

Section 39.4 of the RIRR of RA 9184 states that:

> *"The performance security shall remain valid until issuance by the procuring entity of the final Certificate of Acceptance."*

19.3.2.2. Winning bidders of the two ECs did not post performance bond while winning bidders of the four ECs posted performance security below (5% and 10% of the contract price) the required amount equivalent to 30 percent of the contract price, detailed as follows:

Name of EC	No. of Contracts Reviewed	Performance Security Bond Per Contract			Should be Per RA 9184	Variance	Remarks
		None	5%	10%	10%/30%		
CEBECO I	23	0			P28,366,357.66		
OMECO	26	0					
CENECO	9			P2,353,567.28	5,504,935.57	P(3,151,368.29)	Surety bond
BOHECO I	1			2,499,986.50	7,499,959.50	(4,999,975.00)	Surety bond
BILECO	3		P3,226,649.78		6,453,299.56	(3,226,649.78)	Manager's Check
SAMELCO I	7	0	0	0	958,530.86	0	Performance Security cannot be determined due to absence of proof of payment.
	5		365,293.45		730,585.58	(365,292.13)	Manager's Check
Total			**P3,591,943.23**	**P4,853,553.78**	**P49,513,668.73**		

19.3.2.3. The practice of non-posting and posting below the required amount of performance security is not in accordance with Sections 37.2.1, 39.1 and 39.2 of the RIRR of RA 9184. This exposes the EC's at a disadvantage in case of default by the winning bidder and which ruled that the amount of performance security for infrastructure projects should be equal to 10 and 30 percent of the total contract price.

19.3.3. **The contract price set forth in the Construction Contract of SEP/BLEP and submarine projects in CENECO, NOCECO and BOHECO II exceeded the NEA approved cost or approved budget cost (ABC) contrary to the provisions of Section 31.1 of the RIRR of RA 9184 and Section 3 of the MOA between NEA and ECs.**

19.3.3.1. Section 31.1 of the RIRR of RA 9184 affirms that:

> *"The ABC shall be the upper limit or ceiling for acceptable bid prices. If a bid price, as evaluated and calculated in accordance with this IRR, is higher than the ABC, the bidder submitting the same shall be automatically disqualified. There shall be no lower limit or floor on the amount of the award."*

19.3.3.2. Examination of the bid documents and other related documents of CENECO and BOHECO II showed that the contract price for the line extension and submarine projects exceeded the NEA Approved Cost or ABC. The details are as follows:

Table 2: Contract that Exceeded the NEA Approved Cost/ABC

Name of EC / Fund Source	Project Name	Per MOA (a)	NEA Approved Cost/ABC (b)	Bid Price (c)	Contract Price (d)	Discrepancy (Over) (b-d) = e
CENECO						
SEP 2013	Line Extension to 7 sitios	P 4,825,729.35	P 4,825,729.35	P 5,248,000.00	P 5,248,000.00	(P422,270.65)
Sub total		**P 4,825,729.35**	**P 4,825,729.35**	**P 5,248,000.00**	**P 5,248,000.00**	**(P422,270.65)**

Name of EC / Fund Source	Project Name	Per MOA (a)	NEA Approved Cost/ABC (b)	Bid Price (c)	Contract Price (d)	Discrepancy (Over) (b-d) = e
BOHECO II						
Regular Subsidy 2009	Submarine Cable–Jao Island	8,000,000.00	7,619,047.62	8,000,000.00	8,000,000.00	(380,952.38)
2011SEP/ BLEP-B2	Submarine Cable–Jandayan Island	8,000,000.00	7,729,468.60	8,000,000.00	7,998,850.00	(269,381.40)
Sub total		**P16,000,000.00**	**P15,348,516.22**	**P16,000,000.00**	**P15,998,850**	**(P650,333.78)**
Total		**P20,825,729.35**	**P20,174,245.57**	**P21,248,000.00**	**P21,246,850.00**	**(P1,072,604.43)**

19.3.3.3. As shown in Table 2, the contract prices of CENECO and BOHECO II under SEP 2013 and Regular Subsidy 2009 and 2011 SEP/BLEP projects, respectively, exceeded the total NEA Approved Cost or ABC by a total of P1,072,604.43.

19.3.3.4. In as much as the contract price was pursued despite exceeding the NEA Approved Cost, the purpose of public bidding for the utilization of government funds, was defeated. This practice is not in accordance with the above stated provision of Section 31.1 of the RIRR of RA 9184.

19.3.3.5. The concerned ECs informed that they based the bid price on the amount per MOA and not the amount per NEA Approved Cost. Verification disclosed that the covering NEA Approved Cost for the projects of the two ECs were not attached in the MOA, hence, ECs had no basis on what amount to use as bid price but only the amount per MOA.

19.3.4. **Contracts for supply of materials and labor of CEBECO I for Lots B and E under 2015 SEP and ILECO III were awarded to the bidder with higher bid price which is not in accordance with Section 37.1.1 of RIRR of RA 9184 .**

19.3.4.1. Section 37.1.1 of RIRR of RA 9184 provides that:

> *"The BAC shall recommend to the HoPE the award of contract to the bidder with the LCRB [Lowest Calculated Responsive Bid], HRRB, SCRB or SRRB after the post-qualification process has been completed."*

Examination of the bidding documents of ILECO III and CEBECO I disclosed that the contracts for the procurement of materials and equipment and labor for 2015 SEP were not awarded to the lowest bidder, detailed as follows:

Table 3: Lowest Calculated Responsive Bid

Project Description	Lot	Winning Bidder	Should be LCB
ILECO III			
1. Hardware/Materials to be used for SEP 2015	1	P1,972,084.42	P1,458,939.20
	5	2,629,363.30	2,252,240.24
2. Hardware/Materials to be used for SEP 2015 (2nd Batch)	4	354,110.10	332,281.50
	5	902,000.00	695,046.00
3. Procurement for Replenishment of Materials Used for SEP 2015, BLEP 2015 Overhead Lines at Gigantes Island and for Maintenance Used	5	1,465,200.00	1,401,840.00
	6	838,000.00	729,210.00
4. Materials/Hardwares for 28 additional sitios (SEP 2015) and For Maintenance Use	1	454,183.02	451,403.50
CEBECO I			
5. 15 sitios	B	5,576,359.83	5,563,270.40
6. 14 sitios	E	4,214,125.00	4,197,182.44

19.3.4.2. The above practice is contrary to Section 37.1.1 of RIRR of RA 9184 of RIRR OF RA 9184.

19.3.5. **The computation of Net Financial Contracting Capacity (NFCC) of CENECO was not considered in the determination of prospective bidder's eligibility for the seven awarded contractors as required in Sections 23.4.2.6 and 25.2 of the RIRR of RA 9184.**

19.3.5.1. Section 23.4.2.6. - One of the eligibility criteria in the requirements of procurement of infrastructure projects is the computation of a prospective bidder's NFCC which must be at least equal to the ABC to be bid, calculated as follows:

> *"NFCC= [(Current Assets minus current liabilities) (15)] minus the value of all outstanding or uncompleted portions of the projects under ongoing contracts, including awarded contracts yet to be started, coinciding with the contract to be bid.*
>
> *The values of the domestic bidder's current assets and current liabilities shall be based on the latest Audited Financial Statements submitted to the BIR."*

19.3.5.2. Likewise, Section 25.2 provides the following:

> *25.2. "The first envelope shall contain the following technical information/documents, at the least:*
>
> *Xxx*
>
> *iv) NFCC Computation or committed Line of Credit"*

19.3.5.3. Seven Contractors of CENECO have no computation of NFCC as these were not among the documents attached to the bidding documents. Despite the absence of computation of NFCC, said Contractors were still considered as a prospective bidder. This practice is not in accordance with the above cited Section 23.4.2.6 of the RIRR of RA 9184.

19.3.6. **Thirteen SEP/BLEP contracted projects of OMECO were not paid/issued with a Bid Security which is not in accordance with Section 27 of RA 9184.**

19.3.6.1. Section 27 of RIRR of RA 9184 on Receipt and Opening of Bids states that:

> *27.1 "All bids shall be accompanied by a bid security, payable to the procuring entity concerned as a guarantee that the successful bidder shall, within ten (10) calendar days or less, as indicated in the Instructions to Bidders, from receipt of the notice of award, enter into contract with the procuring entity and furnish the performance security required in Section 39 of this IRR, except when Section 37.1 of this IRR allows a longer period. Failure to enclose the required bid security in the form and amount prescribed herein shall automatically disqualify the bid concerned".*

19.3.6.2. Verification of the submitted documents by OMECO on the contracted SEP/BLEP projects showed that thirteen contracts were not paid/issued with Bid Security, hence, entering into a contract with the winning bidders is not guaranteed, which is not in accordance with the above mentioned Section 27.1 of RIRR of RA 9184.

19.3.7. **No bidding was conducted for contracts awarded by CEBECO I to CEBECO II Accredited Electrician Multi-Purpose Cooperative (CAEMPCO) for the construction of distribution lines under 2011 to 2013 SEP which is not in accordance with Section 3 of the MOA and No. 1 Policy Statement of Appendix 14 on Guidelines on Non-Governmental Organization Participation in Public Procurement of RIRR of RA 9184.**

19.3.7.1. Section 3 of the Memorandum of Agreement signed by NEA and EC's states that:

> *"Procurement of equipment and materials and/or engagement of contractors for the project(s) shall be guided by RA 9184 and its Implementing Rules. X xx"*

19.3.7.2. No. 1 Policy Statement of Appendix 14 on Guidelines on Non-Governmental Organization Participation in Public Procurement of RIRR of RA 9184 states that:

“As a general rule, all procurement shall be done through competitive public bidding. However, when an appropriation law earmarks an amount for projects to be specifically contracted out to NGOs, it is the intent of Congress to give due preference to NGOs”.

19.3.7.3. Examination of the contracts showed that CEBECO I awarded six contracts with CAEMPCO totaling P26,344,051.91 to construct distribution lines for 16 projects under 2011 to 2013 SEP Batches 1 and 2 without the conduct of competitive public bidding as stated in the above Guidelines on NGO participation in public Procurement of RIRR of RA 9184.

19.3.8. **No observer was invited in the conduct of public bidding by MOELCI I for two projects under 2015 SEP which is not in accordance with Section 13.1 of RIRR of RA 9184.**

19.3.8.1. Section 13.1 of RIRR of RA 1984 states that:

13.1 “To enhance the transparency of the process, the BAC shall, during the eligibility checking, shortlisting, pre-bid conference, preliminary examination of bids, bid evaluation, and post-qualification, invite, x xx, at least two (2) observers, who shall not have the right to vote, to sit in its proceedings;xxx” (emphasis ours)

19.3.8.2. Review of the documentary requirements in the conduct of bidding for the two 2015 SEP projects disclosed that the BAC did not invite at least two observers, one from private sector and the other one from Non-Government Organizations (NGOs) to attend.

19.3.8.3. Likewise, no observer was noted in all stages of the procurement process for Line Extension for nine Sitios and Line Extension for 18 sitios projects which is not in accordance with Section 13.1 of RA 9184, hence, the enhancement of transparency of the process was abandoned.

19.3.9. **BILECO’s rebidding for the supply of materials, construction/installation of power distribution lines for 24 sitios was not in accordance with RA 9184, thus, limits the number of interested suppliers to participate the bidding.**

19.3.9.1. Section 35 of RA 9184 states that:

"Failure of Bidding. – There shall be a failure of bidding if:

(a) No bids are received;

(b) No bid qualifies as the Lowest Calculated Responsive Bid or Highest Rated Responsive Bid; or,

(c) Whenever the bidder with the highest rated/lowest calculated responsive bid refuses, without justifiable cause to accept the award of contract, as the case may be.

Under any of the above instances, the contract ***shall be re-advertised and re-bid. The BAC shall observe the same process and set the new periods according to the same rules followed during the first bidding****. After the second failed bidding, however, the BAC may resort to negotiated procurement as provided for in Section 53 of this Act." (Emphasis Ours)*

19.3.9.2. Review of the bidding documents revealed that the first bidding conducted was considered a failure since no bidders passed the preliminary examination of bid documents. Subsequently, the Board of Directors thru Board Resolution No. 42 series of 2013, authorized the Bids and Awards Committee (BAC) to conduct a rebidding. However, rebidding was only made by posting and/or issuing supplemental/bid bulletin instead of re-advertising and observing the same process during the first bidding.

19.3.10. **Deficiencies in the compliance with the bidding process as well as its documentation in SAMELCO I, NOCECO, CENECO, BILECO, MOELIC I, OMECO and CELCO.**

19.3.10.1. Review of the bidding process as well as its documentation revealed the following deficiencies:

Type of Documents	*Provisions of RIRR of RA 9184*	*Name of EC*	*Deficiencies*
Notice of Award / Notice to Proceed	*Section 37.4 of RA 9184 states that: "The concerned Procuring Entity shall issue the Notice to Proceed together with a copy or copies of the approved contract to the successful bidder within seven (7) calendar days from the date of approval of the contract by the appropriate government approving authority.*	SAMELCO I	• Notice of Awards (NoA) dated September 1, 2014 for six (6) Barangays under BLEP 2014 Projects were not signed as received by the winning bidder. • Notice to Proceed (NtP) was not prepared and issued to the winning bidders for the

Type of Documents	Provisions of RIRR of RA 9184	Name of EC	Deficiencies
	All notices called for by the terms of the contract shall be effective only at the time of receipt thereof by the successful bidder."		construction of distribution lines of six barangays and 13 sitios under BLEP 2013 and SEP 2014, respectively.
		NOCECO	• Various project sites for 2013 SEP revealed that the NOA and NTP have the same date and do not have acknowledgement from the winning bidder. • The NoA and NtP were of same date since after the approval of Resolution/ Issuance of NoA, the BAC immediately follows the preparation and signing of contract to be approved by the NOCECO Officers before the issuance of NtP to the winning bidder. • In addition, the acknowledgement from the winning bidder cannot be ascertained since there is no portion in the NtP for the contractor to sign as evidence that he/she received the NoA and NtP.
		CENECO	• Issuance of NtP in all SEP projects for 2012 to 2014 were late. Thus, the execution of the contract was delayed, the purpose of the grant was not served and electrification of the countryside was hampered.
Pre-bid conference	*Section 22.3 on the Pre-bid Conference provides among others that "The pre-bid conference shall discuss, clarify and explain, among other things, the eligibility requirements and the technical components of the contract to bid including questions and clarifications raised by the prospective bidders before and during the Pre-Bid Conference."*	BILECO	• The pre-qualification of prospective bidders for the construction of distribution lines of eight sitios with ABC of P6,224,673.13 were conducted prior to the pre-bid conference on August 20-24, 2014 prior to the pre-bid conference on August 26, 2014, thus, limits the number of qualified prospective bidders to participate the bidding process.
Bidding	*Section 17.1 on preparation of*	MOELCI I	• MOELCI I did not include in

Type of Documents	Provisions of RIRR of RA 9184	Name of EC	Deficiencies
Documents	*Bidding Documents on the Form and Contents of Bidding Documents states that "The Bidding Documents shall be prepared by the Procuring Entity following the standard forms and manuals prescribed by the GPPB. The Bidding Document shall include Form of Contract and General and Special Conditions of Contract". (Emphasis is ours)*		the Form and Contents of their Bidding Documents, specifically Form of Contract and General and Special Conditions of Contract the inclusion of house wiring beneficiaries in the contract price. The contents of the contract did not mention such number of household beneficiaries.
Contract	*Section 37.2.2 states that "The procuring entity shall enter into contract with the winning bidder within the same ten (10) day period provided that all the documentary requirements are complied with".*	CENECO	Signing of Construction Contracts in CENECO was late by 2 to 39 days.
		OMECO	The contract signing dates in OMECO were beyond the date of NtP which should have been the other way around. • The NtP should be issued within two days after the approval of the Contract for contract amount of P50 million and below and three days for amount of P50 million and above.
		CELCO	Contracts executed by and between CELCO and WDEIS were not notarized which may affect the enforceability of the contract. Out of the eight contracts awarded to WDREIS, seven were found not notarized.

19.3.11. **Laxity of NORECO II/CENECO/CELCO/ OMECO/MOELCI I/ BOHECO II and ILECO III in the processing and awarding of contracts by the BAC resulted in lacking documentary requirements as required under the RIRR of RA 9184.**

19.3.11.1. Review of the submitted procurement contracts thru public bidding showed that there were documents required under RA 9184 which were found lacking, as follows:

Documentary Requirements	Criteria: Provisions in the IRR of RA 9184
a. Invitation to Apply for Eligibility and to Bid	*RULE VII*
b. Letter of Intent	*Sec. 36*
c. Eligibility Documents	*Section 23*

Documentary Requirements	*Criteria: Provisions in the IRR of RA 9184*
d. Eligibility Requirements	*item d Section*
e. Results of Eligibility Check/Screening	*Item b Section 21*
f. Bidding Documents	*Sec. 17*
g. Minutes of Bid Opening	*Article 8 of RA 9184*
h. Post Qualification Report of Technical Working Group	*Rule X of RA 9184*
i. BAC Resolution declaring winning bidder	*Sec 34.4*
j. Notice of Post Qualification by BAC-TWG	*Sec 34*
k. BAC Resolution recommending approval	*Sec 34.4*
l. Notice of Award	*Sec. 37 of RA 9184*
m. Contract Agreement	*Sec. 37 of RA 9184*
n. Performance Security	*Sec. 39*
o. Notice to Proceed	*Sec.37.4*
p. Dates of Contract and Notice to Proceed	*Annex "C" of RIRR of RA 9184*
q. Such other documents peculiar to the contract and/or to the mode of procurement and considered necessary in the auditorial review and in the technical evaluation thereof.	*Such other documents peculiar to the contract and/or to the mode of procurement and considered necessary in the auditorial review and in the technical evaluation thereof.*

19.3.11.2. OMECO's BAC Secretariat disclosed that the former BAC Secretariat did not turn over the documents on the contracted SEP/BLEP projects.

19.3.11.3. However, further examination of OMECO's documentation requirements for the contracted project for the construction of two submarine cables showed that the following were still lacking:

a. On Submission, Receipt, Opening and Preliminary Examination of Bids Eligibility Criteria

   The Contractor's Performance Evaluation System (CPES) rating and/or certificate of contract must be satisfactory.

b. On Sworn Statement by the bidder or its duly authorized representative in the form prescribed by Government Procurement Policy Board Official (GPBB) as to the following:

   It complies with the disclosure provision under Section 47 of the Act in relation to other provisions of R.A. 3019;

c. On BAC Technical Working Group report on the post-qualification conducted, including supporting documents, as reviewed by the BAC; evidencing:

- Verification and validation of the bidder's stated competence and experience of the bidder's key personnel to be assigned to the project;

- Verification of availability and commitment, and/or inspection and testing for the required capacities and operating conditions, of the equipment units to be owned/leased/under purchased by the bidder for use in the contract under bidding as well as checking the performance of the bidder in its on-going government and private contracts; and

d. Other Contract Documents that may be required by existing laws and/or procuring entity concerned in the Bidding Documents, such as:

- Construction Safety and Health Program Approved by the Department of Labor and Employment
- Program Evaluation Review Technique/Critical Path Method
- Evidence of Invitation of three observers in all stages of the procurement process
- Philippine Accreditation Board (PCAB) licenses for NOCECO and BOHECO II.

19.3.11.4. Moreover, laxity in the custody of procurement documents and in the processing and awarding of contracts by the Bid and Awards Committee (BAC) and other records resulted in lacking documentary requirements as required under the RIRR of RA 9184 and regularity of the transactions could not be established.

19.3.12. **Lack of training to enhance capability of BAC officers and concerned personnel of OMECO in the implementation of RA 9184 for the subsidy funded by the NG.**

19.3.12.1. Interview with OMECO concerned officer/personnel revealed that to date, they have not yet attended / participated in a training /seminar for RA 9184. They are aware that procurement should be done in accordance with RA 9184 but are still not fully trained to apply the provisions of the law.

19.3.12.2. Moreover, the NEA Administrator issued on December 13, 2013 a Procurement Guidelines and Simplified Bidding Procedures to Electric Cooperatives (PGSBPEC) to include the following: (a) to assist the EC's to fast-track the implementation of SEP Projects; (b) to enforce governance standards for efficient operation by the ECs such as the observance of appropriate procurement procedures in conformity with RA 9184; and (c) to enforce accountability of BAC and EC officials who are directly and indirectly involved in the procurement process where they shall be held liable for their actions relative thereto. However, to date, the BAC of OMECO was not able to implement properly the procurement process under RA 9184, noting the above lapses.

19.4 **We recommended that Management require the ECs to strictly observe the provisions of RIRR of RA 9184 for succeeding contract/s as follows:**

- **Limit the mobilization fee payment to Contractors at 15 percent of the contract price;**

- **Make representation with the contractors to refund the excess mobilization fee if not yet covered by progress billings and/or require them to pay interest for the excess down payment made at the prevailing rate of interest used by the bank;**

- **For the on-going and future projects, require the respective winning bidders in every contract to post the required performance security bond as safeguard to future default and inevitable abandonment of project;**

- **Review the MOA and ensure that the amount indicated in the Construction Contract does not exceed the approved Budget Cost of NEA/Approved Budget of Contract for the prospective projects and ensure that copy of NEA Approved Cost is attached in the MOA;**

- **Strictly observe the submission of computation of NFCC to Contract and other similar reports and ensure that only prospective bidders with complete documentary requirements to include the computation of NFCC that are eligible to bid;**

- **Invite at least two observers to witness the conduct of public bidding to enhance transparency in conformity with Sections 13.1 and 13.2(a) of RIRR of RA 9184;**

- **Require the BAC to follow proper procedures on the rebidding process in cases where there was a failed bidding;**

- **Ensure compliance of bidders to the following Eligibility Requirements set forth in RA 9184 to hinder unqualified/incapacitated contractors from implementing government projects the following;**

  - **Philippine Accreditation Board (PCAB) licenses to ensure that the qualified and reliable contractors are allowed to undertake infrastructure projects and so as to participate in government public bidding;**

  - **Preparation of Bidding Documents on the Form and Contents of Bidding Documents to specify the Form of Contract and General and Special Conditions of Contract prescribed by GPBB;**

  - **Notice of Award (NoA)/Notice to Proceed (NtP)/signed Contract should be issued in accordance with RIRR of RA 9184; and**

  - **Notarized Contract to ensure its legal enforceability in case of disputes and breach of contract of the contracting party.**

- **Ensure to comply with the required documentary requirements pursuant to RIRR of RA 9184 for prospective projects; and**

- **Enhance the capability of BAC officers/staff of ECs by supervising/providing capacity building on programs for RA 9184.**

19.5 Management informed that they will issue an Advisory to the ECs to strictly observe the provisions of the RIRR of RA 9184. They have also scheduled two batches of trainings on RA 9184 for the EC's BAC on June 4-8, 2018 to be conducted by the Professional Development Office from the COA Main Office.

20. **Unexpended/unutilized balance and interest earned from deposits of Pantawid Kuryente: Katas ng VAT (PKKV) funds already returned by ECs to NEA totaling P0.985 million which remain unremitted to Department of Social Welfare and Development (DSWD) is not in accordance with Section 4.9 of COA Circular No. 94-013 and Memorandum of Agreement (MOA) between NEA and DSWD. Also, cumulative balance amounting to P79,500.00 remained unliquidated by seven ECs as of December 31, 2017, which was not adherent to the provisions of Sections 6 and 7 of NEA Memorandum No. 2008-18.**

20.1 Section 4.9 of COA Circular No. 94-013 dated December 13, 1994 requires the Implementing Agency to return to the Source Agency any unused balance upon completion of the project.

20.2 Section 8 of the MOA between DSWD and NEA provides that:

> *"Refund to DSWD any unutilized fund or savings generated after the project implementation"*.

20.3 Sections 6 and 7 of the NEA Memorandum No. 2008-18 dated June 26, 2008 on Implementing Guidelines on the Release of Funds for the PKKV Program provides that:

> *"6. The EC shall submit Liquidation Report (Accounting of Funds, Summary of Power Bills/Credit Memo Issued and Certificate of Payment to Consumers) within thirty (30) days after completion of the project.*
>
> *7. It is agreed that all unutilized amount shall be returned/remitted to NEA immediately upon submission of the liquidation report."*

20.4 NEA received the amount of P2,045,746,265.61 from DSWD in July 2008 to May 2013 to fund the Pantawid Kuryente Katas ng VAT (PKKV) program. This program is a one-time subsidy for the poorest sector of the society amounting to P500.00 to help them pay their electric bills. Consumers who consumed 100kWh or less in May 2008 were the beneficiaries of this project under the Gloria Macapagal-Arroyo Administration.

20.5 In April 2014, all unreleased and unutilized/unexpended balance including the interest earned from deposits aggregating to P8,248,304.58 were returned by NEA to DSWD, detailed as follows:

Total fund received from DSWD	P 2,045,746,265.61
Less: Total fund released to ECs (net of adjustments)	2,043,192,090.00
Unreleased fund as of April 2014	P 2,554,175.61
Interest earned from deposits	1,990,345.54
Refunds of unexpended balance from different ECs	3,703,783.43
Amount returned/remitted to DSWD	**P 8,248,304.58**

20.6 NEA subsequently returned the amount of P959,909.50 to DSWD in compliance to COA's recommendation in 2016. After the refund, account Other Payables – Pantawid Kuryente has still an outstanding balance of P1,064,501.12 as of December 31, 2017, summarized as follows:

Other Payables – Pantawid Kuryente	P1,043,403.65
Additional liquidation by ECs in CY 2017	(34,500.00)
Remittance of unexpended balance to BTr on 3.14.17	(959,909.50)
Additional refunds by ECs in CY 2017	1,015,506.97
Other Payables – Pantawid Kuryente	**P1,064,501.12**

The additional refunds made by ECs amounting to P1,015,506.97 is detailed as follows:

EC Name	Particulars	JEV No.	Date	Amount
NORECO II	Unexpended balance	JEV-2017-08-006474	8/2/2017	P662,268.23
LUBELCO	Interest earned	JEV-2017-08-006481	8/3/2017	11,344.39
MOELCI II	Unexpended balance	JEV-2017-08-006713	8/24/2017	341,894.35
Total Refunds by ECs to NEA in 2017				**P1,015,506.97**

20.7 There were only seven ECs with PKKV fund totaling P79,500.00 that have not liquidated as at year-end. However, the balance reflected per subsidiary ledger is P1,064,501.12. Hence, the difference of P985,001.12 indicates ECs remittances to NEA which must be returned to DSWD. The details of unliquidated PKKV funds are as follows:

No.	EC Name	Amount
1	BASELCO	P 7,000.00
2	BILECO	10,000.00
3	LEYECO III	2,000.00
4	LEYECO IV	6,500.00
5	LUELCO	38,000.00
6	SAJELCO	1,000.00
7	SAMELCO I	15,000.00
	Total	**P 79,500.00**

20.8 As reported in the Annual Audit Report (AAR) for CY 2016, considering that the project was already completed, it is reiterated that PKKV account should be closed to reduce the balances of accounts Due from NGOs/POs and Other Payables.

20.9 **We recommended that NEA Management:**

a. **Return to DSWD the remitted unexpended/unutilized balance and interest earned from deposit by the concerned ECs totaling P985,001.12;**

b. **Require the seven ECs to liquidate immediately the PKKV fund balances totaling P79,500.00 for remittance to DSWD;**

c. **Close the PKKV fund account after liquidation have been made by all the concerned ECs to reflect the correct balances of accounts Due from NGOs/POs and Other Payables; and**

d. **Furnish the COA Office of the official receipts for any remitted amounts, for monitoring and reference purposes.**

20.10 Management informed that they have prepared Disbursement Voucher (DV) No. 01-18-15-1376 amounting to P1,028,169.94 representing payment to the Bureau of Treasury (BTr) of NEA's total collections for PKKV from August 02, 2017 to March 03, 2018 from the following ECs:

EC	Date	Amount
NORECO II	8/2/17	P 562,268.23
LUBELCO	8/3/17	11,344.39
MOELCI II	8/24/17	341,894.35
SAMELCO I	2/27/18	2,662.92
BILECO	3/3/18	10,000.00
Total		**P 928,169.89**

The following ECs have yet to liquidate/pay their unliquidated PKKV as of March 31, 2018:

EC	***Unliquidated PKKV as of 3/31/2018***
LUELCO	P 38,000.00
SAJELCO	1,000.00
LEYECO III	2,000.00
LEYECO IV	6,500.00
SAMELCO I	12,337.03
BASELCO	7,000.00
Total	**P 66,837.03**

Management will comply to close the PKKV fund account and have furnished COA a copy of Official Receipt No. 2547920-O dated May 17, 2018 on the remittance of unexpended balance and interest earned on PKKV account.

21. **Land acquired in 1989 measuring 25,000 square meters or 2.5 hectares with acquisition cost of P9.5 million has not been utilized and developed since acquisition as it is under court litigation pending with the Supreme Court and now fully occupied with residential and establishment structures.**

    Likewise, the presentation and classification of idle and foreclosed lands under Property, Plant and Equipment in the Financial Statements is not in conformity with PPSAS 17.

    21.1 The characteristics of Property, Plant and Equipment under Philippine Public Sector Accounting Standards (PPSAS) 17.14 are the following:

    a. Tangible items;

    b. Held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

    c. Expected to be used during more than one reporting period.

    21.2 COA Circular No. 2015-010 dated December 1, 2015 classifies Foreclosed Property/Assets under Other Assets.

    21.3 As disclosed in the Notes to Financial Statements, NEA purchased one parcel of land located in Pasong Tamo, Tandang Sora, Quezon City in 1989, measuring 25,000 square meters with acquisition cost of P9,500,000.00 covered with Transfer Certificate of Title (TCT) No. 26581. Said lot is under court litigation pending with the Supreme Court with Docket No. G.R. No. 118276, entitled Manuel Silvestre Bernardo, et al vs. Court of Appeals, et al.

    21.4 Per Board Resolution No. 73 dated November 20, 1989, the acquisition of the said land was made for the construction of NEA warehouse to store electrical equipment and materials to protect from damage and pilferage. However, to date, no construction of warehouse has been made. It was learned from one NEA employee that the land was maintained and guarded with securities by NEA before the planned warehouse construction, however, because of individual claiming ownership over the land, said claimant protected and occupied the area with security guards.

21.5 We requested through Audit Query some information such as proof of payment on the acquisition of the lot, Deed of Absolute Sale, Tax Declaration, TCT, Board Resolution, purpose of acquisition, reason why said lot became idle, status of the case pending with the Supreme Court, and any other documents/correspondences related to the land acquisition. However, no information was provided on the reason why said land became idle and no Deed of Absolute Sale and proof of payment was provided.

21.6 The Audit Team inspected the location of the said land and it was noted that this has been idle since acquisition. Many residential houses and establishments have been constructed. Interview with one of the residents who claimed an officer of the association disclosed that there were several individuals or group of individuals claiming ownership over the subject land but he informed that the residents/owners of the establishments acquired their lot through purchase of rights.

21.7 Considering that the land became idle and is not used in operations or administrative purpose, presenting and classifying to Property, Plant and Equipment in the Financial Statements is not proper contrary to PPSAS 17 – Property, Plant and Equipment.

21.8 Moreover, there are foreclosed and subject of a civil case lands situated in Bolinao, Pangasinan which were likewise presented under Property and Equipment in the Financial Statements contrary to PPSAS 17.

21.9 **We recommended that Management:**

a. **Follow-up on the status of the case filed with the Supreme Court to facilitate preparation of action plan to address the land under dispute; and**

b. **Reclassify idle and foreclosed lands to Other Assets pursuant to PPSAS 17 and COA Circular No. 2015-010.**

21.10 Management commented that the status of the land is under Preliminary Injunction issued by the court. They can only submit action plans regarding the management of the said property until such time that the case has been decided with finality. They submitted copy of the latest memorandum dated June 21, 2017 filed to the Court of Appeals by the OGCC lawyer handling the case.

On the other hand, on the reclassification of idle and foreclosed lands to Other Assets, Management informed that while they are still waiting for COA's calibration of NEA's e-NGAS, they have prepared a manual Journal Entry Voucher reclassifying idle and foreclosed lands from PPE - Land to

Other Assets. The recommended adjusting entry cannot be applied due to unavailability of the appropriate accounts in the current Philippine Government Chart of Accounts being used by NEA under the e-NGAS. If for CY 2018 the e-NGAS is still not calibrated, they will manually present in the Notes to FS the idle and foreclosed lands in the appropriate account which is the Other Assets account.

22. **The custodian of properties was not covered by Fidelity Bond which is not in accordance with Section 4.1 of Treasury Circular No. 02-2009 and Section 101 of Presidential Decree (PD) 1445.**

22.1 Section 4.1 of Treasury Circular No. 02-2009 dated August 06, 2009 states that:

> ''*Sec. 4.1 Every officer, agent, and employee of the Government of the Philippines or of the companies or corporation of which the majority of the stock is held by the National Government (NG), regardless of the status of their appointment shall, whenever the nature of the duties performed by such officer, agent or employee permit or requires the possession, custody or control of funds or properties for which he is accountable, be deemed bondable officer and shall be bonded or bondable and his fidelity bond insured (section 314 & 318, PBL)''*

22.2 Section 101 of Presidential Decree 1445 states that:

> "Accountable Officers; Bond requirements.
>
> 1) *Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.*
> 2) *Every accountable officer shall be properly bonded in accordance with law."*

22.3 The Property Officer who is the custodian of NEA properties is a newly hired employee who assumed Office on August 15, 2017 with the following duties and responsibilities:

a. Prepare and maintain equipment Ledger Card for recording and monitoring of issuance, transfer, surrender and disposal of all NEA In-house equipment and other properties;

b. Maintain and control the database filed to ensure the complete documentation of property management activities;

c. Prepare Memorandum Receipts and all documents related to property management activities;

d. Supervise the annual Physical Inventory;

e. Receive complaint/request about disposition of NEA properties and problems related to property management; and

f. Perform other duties that may be assigned from time to time.

22.4 Inquiry regarding the Property Officer's accountability over the custody and safekeeping of all property revealed that he is not secured by Fidelity Bond which is not in accordance with Section 101 of PD 1445 and Treasury Circular No. 02-2009. NEA should have applied for the Property Officer's Fidelity Bond from the moment he assumed his duties to ensure replacement in cases of defalcations, shortages, unrelieved losses and for the payment of fees and cost incident to civil proceedings brought against them to recover the sum paid.

22.5 The amount of bond and the determination of premium to be paid by the accountable officer is stated in *Section 5, Treasury Circular No. 02-2009 dated August 06, 2009,*as follows;

> *"5.1 Amount of Bond- The amount of Bond shall be based on the total accountability (cash, property and accountable forms) of the accountable public officer as determined by the Head of the Agency. Provided, the individual maximum accountability of each accountable public officer shall not exceed one Hundred Million Pesos (100M). However, the Head of Agency may assign to other public officer the excess accountability for which a separate Fidelity Bond shall be secured.*
>
> *5.3 Rate of Premium- The rate of premium of the fidelity bond is equal to One and One half percent (1.5%) of the amount of bond but shall not be less than one Hundred Fifty Pesos (P150.00).,Xxx''*

22.6 **We recommended that Management apply for the Property Officer's Fidelity Bond with the Bureau of the Treasury covering his property accountability as required under Section 4.1 of Treasury Circular No. 02-2009 and Section 101 of PD 1445.**

22.7 Management commented that NEA is in the process of filing the necessary documents to respond to the requirements indicated in Section 4.1 of Treasury Circular No. 02-2009 and Section 101 of PD 1445.

C. Performance

23. **Subsidy releases for the Sitio Electrification Program (SEP), Barangay Line Enhancement Program (BLEP), Pantawid Kuryente: Katas ng VAT(PKKV), Transition Investment Support Plan – Autonomous Region for Muslim Mindanao (TISP-ARMM), Yolanda Recovery and Rehabilitation Plan (YRRP) and other calamity grants totaling P1.695 billion remained unliquidated as of December 31, 2017, which is not compliant with Section 4 of the MOA as agreed by NEA with various ECs.**

    Also, the accuracy of the subsidy fund due for liquidation as reported in the Aging Schedule of Due from NGOs/POs as of December 31, 2017 cannot be ascertained due to improper aging of subsidy fund releases to various ECs.

23.1 Sections 3 and 4 of the MOA states that:

Section 3 -"The project(s) should be implemented and completed within six (6) months after receipt of the subsidy appropriations by the RECIPIENT from NEA".

"xxx, it shall make a written request for extension thereof within thirty (30) days before its expiration. NEA shall act on the request for extension within the same30-day period. Furthermore, any extension of the said six-month period shall, in no case, exceed three (3) months".

Section 4 -*"xxx .A final report on the project(s) to include Accounting of Funds, Status Report of NEA subsidy fund releases and Certificate of Final Inspection and Acceptance and other documents provided in Schedule B must be submitted by the Recipient to NEA within three (3) months from completion of the project which shall be the basis for liquidation. Also, the Recipient shall conduct close-out of project within three (3) months after NEA's final inspection and acceptance to facilitate the take-up of completed projects in the EC books."*

23.2 The NEA and ECs are mandated to ensure total electrification as one of the major programs of former and current administration.

23.3 The ECs received directive from NEA's Accelerated Total Electrification Office (ATEO) to submit a list of sitios for electrification/rehabilitation. In compliance thereof, the ECs submit letter request for the initial release of the subsidy grant together with the following documents:

- EC's Board Resolution requesting for subsidy grants;
- As planned staking sheet;
- As planned Bill of Materials; and
- Certification of potential households from the Barangay Chairman

Upon approval of the subsidy grant, a MOA is executed by and between NEA and the ECs.

23.4 Under the NEA guidelines, the release of the subsidy funds to ECs is on a staggered basis: 1st, 2nd and 3rd/final release or 70, 20 and 10 percent, respectively.

23.5 The first release is intended for mobilization, while the second release is made after the completion of at least 50 percent physical accomplishment of the project and upon submission of the Accomplishment Report and Accounting of Funds (AF) of the 1st release. The third/final release is made after the completion of the project and upon the submission of the Certificate of Completion, Certificate of Energization duly signed by the concerned barangay official, Certificate of Final Inspection and Acceptance (CFIA) by NEA and the final AF of the project and its supporting documents.

23.6 The ECs have a total of nine months to liquidate the funds received or a maximum of 12 months or one year from receipt of the subsidy fund provided that an application for extension of project implementation is approved.

23.7 Subsidy releases to ECs are recorded under account Due from NGOs/POs (139). As of December 31, 2017, the account has a reported balance of P3,151,296,939.76, representing subsidy releases to EC's for SEP, BLEP, PKKV, TISP-ARMM, YRRP, and calamity grant for earthquakes and other typhoons.

23.8 Review of the releases and its corresponding liquidation disclosed an aggregate amount of P1,695,399,638.65 which is overdue for liquidation, detailed as follows:

Region	***No. of EC***	***Balance of Due from NGOs/POs as of 12.31.17***	***Total Amount Due for Liquidation***
Region I	4	P 30,848,429.47	P 2,900,557.63
Region II	5	406,455,185.93	343,541,603.45
CAR	5	471,669,834.71	424,066,521.95
Region III	6	64,742,817.28	15,093,197.63
Region IV-A	2	23,870,378.58	1,010,470.76
Region IV-B	5	114,823,668.60	16,881,184.92
Region IX	4	250,625,031.60	149,172,390.27
Region V	10	291,499,834.96	157,819,647.84
Region VI	6	353,269,897.14	175,239,701.77
Region VII	6	154,378,494.63	22,164,117.78
Region VIII	9	121,596,525.21	100,177,255.24
Region X	7	248,541,044.05	108,472,644.23
Region XI	3	109,872,691.99	4,543,877.51
Region XII	1	169,822,561.98	5,889,663.86
ARMM	7	186,350,428.66	114,189,662.91
CARAGA	5	152,930,114.97	54,237,140.90
Total	**85**	**P 3,151,296,939.76**	**P 1,695,399,638.65**

23.9 The Aging Schedule of NGOs/POs as of December 31, 2017 showed the following information:

Total Amount	***Current***			***Past Due***		
	less than 30 days	***31- 90 days***	***91- 365 days***	***Over 1 Year***	***Over 2 years***	***3 year s & above***
P3,151,296,939.76	P3,124,897,795.24			P2,243,765.29	P182,156.95	P23,973,222.28

23.10 As shown in above table, past due accounts for over 1 year and above has an aggregate amount of P26,399,144.52 or 0.84 percent of the total release. While subsidies totaling P3,124,897,795.24 or 99.16 percent are reported as current releases for less than 30 days as of December 31, 2017.

23.11 However, review of the account Due from NGOs/POs as of December 31, 2017 showed the following:

Table 1: Aging of Due from NGOs/POs per Audit as of December 31, 2017

Region	No. of EC	Total Unliquidated Subsidy (a)	Less than 1 year (b)	More than 1 year (c)	More than 2 years (d)	More than 3 years (e)	Total Amount Due for Liquidation f=(c+d+e)
Region I	5	P 30,848,429.47	P 27,947,871.84	0	P 935,349.31	P 1,965,208.32	P 2,900,557.63
Region II	4	406,455,185.93	62,913,582.48	P10,647,092.40	124,353,193.69	208,541,317.36	343,541,603.45
CAR	5	471,669,834.71	47,603,312.76	41,520,487.97	248,232,332.65	134,313,701.33	424,066,521.95
Region III	12	64,742,817.28	49,649,619.65	0	0	15,093,197.63	15,093,197.63
Region IV-A	3	23,870,378.58	22,859,907.82	200,214.93	109,236.30	701,019.53	1,010,470.76
Region IV-B	7	114,823,668.60	97,942,483.68	826,333.42	11,252,794.06	4,802,057.44	16,881,184.92
Region IX	4	250,625,031.60	101,452,641.33	0	23,399,211.11	125,773,179.16	149,172,390.27
Region V	11	291,499,834.96	133,680,187.12	64,905,404.20	3,025,602.92	89,888,640.72	157,819,647.84
Region VI	9	353,269,897.14	178,030,195.37	131,941,041.84	23,221,192.53	20,077,467.40	175,239,701.77
Region VII	10	154,378,494.63	132,214,376.85	0	2,037,798.17	20,126,319.61	22,164,117.78
Region VIII	10	121,596,525.21	21,419,269.97	40,856,545.35	15,862,848.12	43,457,861.77	100,177,255.24
Region X	8	248,541,044.05	140,068,399.82	24,869,121.54	2,146,151.07	81,457,371.62	108,472,644.23
Region XI	3	109,872,691.99	105,328,814.48	0	2,307,471.08	2,236,406.43	4,543,877.51
Region XII	4	169,822,561.98	163,932,898.12	0	1,323,986.61	4,565,677.25	5,889,663.86
ARMM	7	186,350,428.66	72,160,765.75	11,467,537.20	62,829,503.45	39,892,622.26	114,189,662.91
CARAGA	7	152,930,114.97	98,692,974.07	37,759,793.46	12,428,257.75	4,049,089.69	54,237,140.90
Total	**109**	**P3,151,296,939.76**	**P1,455,897,301.11**	**P364,993,572.31**	**P533,464,928.82**	**P796,941,137.52**	**P1,695,399,638.65**

23.12 As shown in Table 1, the total amount of P1,695,399,638.65 completed projects or 53.80 percent of the total unliquidated subsidy funds released in CY 2016 and prior years outstanding for more than one year are overdue for liquidation. On the other hand, the total amount of P1,455,897,301.11 or 46.20 percent were released in 2017, hence, not yet due for liquidation.

23.13 The concerned EC's disclosed that the overdue for liquidation specifically projects released for more than three years are under gathering of documents to support the liquidation. Some ECs informed that the documents were wiped-out during the devastation of Super Typhoon Yolanda or other typhoons and not yet inspected by NEA, hence, no CFIA.

23.14 Of the total unliquidated amount of P1,695,399,638.65, we noted that the 38 ECs have unliquidated balances of previous releases. The detailed follows:

Region		Name of EC	Unliquidated Balance
Region I	1	ISECO	P 3,667,380.44
	2	LUELCO	3,016,992.79
	3	PANELCO I	21,263,498.61
		Sub total	**27,947,871.84**
Region II	4	NUVELCO	36,438,789.90
		Sub total	**36,438,789.90**
CAR	5	MOPRECO	47,603,312.76
		Sub total	**47,603,312.76**
Region III	6	ZAMECO I	6,159,778.40
		Sub total	**6,159,778.40**
Region IV-A	7	BATELEC II	10,262,368.38
	8	QUEZELCO I	1,047,871.65
	9	QUEZELCO II	2,776,041.84
		Sub total	**14,086,281.87**
Region IV-B	10	BISELCO	5,827,222.79
	11	ROMELCO	16,205,229.97

Region		Name of EC	Unliquidated Balance
		Sub total	**22,032,452.76**
Region V	12	CASURECO I	12,211,610.60
	13	CASURECO II	16,958,409.84
	14	CASURECO III	33,202,488.38
	15	CASURECO IV	61,014,890.50
		Sub total	**123,387,399.32**
Region VI	16	AKELCO	27,599,776.03
	17	ANTECO	15,410,560.31
	18	CAPELCO	25,868,432.36
	19	CENECO	16,269,601.96
	20	ILECO III	5,128,082.90
		Sub total	**90,276,453.56**
Region VII	21	BOHECO II	15,236,904.99
	22	CEBECO II	6,287,023.49
		Sub total	**21,523,928.48**
Region VIII	23	DORELCO	127,806.61
	24	LEYECO IV	17,166,917.07
	25	SAMELCO II	3,817,055.13
		Sub total	**21,111,778.81**
Region IX	26	ZAMSURECO I	76,973,089.15
	27	ZANECO	24,479,552.18
		Sub total	**101,452,641.33**
Region X	28	FIBECO	84,956,959.25
	29	MOELCI I	3,105,035.78
	30	MORESCO I	9,681,032.18
	31	MORESCO II	38,872,749.81
		Sub total	**136,615,777.02**
Region XI	32	DASURECO	58,484,432.34
		Sub total	**58,484,432.34**
Region XII	33	SUKELCO	17,593,394.33
		Sub total	**17,593,394.33**
CARAGA	34	ASELCO	49,974,276.06
	35	SURNECO	8,784,771.09
	36	SURSECO I	19,831,612.01
	37	SURSECO II	8,158,212.86
		Sub total	**86,748,872.02**
ARMM	38	LASURECO	72,160,765.75
		Sub total	**72,160,765.75**
Total			**P 883,623,930.49**

23.15 The non-liquidation of long overdue accounts is not compliant with Section 4 of the MOA between NEA and the ECs.

23.16 **We recommended that Management:**

a. **Strictly comply with Section 4 of the MOA as agreed by NEA and ECs; and**

b. **Require the concerned ECs to immediately liquidate the subsidy funded completed projects by submitting all the required liquidation documents such as AF with its supporting documents to validate the charges made to the subsidy fund; CFIA and such other documents to facilitate the closing of the books of both NEA and the EC's.**

23.17 Management commented that:

a. Some projects encountered problems in project implementation, hence, are still on-going and unliquidated.

b. NEA are exerting best efforts to liquidate the subsidy funds within the prescribed timelines. However, despite our constant communication with the concerned ECs, there were still delays in submission of required documents for liquidation.

   As of April 20, 2018, additional liquidations aggregating P614 million were booked while the amount of P11 million was already returned.

c. Some ECs also requested for project realignment. To date, NEA approved the realignment of P9 million while requests for project realignment of P99 million are still under evaluation.

d. In summary, below is the status of unliquidated subsidy funds (in million):

Liquidated/returned as of 4/20/18	P 625
Project still on-going	475
For return	68
With request for realignment/approved realignment	108
For submission of documents and liquidation of final release	419
TOTAL	**P 1,695**

e. To facilitate completion of SEP/BLEP Projects and liquidation of completed projects, NEA issued Memo No. 2017-009 dated 06 April 2017 advising the ECs that the completion of the project within the timeline provided in the MOA between NEA and the recipient ECs and the liquidation of subsidy fund released for completed projects shall form part of the parameters for EC overall assessment and awards, and shall also be included as a requirement of NEA for the approval of ECs' request for the granting of rewards, incentives, benefits, allowances and salary upgrading. Further, demerit points shall be given to ECs with unliquidated subsidy funds (excluding new releases, on-going projects that do not exceed the implementation schedule and completed projects for Final Inspection and Acceptance.

f. The aging schedule used as reference for the audit was extracted from the e-NGAS which is a system generated report. FSAD does not include in the data entered in the system the due date of subsidy releases since the date the subsidy was actually released varies from the date of check issuance. Hence, the aging report generated from the e-NGAs does not reflect the actual due date of the subsidy releases.

23.18 Verification of the submitted schedule on the details of P1.695 billion, revealed the following (in million):

Liquidated/returned as of 4/20/18	P 566
Project still on-going	504
For return	67
With request for realignment/ approved realignment	124
For submission of documents and liquidation of final release	466
For adjustments	12
TOTAL	**P 1,739**

23.19 With regard to the above justification, the Audit Team recommends that NEA request to the developer of the e-NGAS or the COA-GAS concerned personnel to make an adjustment for inclusion of the date when the subsidy fund is released in order to maximize the benefit of the program considering that there are 121 ECs to be monitored regularly.

24. **Electric Cooperatives' (ECs) inclusion of Input Value Added Tax (VAT) in the presentation of the Accounting of Funds (AF) amounting to P50.735 million pursuant to NEA Memorandum No. 2015-036 resulted in the overstatement of the charges made to the subsidy and government revenue was reduced by the same amount as EC's VAT remittance to the Bureau of Internal Revenue (BIR) was lessened due to deduction of subsidized input tax from EC's output tax. Likewise, inclusion of Input tax in the project cost was not in accordance with Section 30 of the Philippine Public Sector Accounting Standards (PPSAS) 17 for Property, Plant and Equipment on costing of self-constructed assets.**

24.1 Sections 105 and 106 of the National Internal Revenue Code of 1997 provides that:

Section 105:

> *"xxx. The value-added tax is an **indirect tax** and the amount of tax **may be shifted or passed on to the buyer, transferee or lessee of the goods, properties or services**. This rule shall likewise apply to existing contracts of sale or lease of goods, properties or services at the time of the effectivity of Republic Act No. 7716."*

Section 106:

> *"There shall be levied, assessed and collected on every sale, barter or exchange of goods or properties, value-added tax equivalent to ten percent (10%) of the gross selling price or gross value in money of the goods or properties sold, bartered or exchanged, such tax to be paid by the seller or transferror."*

24.2 Also, the elements of cost of Property, Plant and Equipment (PPE) is clearly enumerated under Section 30 of the Philippine Public Sector Accounting Standards (PPSAS) 17, to wit:

"The cost of an item of property, plant and equipment comprises:

*(a) its purchase price, including import duties and **non-refundable purchase taxes**, after deducting trade discounts and rebates.*

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period."

24.3 Input taxes are the Value Added Taxes (VAT) added to the price when one purchase goods and/or services subjected to VAT. If the buyer is VAT registered, they can use their input tax as a deduction to their output tax when determining their VAT payable to be settled to the BIR.

24.4 For projects implemented by forced account/administration, ECs were in charge in providing the materials to be used for the project. The procurement of the necessary materials for the projects were guided by the provisions of RA 9184 on Government Procurement. As they purchase materials for the project, there were corresponding input taxes which are then claimed as a deduction to their output taxes from their regular operations when settling their dues to the BIR.

24.5 No. 4 of the General Guidelines of NEA Memorandum No. 2015-36 on the Guidelines on the Preparation of Accounting of Funds (AF) and identification of allowable charges against Contingency Funds for Subsidy Funded Projects states that:

a) *"For project undertaken by contract, no input tax is added since the contractor's billing is VAT inclusive.*

b) *For project undertaken by force account/administration, input tax is added to the materials. Cost of labor has no input tax."*

24.6 However, review of the provisions stated in the aforementioned Memorandum and the attached AF templates showed that input VAT for the materials procured is one of the charges from the subsidy funds receipts.

24.7 Input Tax does not qualify in any of the elements of a cost of a PPE as enumerated in Section 30 of PPSAS 17, hence, the inclusion of input tax in the cost of the project to be subsidized by NEA would incur loss to the Government.

24.8 Review of CY 2017 liquidated projects showed that 22 projects from eight ECs with total project cost of P280,910,600.20 included input tax aggregating to P22,381,262.80 as presented in the AFs. Moreover, two ECs audited in CY

2017 included Input VAT in their AFs aggregating to P28,354,505.93 with total project cost of P306,775,873.73, detailed as follows:

EC name	***Project Name***	***Project Cost per AF***	***VAT***	***Project cost (net of VAT)***
Liquidated Projects in CY 2017				
MOPRECO	2013 BLEP for 1 barangay	P 7,088,118.63	P 629,938.10	P 6,458,180.53
NORECO I	2016 SEP for 41 sitios	34,978,113.33	2,551,395.87	32,426,717.46
	2014 SEP for 14 sitios	10,555,073.23	962,869.51	9,592,203.72
	2012 SEP for 11 sitios	4,353,702.37	392,767.15	3,960,935.22
TARELCO I	2013 SEP for 13 sitios	3,713,329.89	272,062.28	3,441,267.61
	2014 SEP for 3 sitios	4,980,499.87	427,468.74	4,553,031.13
	2013 SEP for 27 sitios	9,524,987.21	703,884.06	8,821,103.15
	2013 SEP for 34 sitios	10,781,421.44	793,218.87	9,988,202.57
	2015 SEP for 21 sitios	5,182,609.65	441,590.42	4,741,019.23
	2014 SEP for 38 sitios	9,304,029.21	774,446.25	8,529,582.96
	2014 SEP for 21 sitios	8,508,683.23	676,712.84	7,831,970.39
	2015 SEP for 18 sitios	4,211,057.76	345,580.11	3,865,477.65
CAGELCO I	Typhoon Vinta	8,692,794.30	728,174.73	7,964,619.57
	2016 SEP for 46 sitios	7,264,462.46	666,417.40	6,598,045.06
	YRRP	18,693,334.04	1,689,582.47	17,003,751.57
	2015 SEP for 30 sitios	10,236,459.28	896,621.82	9,339,837.46
PELCO II	2014 SEP for 14 sitios	5,346,203.38	563,347.51	4,782,855.87
DASURECO	2012 SEP for 46 sitios	32,291,331.71	2,346,846.54	29,944,485.17
	2013 SEP for 48 sitios	25,545,108.23	1,921,528.12	23,623,580.11
	2014 SEP for 64 sitios	37,011,080.25	2,467,314.77	34,543,765.48
LANECO	2013 SEP improvement of tapping point	1,089,927.18	105,168.13	984,759.05
AURELCO	2014 SEP for 86 sitios	21,558,273.55	2,024,327.11	19,533,946.44
Sub-Total		**P280,910,600.20**	**P22,381,262.80**	**P258,529,337.40**
ECs Audited in CY 2017				
CEBECO I	2012 SEP Batch 1	14,929,717.15	1,791,566.06	13,138,151.09
	2012 SEP Batch 2	17,509,011.81	211,081.42	17,297,930.39
	2013 SEP Additional	32,125,981.15	3,442,069.41	28,683,911.74
	2014 SEP	56,515,479.10	6,055,229.90	50,460,249.20
	2015 SEP	33,237,098.65	3,561,117.71	29,675,980.94
CELCO	2014 SEP for 17 sitios	13,802,513.09	1,224,906.13	12,577,606.96
	2013 SEP for 21 sitios	16,233,764.52	1,397,432.37	14,836,332.15
	2012 SEP for 5 sitios	6,602,971.82	544,592.31	6,058,379.51
	2013 SEP for 21 sitios	16,233,764.52	1,397,432.37	14,836,332.15
	2013 SEP for 25 sitios	14,493,142.01	1,237,752.60	13,255,389.41
	2014 SEP for 17 sitios	13,802,513.09	1,224,906.13	12,577,606.96
	2014 SEP for 21 sitios	13,854,850.05	1,174,157.48	12,680,692.57
	2014 SEP for 20 sitios	13,585,781.59	1,196,421.77	12,389,359.82
	2015 SEP for 10 sitios	13,161,544.01	1,152,566.23	12,008,977.78
	2015 SEP for 10 sitios	9,297,147.31	818,079.29	8,479,068.02
	2015 SEP for 17 sitios	13,620,460.41	1,234,157.20	12,386,303.21
	2015 SEP for 19 sitios	7,770,133.45	691,037.55	7,079,095.90
Sub-Total		**P306,775,873.73**	**P28,354,505.93**	**P278,421,367.80**
Grand Total		**P587,686,473.93**	**P50,735,768.73**	**P536,950,705.20**

24.9 The samples gathered from the CY 2017 liquidations are projects which include a separate line item for the input taxes in the AF. Verification of other AF whether the materials cost presented was VAT inclusive or not could not be made since separate line item for input taxes was not provided.

24.10 One EC commented that COA has failed to consider the additional output VAT generated by the subsidized asset and it will be more beneficial for the government. However, the additional output VAT raised from the said asset derives ECs additional revenue generated from the infrastructure project subsidized by the government. In view thereof, the projects were already beneficial to the ECs. CELCO stated, however, that the Input VAT from purchases for SEP projects was not claimed as deduction from the Output VAT and will just reclassify entries made from Input VAT account to CWIP-SFP-TA account.

24.11 Moreover, the output VAT is also passed on to the end-users of the product, which are the member-consumers of the ECs. The output VAT is included in each monthly bill of the member-consumers. Therefore, even the additional output VAT generated from the subsidized assets were beneficial to the government, it is not burdensome for the ECs, but rather an increased income for them.

24.12 The ECs inclusion of input VAT in the subsidy AF was in accordance with NEA's templates in the presentation of AF. However, we found, that this is improper considering that input VAT is being claimed by the ECs as a deduction from their output VAT in determining their VAT Payable to BIR. As a result, ECs tax payable will be reduced considering the inclusion of amount of Input VAT to the purchased materials subsidized by the National Government (NG).

24.13 In order to rectify ECs improper charging of Input VAT from the subsidy AF, NEA should exclude Input VAT in the presentation of AF taking into account its negative effect to the government.

24.14 Since the input VAT was included in the AF of 39 projects gathered from the two ECs audited in CY 2017 and other liquidations submitted to COA by eight ECs, the total amount of P50,735,768.73 subsidized by the Government will be ECs tax savings. Hence, the charges made in the AF was overstated and government revenue was reduced by P50,735,768.73.

24.15 In light of the foregoing, NEA Management is enjoined that "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 government."

24.16 This is a reiteration of our previous year's audit observation.

24.17 **We reiterated our recommendations that Management revisit NEA-Memorandum No. 2015-36 and consider revising the provisions to exclude Input VAT in the Accounting of Subsidy Fund or alternatively, issue a Memorandum prohibiting ECs from offsetting the Input VAT SEP projects against Output VAT from ECs own operations so that proper Input VAT will be remitted to the government particularly the BIR.**

24.18 Management informed that NEA sent letters to 14 ECs dated May 15 and 17, 2017 requiring them to remit to BIR the amount of Input VAT deducted from Output VAT and to submit proof of remittance.

The ECs are of the same opinion that crediting the Input VAT from Output VAT is in accordance with Section 110 of NIRC. Further, a former BIR Revenue District Officer, when asked about COA recommendation, during the Seminar on “TRAIN Law” stated that BIR guidelines must be followed.

Since there are conflicting opinions on the matter, NEA will seek BIR’s opinion and will request for the issuance of a Memorandum Circular.

24.19 As a rejoinder, while waiting for the requested opinion at the BIR, the Audit Team maintain its recommendations until the matter is resolved with the BIR.

25. **The Accounting of Funds (AF) for liquidated subsidies under Sitio Electrification Program (SEP)/Barangay Line Enhancement Program (BLEP) with reported unexpended/unutilized balance totaling P29.289 million were not demanded by NEA for immediate return, hence not in conformity with Section 7 of the MOA, thereby deprived the government of funds to utilize for other projects.**

Likewise, expenses not related to the project/s or without documentation were not considered, hence, the reported unexpended balance of P29.289 million per AF have increased to P63.378 million (net of amount already returned) and the same was not refunded/remitted to NEA contrary to Section 4.5.6 of COA Circular No. 2007-001 and NEA Memorandum No. 2013-023.

Further, EC’s with subsidy deficit totaling P44.980 million is to be covered with the release of the 10-30 percent remaining/retention balance but not to exceed the actual disbursement pursuant to Section 4 of the MOA.

Moreover, unexpended balance amounting to P93.924 million for projects audited in CYs 2014 – 2016 remained in the possession of the ECs.

25.1 Section 4.5.6 of COA Circular No. 2007-001 dated October 25, 2007 on the Procedure for the Availment, Release and Utilization of Funds provides that:

> *“No NGO/PO shall be a recipient of funds where any of the provisions of this Circular and the MOA entered into with the GO has not been complied with, in any previous undertaking with funds allocated from the GO.”*

Sections 2, 4, 6 and 7 of the MOA provides that:

a. Section 2 - *“THE RECIPIENT shall use the funds, which may be in the form of materials and equipment requisitioned, cost of labor and peso releases requested by the RECIPIENT from NEA, solely and exclusively for the project(s) adverted to in Schedule A, and in no case diverted or used for purposes unrelated to said projects such as but not limited to money market placements, and other related forms of investments not related to the project, payments for amortization on loans and/or credit accommodations obtained by the RECIPIENT* *from creditors, payment of power bills, salaries, wages, honoraria and other similar benefits of RECIPIENT'S regular personnel. Xxx."*

b. Section 4 - *"Xxx. A final report on the project(s) to include Accounting of Funds, Status Report of NEA subsidy fund releases and Certificate of Final Inspection and Acceptance and other documents provided in Schedule B must be* ***submitted by the Recipient to NEA within three (3) months from completion of the project which shall be the basis for liquidation****. Also, the Recipient* ***shall conduct close-out of project within three (3) months after NEA's final inspection and acceptance to facilitate the take-up of completed projects in the EC books."***

c. Section 6-*"NEA shall institute appropriate actions and/or may suspend release of the subsidy fund in the event of failure of the RECIPIENT to strictly comply with the provisions of this Agreement."*

d. *Section 7 - "It is agreed that all amount in excess of total disbursements and cost of unimplemented project including interest earned thereon shall be returned/remitted to NEA or the Recipient may request written authority from NEA to use the savings/balance as well as interest accruing to the fund for activities allied to the project, within one (1) month after final inspection of NEA."*

NEA Memorandum No. 2013-023 dated October 10, 2013 provides for the submission of original documents to support the liquidation of subsidy funds. It categorically enumerate the documents needed to support the liquidation of subsidies received for the electrification projects.

25.2 The Audit Team reviewed the 181 liquidated projects funded under Regular Subsidy, SEP and/or BLEP, Priority Development Assistance Fund (PDAF)/Disbursement Acceleration Program (DAP) and General Appropriations Act (GAA).

25.3 Review of the subsidy funds for 181 projects disclosed unexpended balance amounting to P63,377,587.69 (net of returned amount to NEA), however, this was not returned/remitted to NEA, contrary to Section 7 of the MOA as shown in the next page:

Name of EC	No. of Project	Subsidy Receipts	Expended/Disbursed		Per EC's AF		Per Audit			
			Per AF	Per Audit	Unexpended	Subsidy Deficit	No. of Proj.	Unexpended	No. of Proj.	Subsidy deficit
		A	B	C	D=(A-B)			E=(A-C)		
OMECO	33	P478,793,854.58	P 465,215,545.78	P464,609,571.96	P16,736,933.06	P 3,158,624.26	24	P 17,253,820.66	8	P 3,069,538.04
BOHECO II	22	214,154,038.40	221,657,753.31	203,804,370.73	172,332.88	7,676,047.79	14	13,240,076.72	7	2,890,409.05
NOCECO	26	337,480,557.85	352,023,181.67	344,978,150.01	3,704,645.00	18,247,268.82	13	9,970,213.35	13	17,467,805.51
BENECO	12	139,781,100.24	141,881,390.70	137,946,003.28	4,040,687.22	6,140,977.68	9	7,200,866.34	3	5,365,769.38
ILECO I	43	131,892,320.41	130,742,746.55	126,803,144.76	1,149,573.86	20,104,404.84	22	5,089,175.65	21	15,414,506.70
CENECO	18	95,156,323.82	98,274,670.95	97,942,475.32	2,104,852.97	5,223,200.10	8	*1,955,458.44	10	6,440,567.00
LUBELCO	13	57,342,934.58	57,780,613.00	49,093,213.49	818,440.45	1,256,118.83	12	8,337,722.45	1	88,001.36
NORECO II	6	56,601,765.19	64,951,486.34	64,769,318.37	473,630.69	8,823,351.84	2	501,415.41	4	8,668,968.59
BOHECO I	3	44,395,655.00	57,336,982.38	57,095,076.31	88,348.01	13,029,675.39	1	330,254.08	2	13,029,675.39
MOELCI I	5	25,982,797.33	28,696,933.26	28,654,888.11	0	2,714,135.93	0	0	4	2,672,090.78
Total	**181**	**P1,581,581,347.40**	**P1,618,561,303.94**	**P1,575,696,212.34**	**P29,289,444.14**	**P86,373,805.48**	**105**	**P63,879,003.10**	**73**	**P75,107,331.80**
Less: Amount returned by NORECO								501,415.41		
Total Unexpended Balance								**P63,377,587.69**		

Note: Excess of expenditures/subsidy deficit with 100% fund received from NEA are charged to EC's and are not offset against unexpended balance.

25.4 From the preceding table, the submitted AFs already reported unexpended/unutilized balance totaling P29,289,444.14. However, NEA did not enforce the immediate return of the unutilized/unexpended funds. Inquiry disclosed that NEA does not compel the ECs for the return of the unutilized fund upon liquidation until the result of the COA audit has been received or the submitted AF is partial liquidation only. Only NORECO II had returned to NEA the unexpended balance amounting to P501,415.41. This practice is not compliant with Section 7 of the MOA.

25.5 Further, examination of the AF and its supporting documents revealed that there were expenses not related to the project/s or without documentation which were not considered, thus, increasing the amount of unexpended/unutilized balance from P29,289,444.14 to P63,377,587.69. Listed below are some of the recurring deficiencies/discrepancies which resulted in the increase of the unexpended/unutilized balance which is not compliant with Section 2 of the MOA:

a. Disbursements charged to the subsidy were not compliant with the MOA and/or not related to the project/s and beyond the completion and energization date;
b. Labor of organic personnel including other personnel benefits such as SSS, Philhealth and Pag-ibig contributions and cash award distribution charged to the subsidy fund;
c. Difference or excess of material charges over actual utilization in the project;
d. Overpricing of the installed repaired transformers (the charged amount is almost the price of a new unit per 2012 NEA's Materials Price Index) and conductor bare wire as against the 2012 NEA's price index;
e. Discrepancy of as-built Bill of Materials against the as-built Staking Sheet and the equivalent amount charged to the AF;
f. Uninstalled house wiring materials for the household beneficiaries but charged to the AF;
g. Not allowable expenses such as payment of per diem of DENR and EC, lodging accommodations, purchased of uniforms and camiso chino, anniversary bonus of SEP contractual employees, staking crew cash gift, meals/foods for visitors, tarpaulin, 2AA batteries, SD Card, Memory card and Interest due on CAPEX loan; and
h. Unsupported/unsubmitted disbursements charged against the subsidy fund.

25.6 Another identified reason for the increase of unexpended balance is the non-reconciliation of the transmitted/submitted liquidation documents by the Accounts Servicing Division (ASD) with the AF which is the basis for liquidation. Likewise, ECs only start complying with the required documents when they were already audited or already issued an Audit Observation Memorandum (AOM) as NEA did not verify the completeness of the liquidation documents submitted by the concerned ECs. The above practices is not compliant with NEA Memorandum No. 2013-023.

25.7 Also, audit showed subsidy deficit aggregating P75,107,331.80, of which a total of P44,980,455.10 will only be covered with the release of the retention balance. The details are as follows:

Table 1: Summary of Subsidy Deficit to be Covered with Release

EC Name	***No. of Project***	***Subsidy Deficit***	***Remaining Balance***	***To be Covered with the Release of the Retention Balance***
1. OMECO	8	P* 3,069,538.04	P6,454,405.46	P 1,654,255.56
2. BOHECO II	7	* 2,890,409.05	5,480,170.25	1,704,395.46
3. NOCECO	13	*17,467,805.51	25,774,393.21	17,255,896.88
4. CENECO	10	* 6,440,567.00	12,197,574.88	6,220,977.25
5. LUBELCO	1	88,001.36	292,713.76	88,001.36
6. NORECO II	4	* 8,668,968.59	14,459,483.22	3,506,816.16
7. BOHECO I	2	*13,029,675.39	0	0
8. MOELCI I	4	2,672,090.78	3,846,953.22	2,672,090.78
9. ILECO I	21	15,414,506.70	32,531,474.07	11,878,021.65
10. BENECO	3	*5,365,769.38	0	0
Total	**73**	**P75,107,331.80**	**P101,037,168.07**	**P44,980,455.10**

** included project/s with 100% release*

25.8 As shown in the preceding table, there are 10 ECs which incurred subsidy deficit totaling P75,107,331.80 due to 10 – 30 percent unreleased remaining/retention balance from the approved project cost and/or projects that exceeded the 100 percent allocated cost which should be charged to EC's general fund. However, the amount to be covered with the release is only P44,980,455.10 or not exceeding the actual disbursements pursuant to Section 4 of the MOA.

Though, BOHECO I and BENECO have subsidy deficit totaling P13,029,675.39 and P5,365,769.38, respectively, these are no longer covered with subsequent release, since 100 percent of the project cost were already released to EC, hence, said subsidy deficit will be charged against BOHECO I and BENECO's General Fund.

25.9 Likewise, for CYs 2014 - 2016, there are still 17 ECs with unexpended balances amounting to P93,923,739.28 that remained in the possession of ECs and not yet returned to NEA as of December 31, 2017, detailed as follows:

Table2: List of ECs Audited in CY 2014-2016 with Unexpended Balance as of December 31, 2017

Name of EC		***Unexpended Balance (As of 1/1/17)***	***Returned to NEA in CY 2017***	***With Submitted Updated/Revised AF (subject for validation)***	***Balance***
1	ANECO	P 2,400,834.84	0	P2,400,834.84	P 2,400,834.84
2	ILECO II	10,775,333.79	0	10,775,333.79	10,775,333.79
3	NORECO I	11,597,756.85	0	11,597,756.85	11,597,756.85
4	ROMELCO	1,196,128.38	0	0	1,196,128.38
5	BISELCO	2,703,898.77	P842,907.88	0	1,860,990.89
6	SOCOTECO 1	1,462,216.12	0	1,462,216.12	1,462,216.12
7	AKELCO	1,084,313.53	0	1,084,313.53	1,084,313.53

	Name of EC	Unexpended Balance (As of 1/1/17)	Returned to NEA in CY 2017	With Submitted Updated/Revised AF (subject for validation)	Balance
8	MASELCO	1,907,349.10	0	1,907,349.10	1,907,349.10
9	NEECO II A2	1,395,000.00	697,855.54	697,144.46	697,144.46
10	PANELCO I	199,211.66	0	199,211.66	199,211.66
11	SORECO I	4,136,595.29	0	0	4,136,595.29
12	FLECO	3,604,817.90	98,767.86	3,506,050.04	3,506,050.04
13	LEYECO III	6,436,751.37	2,805,565.77	0	3,631,185.60
14	DORELCO	2,954,274.05	0	0	2,954,274.05
15	LEYECO V	18,544,506.82	5,004,625.34	0	13,539,881.48
16	ZAMSURECO I	37,815,467.39	7,292,446.16	0	30,523,021.23
17	DASURECO	7,346,726.51	4,895,274.54	0	2,451,451.97
	Total	**P115,561,182.37**	**P21,637,443.09**	**P33,630,210.39**	**P93,923,739.28**

25.10 As can be gleaned from the preceding table, there are still 17 ECs with unexpended balance from the audited ECs in 2014-2016 totaling P115,561,182.37 as of January 1, 2017, but only the amount of P21,637,443.09 were returned to NEA in 2017. Hence, there is still unexpended balance aggregating to P93,923,739.28 that remained in the possession of the concerned ECs. Though updated/revised AFs of P33,630,201.39 were submitted, these cannot be considered as deduction unless the supporting documents are submitted and validated and considering further the long gap of liquidation that have been lapsed.

25.11 The unremitted unexpended balance is a reiteration of our previous year's audit observation.

25.12 Management attention is invited to the provision of Section 6 of the MOA as agreed by NEA and the ECs.

25.13 We recommended that Management:

a. **Require the 10 ECs audited in CY 2017 to return/refund the unexpended balances amounting to P63.378 million;**

b. **Direct the ECs that only related/allowed expenses are charged in the AF;**

c. **Require the concerned EC's to submit required documents for the release of the remaining balances amounting to P44.980 million but not to exceed the actual disbursements pursuant to Section 4 of the MOA;**

d. **Require the EC's to submit the required documents to validate the charges made in the AF together with the supporting schedule of the previous and the revised AF, for verification and adjustment of the total unexpended balances, otherwise, return to NEA the total amount of P93.924 million;**

e. **Monitor the timely return of the unexpended balance based on the AF submitted by EC on their liquidation; and**

f. **Ensure that the submitted liquidation documents are tallied/verified with the reported amounts in the AF and the disbursements made was in accordance with the MOA to avoid rising of unexpended/unutilized fund.**

25.14 Management commented that:

a. AMGD already required the ECs to return the unexpended/unutilized balance on various dates. Also, as of May 15, 2018 the unexpended balance for the 10 ECs audited in CY 2017 already returned the amount of P5.5 million while request for realignment of P1.2 million was approved by NEA.

Moreover, even before the result of audit, we have been requiring ECs to return the unutilized subsidy funds.

b. In the course of liquidation and review of the AF, Management informed the concerned ECs of expenses that are not included in the allowable charges (Memorandum No. 2015-036 dated 9 December 2015), thus cannot be charged against subsidy funds.

c. The release of the remaining subsidy balances to the ECs are either already processed, on-going evaluation or awaiting for the submission of lacking documents.

d. Updated Unexpended/Unutilized balance as of May 15, 2018 are as follows:

For 17 ECs audited in 2014-2016	
Unexpended	P 115,561,182.37
Less: Returned Amount	(51,555,234.95)
Realigned	(1,196,128.38)
Updated AF	(51,406,506.84)
Balance	P 11,403,312.20

e. NEA's submission of ECs updated AF for P33.630 million with supporting documents were not yet considered by COA.

25.15 As a rejoinder, the submitted updated AFs for nine EC's totaling P33,630,210.39 were not considered in audit since the submitted updated AFs were not prepared on a per project with the corresponding unexpended balance, instead, only one AF for the total balance. Also, the updated AFs were not attached with supporting documents for the additional disbursements made, thus, the correct balances cannot be established.

Hence, the Audit Team maintain its recommendation to submit the AFs of the previous and the revised/updated AF per project together with the supporting schedules and the required liquidation documents per AF.

26. **The accomplished 34,209 sitios under 2011-2016 Sitio Electrification Program (SEP) were not among the 32,441 sitios priority as identified in the Inventory as of December 31, 2016, which criteria were not strictly complied pursuant to NEA Memorandum No. 2011-021.**

Likewise, of the 8,268 sitios or 25.49 percent implemented from the 32,441 SEP priority, 708 sitios were not energized as of December 31, 2017, thus, depriving the intended prioritized beneficiaries of the electrification program that could uplift their social and economic living.

Further, the total allocated cost of P18.47 billion for the 32,441 sitios was not reliable since only 7,403 were covered with allocated cost of P6.270 billion of which 24 sitios were duplicate amounting to P22.615 million.

26.1 The Special Provisions of the GAA for CY 2012 to 2017 provides that NEA shall prioritize the implementation of sitios, *"Where the absolute number of indigents and the incidence of poverty are high as identified in the latest official poverty statistics of the PSA-National Statistics and Coordination Board (NSCB) as well as those with the high capability/probability of being energized."*

26.2 In CY 2011 NEA's SEP Executive Summary, the following were the prioritization criteria:

a. **Tapping point** - Proximity of the sitio for consideration to the last connected electric pole, or the tapping point, is the paramount criterion;

b. **Right of way** - Areas where legal concerns and consumer-related concerns on the right of way that have been dealt with will be prioritized;

c. **Peace and order condition** - There should exist a generally known atmosphere that is conducive to peace and order;

d. **Construction cost** - The approximate construction cost is placed at P1 million per sitio; and

e. **EC relationship with NEA and other pertinent agencies** - With positive social feedback will be prioritized.

26.3 NEA Memorandum No. 2011-021 dated November 3, 2011 states that only those sitios identified in the NEA database as of end of August 2011 shall be eligible and shall have priority for subsidy allocation.

26.4 When former President Aquino approved the SEP in 2011, NEA committed to provide electricity to the 32,441 unlit sitios in the country based on the inventory as of June 2011 or upon the former President's assumption of office. In partnership with 121 electric cooperatives (EC's) and support from the former and present administration, various subsidy funds were released by the National Government (NG) to NEA through General Appropriations Act (GAA) and other sources for the implementation of SEP and Barangay Line Enhancement Program (BLEP).

26.5 In August 2011, NEA conducted a “Sitio Summit”, which was participated in by different ECs nationwide with the assistance of the Local Government Units (LGUs) in order to determine the unenergized sitios/puroks that will be given priority for SEP implementation. As a result, a total of 32,441 unlit sitios/puroks were identified to be unenergized as the official list of priority sitios/puroks for energization for the remainder of 2011 until CY 2016.

26.6 The ECs received directive from NEA’s Accelerated Total Electrification Office (ATEO) to submit a list of sitios for electrification. In compliance thereof, ECs shall submit duly signed request for the release of construction fund (RRCF) of the subsidy grant for evaluation and approval of the project cost together with the following documents:

- EC’s duly signed Board Resolution requesting for subsidy grants;
- As planned staking sheet;
- As planned Bill of Materials;
- Certification of potential households from the Barangay Chairman;
- Execution Plan; and
- Letter of Commitment

Upon evaluation and approval of project cost by the ATEO, a MOA is prepared by the Accounts Servicing Division (ASD).

26.7 In CY 2016, per Annual Financial Report, NEA has completed the energization of the 32,441 sitios. Out of the P30.93 billion subsidy, a total of P21.47 billion were allocated for the SEP implementation, detailed as follows:

Implementing Timeline and Targets		Accomplishments		Project Cost (in billions)	Initial House Connection (Cumulative)
Year	**Targets**	**Annual**	**Cumulative**		
2011	1,410	1,520	1,520	P 0.76	14,366
2012	6,007	6,163	7,683	3.15	53,688
2013	*10,394	5,263	12,946	3.06	73,990
2014	7,073	7,567	20,513	4.42	138,529
2015	7,557	10,361	30,874	7.08	283,726
Sub - total	**32,441**	**30,874**		**P 18.47**	
Jan-June 2016	3,150	2,580	33,454	3.00	564,299
December 2016		755	34,209		
Sub - total	**3,150**	**3,335**			
Grand Total	**35,591**	**34,209**		**P 21.47**	

**The fund released was for 5,831 sitios only.*

26.8 As shown in the preceding Accomplishment Report, NEA was able to accomplish 30,874 sitios or 95.17 percent of the targeted number of sitios as at year- end of 2015 with a project cost totaling P 18.47 billion. However, it was noted in NEA’s 2013 Annual Report that the targeted 10,394 sitios was changed since the subsidy fund received from the NG was only for 5,831 sitios. On the other hand, however, for CY 2016 targeted 3,150 sitios which is not part of the 32,441 sitios, NEA was able to accomplish 3,335 or 105 percent of the targeted sitios as at year end of 2016.

26.9 However, review of the submitted report as of December 31, 2017, reconciled with the 2011 inventory list of unenergized sitios as targeted prioritized for SEP implementation revealed the following:

Region	Baseline 2011 Targeted Sitios	Implementation Details				
		Completed (a)	Energized (b)	Unenergized (c) = (a-b)	With CFIA	Not Implemented (d)
I	344	114	110	4	112	230
II	946	221	219	2	218	725
CAR	1,727	437	394	43	431	1,290
III	616	210	210	0	210	406
IV-A	647	198	159	39	198	449
IV-B	2,356	688	610	78	688	1,668
V	3,323	764	736	28	763	2,559
VI	1,912	929	924	5	929	983
NIR	2,533	442	345	97	437	2,091
VII	1,608	778	776	2	777	830
VIII	2,042	472	437	35	468	1,570
IX	2,938	488	392	96	473	2,450
X	2,341	897	780	117	895	1,444
XI	2,985	429	402	27	426	2,556
XII	4,131	664	601	63	663	3,467
ARMM	797	180	109	71	180	617
CARAGA	1,195	357	356	1	357	838
Grand Total	**32,441**	**8,268**	**7,560**	**708**	**8,225**	**24,173**

26.10 As can be gleaned from the preceding table, the following observations were noted:

a. Out of the 32,441 list of sitios targeted priority for SEP implementation, only 8,268 sitios or 25.49 percent were implemented/completed, while 24,173 sitios or 74.51 percent were not yet electrified or not yet constructed with distribution lines. Based on Corporate Planning (CorPlan) Department's Report in 2017, there were 2,241 identified sitios not implemented due to the following reasons:

Reasons of Non-Implementation	***Number of Sitios***
Abandoned	10
Waived for DOE Funding/ with Existing Solar	1,289
No Right of Way/with Certificate	17
Private Property	7
Unviable	45
Uninhabitated/unoccupied	9
Excluded	12
Not Existing/with Certificate	227
Informal Settlers	2
No Tapping Point	1
Territorial Dispute W/ SBMA	1

Reasons of Non-Implementation	*Number of Sitios*
Can't Locate	2
For Coop Expansion and DOE/HEP	2
Lack Of Permanent Resident	8
No Household/with Certificate	32
Double Entry	12
On Going/ For Construction	6
For Deletion	2
Unaccessible	9
Peace And Order Problem	125
Off Grid Area For Solar/Options	4
Not Passable	86
Invalid Extension	274
Existing Old Lines	4
Not Feasible	48
Wipe out	7
Total	**2,241**

b. From the 8,268 implemented/completed sitios, 7,560 or 91.44 percent were energized, leaving 708 sitios or 8.56 percent unenergized as at year end.

c. Also, of the implemented/completed sitios, only 8,225 or 99.48 percent were inspected and issued with Certificate of Final Inspection and Acceptance (CFIA).

26.11 Moreover, it was also noted that there were 381 pass-by sitios included in the implemented/completed sitios, of which six were not yet inspected while the 20 sitios remained unenergized as of December 31, 2017.

26.12 On the other hand, the 25,941 implemented sitios (difference between the accomplished 34,209 and 8,268 implemented sitios) were sourced from other requested sitios approved by ATEO and the results of other electrification plan such as “Once and for All Summits” etc.

26.13 Inquiry from the ATEO on how the funds were allocated to EC’s during SEP implementation from CY 2011-2016 disclosed that EC’s which are prompt in requesting subsidy fund and with complete documentary requirements were given priority on the release of subsidy fund. This practice was confirmed by several EC’s that submission of request for the release of subsidy fund is done only when the documentary requirements is complete as indicated in par. 4.6. The EC that comply with the requirements receives immediately the subsidy fund. It was only in 2014, that the release of subsidy funds to EC’s was subject to the submission of the Notice of Award to the winning bidder.

26.14 This indicates that the targeted 32,441 priority list of sitios for SEP implementation was not religiously observed nor used as basis for the evaluation of EC’s request for subsidy funds. In addition, the 24,173 completed and energized sitios were not in the priority list, hence, not effectively implemented and not compliant with NEA Memorandum No. 2011-021. As a result, it deprived the intended prioritized beneficiaries of the benefits that could be derived from the electrification program as they have been left out in the implementation of the project.

26.15 Furthermore, per ATEO's report, out of the 32,441 sitios included in the list of SEP priority projects, only 7,403 sitios were covered with allocated cost of P6,270,707,132.67. However, examination showed that the 7,403 sitios have 24 duplicate sitios from 19 EC's totaling P45,230,104.50, hence, an overstatement of P22,615,052.25, summarized as follows:

Particulars	*No. of Sitios*	*No. of Sitios With Allocated Cost Per Audit (a)*	*Allocated Cost (b)*	*With Duplicate Sitios (c)*	*Allocated Cost on the Duplicate Sitios (d)*	*No. of Sitios, (net of Duplicate Sitios)*	*Allocated Cost Per Audit*
Included in the SEP priority projects	32,441	7,403	P6,270,707,132.67	24	P22,615,052.25	7,379	P6,245,846,625.38

This practice casts doubt on the reliability of the data/information submitted for monitoring purposes.

26.16 **We recommended that Management:**

a. Strictly comply with the criteria on selection and prioritization of SEP project and give priority to sitios/puroks that are specifically identified in the target list, so as not to deprive the beneficiaries of the electrification program that could uplift their social and economic living;

b. Require ECs to energize the 708 sitios completed projects so as to maximize the benefits of the program and encourage prospective program beneficiaries to have their household energized;

c. Conduct immediate inspection of the 82 sitios completed subsidized funded projects which will serve as the basis of EC's liquidation and closed-out of books of both NEA and EC's; and

d. A thorough review of the report is enjoined to ensure reliability of the information/data reported.

26.17 Management submitted the following explanations:

NEA and the ECs received extensive requests for line expansion in the sitios and puroks when almost all the barangays in the EC's franchise area were energized in 2010. Since sitios have no official inventory at that time, NEA, in partnership with the ECs, initiated the inventory of all sitios and puroks to build the data base and rationalize the implementation of the Sitio Electrification Program (SEP). The baseline number of unenergized sitios in June 2011 was 32,441.

As in any new program, the SEP had several birth pains in terms of sitio listing, project implementation and monitoring of accomplishments.

Duplication of the names of sitios, misspelled names but referring to the same sitio, areas which were actually not sitios (i.e. haciendas, schools, private lands) and other issues were widely encountered in the initial inventory.

Thus, in NEA Memorandum No. 2011-021 dated November 3, 2011, ECs were advised to update their inventory of unenergized sitios. To safeguard the implementation of the projects, ECs were likewise required to secure certification from barangay captains in order to validate existence of the sitios for energization.

Furthermore, based on the General Appropriations Act (GAA) on the "Budget Flexibility and Report" NEA is authorized to modify programs and projects, reallocate the corresponding budgetary requirements approved herein, as well as augment the deficiencies which arise from factors beyond the NEA's control such as, but not limited to: (i) currency depreciation; (ii) inflation; (iii) change in interest rates; (iv) changes in programs and/or projects; and (v) change in schedule of project implementation.

The sitios implemented complied with the criteria. Prioritization also took into consideration the compliance with the complete documentary requirements. The changes/replacement of sitios does not deplete or violate the purpose of the subsidy appropriation for SEP.

The ECs are requested to energize all the completed projects. The non-energization of these sitios is due mainly to the delayed compliance of the potential household consumers on several requirements and permit fees being charged by the LGUs and ECs.

The final inspection and acceptance of the completed/energized 34,209 sitios under SEP Phase I is almost completed. The inspection of the remaining 68 sitios is on-going.

The responsible employee inadvertently over looked the duplicate sitios noted in the report. Management will comply to the audit recommendation.

27. **Liquidations and refunds/remittances by electric cooperative (ECs) amounting to P3.318 million were erroneously recorded in its proper accounts, resulting in understatement of accounts Due from NGOs/POs and Other Payables by P3.318 million and P3.372 million, respectively, and overstatement of Retained Earnings by P53,823.**

Likewise, adjustments made for over liquidations in CY 2014 to account Due from NGOs/POs amounting to P8.172 million cannot be validated due to absence of journal vouchers and its supporting documents.

27.1 The account Due from NGOs/POs (139) has a year-end balance of P3,151,296,939.76. The pro-forma journal entries to take up the receipt of the subsidy fund from the Bureau of the Treasury (BTr) to the release of fund to Electric Cooperatives (ECs) including Administrative Engineering Overhead are as follows:

Particulars	***Dr.***	***Cr.***
a. To take up receipt of subsidy fund from the BTr: Cash in Bank Other Payables - BTr	xxx	xxx
b. To take up release of subsidy fund to ECs: Due from NGOs/POs Other Service Income Cash in Bank	xxx	xxx xxx
c. To take up full liquidation of subsidy release: Other Payables Due from NGOs/POs	xxx	xxx

27.2 Review of the subsidiary ledgers of account Due from NGOs/POs and the related accounts disclosed erroneous recording of liquidations and refunds/remittances to NEA aggregating to P3,317,972.47, detailed as follows:

Name of EC	***Amount Returned for Fully Liquidated Project Credited to Account Due from NGO/PO*** **(a)**	***Amount Returned for Projects not yet Liquidated in NEA's Books*** **(b)**	***(Over)/Under Liquidations*** **(c)**	***Total Variance*** **(d)=(a+b+c)**
ISECO		P 1,240,801.96		P 1,240,801.96
KAELCO			P(1,495,873.58)	(1,495,873.58)
CENPELCO		605,048.38		605,048.38
BATELEC II			45.00	45.00
CASURECO I	P (8,282.13)			(8,282.13)
Total for Luzon	**(8,282.13)**	**1,845,850.34**	**(1,495,828.58)**	**341,739.63**
NOCECO			(2,301,557.51)	(2,301,557.51)
BOHECO II	(27,725.93)			(27,725.93)
CELCO			(0.50)	(0.50)
Total for Visayas	**(27,725.93)**	**0**	**(2,301,558.01)**	**(2,329,283.94)**
ZAMSURECO II	(574,927.68)			(574,927.68)
FIBECO	(375,092.44)			(375,092.44)
DASURECO			(359,206.89)	(359,206.89)
DORECO			(20,586.83)	(20,586.83)
SIARELCO			(614.31)	(614.31)
Total for Mindanao	**(950,020.12)**	**0**	**(380,408.03)**	**(1,330,428.15)**
Total	**P (986,028.18)**	**P 1,845,850.34**	**P(4,177,794.62)**	**P (3,317,972.46)**

a. The corresponding subsidy releases of the amounts returned were fully liquidated and the total subsidy releases amounting to P986,028.18 were already credited to Due from NGOs/POs account and debited to Other Payables account. However, the returns/remittances to NEA amounting to P986,028.18 were not correctly debited to Due from NGOs/POs account and credited to Other Payables account. The details are as follows:

Name of EC	Account Used	JEV no.	Amount Returned	Remarks
CASURECO I	139-005	2017-08-006470	P8,282.13	Refund of excess fund from 2011 SEP
ZAMSURECO II	139-007	2015-09-007084	574,927.68	Refund of 2012 subsidy fund
FIBECO	139-005	2016-07-005653	375,092.44	Refund of 2011 subsidy fund
BOHECO II	139-005	2017-10-008312	27,725.93	This JV pertains to the return of fund for five projects, however, only the fully liquidated three sitios under 2011 SEP 3 is the focus of this audit.
Total			**P986,028.18**	

The entry made to record the amount returned/refunded on fully liquidated projects is as follows:

Particulars	Dr.	Cr.
Cash/Cash in Bank	982,733.17	
Retained Earnings	3,295.01	
Due from NGO/POs		986,028.18

The correct entry that should have been taken up in the books is shown below:

Particulars	Dr.	Cr.
Cash/Cash in Bank	982,733.17	
Retained Earnings	3,295.01	
Other Payables		986,028.18

The recommended adjusting entry is:

Particulars	Dr.	Cr.
Due from NGOs/POs	986,028.18	
Other Payables		986,028.18

The erroneous recording resulted in understatement of Due from NGOs/POs and Other Payables accounts by P986,028.18.

b. The amounts returned for unliquidated subsidy releases were credited to Other Payables instead of crediting to Due from NGOs/POs account, to wit:

Particulars	Dr.	Cr.
Cash	1,792,027.16	
Other Payables		1,792,027.16

The details are as follows:

Name of EC	Unliquidated Amount per SL (a)	Service income		Amount Returned (d)	Remarks
		% (b)	c = (bxd)		
ISECO	P1,240,801.96	3.5%	P41,959.49	P1,198,842.47	2013 SEP
CENPELCO	588,248.57	2.0%	11,534.29	576,714.28	43 sitios
	16,799.81	2.0%	329.41	16,470.40	25 sitios
Total	**P1,845,850.34**		**P53,823.19**	**P1,792,027.15**	

This resulted in overstatement of Due from NGO/POs, Other Payables and Retained Earnings accounts by P1,845,850.34, P1,792,027.15 and P53,823.19, respectively.

The correct entry that should have been taken up in the books is shown below:

Particulars	Dr.	Cr.
Cash/Cash in Bank	1,792,027.15	
Retained Earnings	53,823.19	
Due from NGOs/POs		1,845,850.34

The recommended adjusting entry is:

Particulars	Dr.	Cr.
Other Payables	1,792,027.15	
Retained Earnings	53,823.19	
Due from NGOs/POs		1,845,850.34

c. There were double recording and typographical errors of liquidations in the subsidiary ledgers for seven (7) ECs totaling P4,177,794.62, summarized as follows:

EC Name	Project	Releases (a)	Liquidations/ Refunds (b)	Balance c = (a-b)	Remarks
KAELCO	Construction of DX line for 26 sitios. 1st release	P14,548,108.23	P14,548,108.23		
	2nd release	4,156,602.35	1,495,873.58	P 2,660,728.77	
			4,156,602.35	(4,156,602.35)	The amount of P1,495,873.58 was already liquidated per JEV 2016-08-006248.
	Sub Total	**18,704,710.58**	**20,200,584.16**	**P(1,495,873.58)**	
BATELEC II	Construction of DX line for 13, 1, 17 sitios	P 975,643.20			
		366,903.73			
		55,965.82	1,398,467.75	45.00	Reversal of unclaimed check as of 12.31.17, however, with typographical error.
	Sub Total	**1,398,512.75**	**1,398,467.75**	**45.00**	
NOCECO	2014 BLEP	2,301,557.51	2,301,557.51		
			2,301,557.51		Double liquidation per JV # 2016-09-007676.
	Sub Total	**2,301,557.51**	**4,603,115.02**	**(2,301,557.51)**	
CELCO	Construction of dist. Lines (2015 SEP ADD'L - 17 Sitios)	10,259,123.23	13,190,301.80	(0.50)	Typographical Error

EC Name	Project	Releases (a)	Liquidations/ Refunds (b)	Balance c = (a-b)	Remarks
		2,931,178.07			
	Sub Total	**13,190,301.30**	**13,190,301.80**	**(0.50)**	
DASURECO	Construction of DX line for 10 sitios (2014 SEP)	5,393,175.21	5,227,429.21	165,746.00	
		193,460.89	359,206.89	(165,746.00)	
			359,206.89	(359,206.89)	The amount for this JV is P11,445,049.94 representing returns from several SEP projects, however, the amount of P359,206.89 is for the 10 sitios which resulted in a negative balance in the SL.
	Sub Total	**5,586,636.10**	**5,945,842.99**	**(359,206.89)**	
DORECO	Energization of nine (9) sitios/purok	4,922,781.59	5,182,115.11	(259,333.52)	
		1,406,509.03	1,167,762.35	238,746.68	The JV pertains to the returned of four SEP funds totaling to P8,925,472.16, of which P1,167,762.35 is for the energization of 9 sitios, thus, resulted in a negative balance.
	Sub Total	**6,329,290.62**	**6,349,877.46**	**(20,586.84)**	
SIARELCO	Construction of DX line for 17 sitios	2,498,195.87	3,181,250.61	(683,054.74)	
		713,770.25	31,329.82	682,440.43	
	Sub Total	**3,211,966.12**	**3,212,580.43**	**(614.31)**	
	Total	**P50,722,974.98**	**P54,900,769.61**	**P(4,177,794.63)**	

27.3 In addition, there were adjustments of over liquidations covering CY 2014 totaling P8,172,004.87 which were not supported with journal vouchers and other pertinent supporting documents, thus, the correctness/validity of the adjustments cannot be established. The details are as follows:

No.	Name of EC	JEV No.	Amount
1.	ISELCO II	JEV-2014-03-001351	P 276,497.53
2.	QUIRELCO	JEV-2014-03-001435	104,897.11
3.	ABRECO	JEV-2014-03-001144	19,273.05
4.	BENECO	JEV-2014-04-002681	395,160.84
5.	MOPRECO	JEV-2014-03-001163	244,475.11
6.	BATELEC II	JEV-2014-03-001439	701,019.53
7.		JEV-2014-03-001439	
8.	QUEZELCO II	JEV-2014-03-001237	16,598.40
9.	ORMECO	JEV-2017-12-010229	1,652,978.66
10.	ROMELCO	JEV-2014-03-001538	200,071.58
11.	CASURECO I	JEV-2014-03-001316	190,439.08
12.	CASURECO IV	JEV-2014-05-003307	792,173.43
13.	SORECO I	JEV-2014-03-001430	1,401,615.28
14.	ESAMELCO	JEV-2014-03-001437	26,089.31
15.	FIBECO	JEV-2014-04-003308	2,150,715.96
	Total		**P 8,172,004.87**

Verification from the COA records revealed that the abovementioned JEV's together with the supporting documents were not submitted to COA.

27.4 **We recommended that Management:**

a. **Effect the following adjusting entries to reflect the correct balance of Due from NGOs/POs account and the corresponding affected accounts; and**

Particulars	Dr.	Cr.
1. On the refund of fully liquidated projects:		
Due from NGOs/POs	**986,028.18**	
Other Payables		**986,028.18**
2. On the return of not yet liquidated projects:		
Other Payables	**1,792,027.16**	
Retained Earnings	**53,823.18**	
Due from NGOs/POs		**1,845,850.34**
3. On adjustments due to over liquidation:		
Due from NGOs/POs	**4,177,794.63**	
Other Payables		**4,177,794.63**

b. **Submit the 15 journal vouchers and its related supporting documents to COA Office, for validation of the adjustments made.**

27.5 Management already adjusted on May 10, 2018 the return/refund of fully liquidated projects amounting to P986,028.18 and adjustments on over liquidation amounting to P4,177,794.63.

27.6 As a rejoinder, Management only adjusted the return of fully liquidated projects, however, to reflect the correct balance of the Due from NGOs/POs account, a correcting entry should also be made for the return with unliquidated balance.

For the adjustment made in CY 2014, we maintain our recommendation to submit the supporting documents to validate the adjustments made in the books.

28. **NEA releases project cost subsidy beyond the P1 million threshold totaling P1.360 billion contrary to the provisions of NEA Memorandum Circular No. 3 and NEA Memorandum No. 2014-007, depriving other priority sitios/puroks that were included in the list of the SEP priority projects.**

Likewise, out of the 2,224 sitios that exceeded the construction cost threshold of P1 million, 310 sitios from 30 ECs were unenergized as of December 31, 2017 totaling P502 million, which in effect delay or compromise the attainment of total electrification and deprived the intended beneficiaries of the maximum benefits that could be derived from the program.

28.1 NEA Memorandum Circular No. 3 to the Department of Energy (DOE) dated November 12, 2010 on the Medium-Term Philippine Development Plan (MTPDP) 2010-2016 provides "*The cost to energize one (1) sitio is estimated at Php 1 million".*

28.2 The ECs received the directive from NEA's Accelerated Total Electrification Office (ATEO) to submit a list of sitios for electrification. In compliance thereof, ECs shall submit duly signed request for the release of construction fund (RRCF) of the subsidy grant for evaluation and approval of the project cost together with the following documents:

- EC's duly signed Board Resolution requesting for subsidy grants;
- As planned staking sheet;
- As planned Bill of Materials;
- Certification of potential households from the Barangay Chairman;
- Execution Plan; and
- Letter of Commitment

Upon evaluation and approval of project cost by the ATEO, a MOA is prepared by the Accounts Servicing Division (ASD).

28.3 As the implementation of SEP projects heightened, NEA realized that the construction cost of the implemented projects surpassed the one million limit for every sitio and considered exorbitant. Thus, Memorandum No. 2014-007 dated February 18, 2014, was issued to all EC General Managers to conduct the SEP Masterlist Summit dubbed as "once and for all". One of the agenda of the summit states that:

> *(5) Decide if construction cost is exorbitant. Acceptable maximum cost estimate is P1M per sitio/purok (SEP) and P5 M per barangay (BLEP)".*

28.4 Review of the reported accomplished 32,441 sitios, disclosed the following:

a. Project cost subsidy allocation of 2,224 sitios from 102 ECs exceeded the construction cost threshold of P1 million per sitio subsidy totaling P1,359,747,822.13.

b. There are 2,224 sitios already issued with CFIA (except the four sitios) which exceeded the threshold of P1 million and 310 sitios of which were unenergized as of December 31, 2017, summarized as follows:

EC		No. of Sitio	Amount Allocated per MOA	Threshold per Sitio (P1 million)	Excess Amount	No. of Unenergized Sitio	Amount Allocated for Unenergized Sitio
1	ABRECO	1	P 1,155,887.22	P 1,000,000.00	P 155,887.22	0	0
2	BENECO	20	43,883,717.85	20,000,000.00	23,883,717.85	1	P 4,365,543.10
3	IFELCO	34	54,859,237.66	34,000,000.00	20,859,237.66	5	7,447,828.34
4	KAELCO	37	52,273,961.95	37,000,000.00	15,273,961.95	5	6,598,347.88
5	MOPRECO	14	31,713,931.34	14,000,000.00	17,713,931.34	0	0
6	CENPELCO	2	2,962,100.35	2,000,000.00	962,100.35	0	0
7	INEC	1	4,100,376.08	1,000,000.00	3,100,376.08	0	0
8	ISECO	3	4,894,135.83	3,000,000.00	1,894,135.83	0	0
9	LUELCO	9	13,191,396.65	9,000,000.00	4,191,396.65	0	0
10	PANELCO I	3	3,886,086.92	3,000,000.00	886,086.92	0	0
11	BATANELCO	1	1,189,874.42	1,000,000.00	189,874.42	0	0
12	CAGELCO I	2	5,324,145.88	2,000,000.00	3,324,145.88	0	0
13	CAGELCO II	37	67,255,381.02	37,000,000.00	30,255,381.02	1	1,262,219.92
14	ISELCO I	2	3,214,548.43	2,000,000.00	1,214,548.43	0	0
15	ISELCO II	13	23,179,334.92	13,000,000.00	10,179,334.92	1	2,285,968.63
16	NUVELCO	17	29,356,111.12	17,000,000.00	12,356,111.12	0	0
17	AURELCO	7	16,458,604.43	7,000,000.00	9,458,604.43	0	0
18	NEECO I	2	2,707,944.77	2,000,000.00	707,944.77	0	0
19	NEECO II - AI	15	31,882,799.30	15,000,000.00	16,882,799.30	0	0
20	NEECO II - AII	7	10,502,228.02	7,000,000.00	3,502,228.02	0	0
21	PENELCO	1	1,045,009.14	1,000,000.00	45,009.14	0	0
22	TARELCO I	2	2,842,271.16	2,000,000.00	842,271.16	0	0
23	TARELCO II	2	3,286,985.85	2,000,000.00	1,286,985.85	0	0
24	ZAMECO I	4	10,291,152.09	4,000,000.00	6,291,152.09	0	0
25	ZAMECO II	4	5,330,942.97	4,000,000.00	1,330,942.97	0	0
26	BATELEC I	4	5,278,313.96	4,000,000.00	1,278,313.96	0	0
27	BATELEC II	1	1,050,759.75	1,000,000.00	50,759.75	0	0
28	FLECO	1	2,515,233.27	1,000,000.00	1,515,233.27	0	0
29	QUEZELCO I	30	52,687,299.70	30,000,000.00	22,687,299.70	8	15,528,647.48
30	QUEZELCO II	16	23,823,350.60	16,000,000.00	7,823,350.60	0	0
31	BISELCO	5	9,577,916.60	5,000,000.00	4,577,916.60	0	0
32	OMECO	79	122,532,881.12	79,000,000.00	43,532,881.12	20	30,730,705.11
33	ORMECO	37	60,829,758.19	37,000,000.00	23,829,758.19	0	0
34	PALECO	36	60,884,104.91	36,000,000.00	24,884,104.91	17	30,072,459.33
35	ROMELCO	12	19,752,806.23	12,000,000.00	7,752,806.23	0	0
36	TIELCO	20	27,590,523.79	20,000,000.00	7,590,523.79	0	0
37	ALECO/APEC	3	3,522,640.59	3,000,000.00	522,640.59	1	1,228,350.95
38	CANORECO	6	8,928,383.70	6,000,000.00	2,928,383.70	1	1,776,208.71
39	CASURECO I	64	104,013,118.29	64,000,000.00	40,013,118.29	0	0
40	CASURECO II	1	1,902,480.00	1,000,000.00	902,480.00	0	0
41	CASURECO IV	25	37,402,627.02	25,000,000.00	12,402,627.02	0	0
42	MASELCO	22	41,825,181.87	22,000,000.00	19,825,181.87	5	10,536,926.39

	EC	No. of Sitio	Amount Allocated per MOA	Threshold per Sitio (P1 million)	Excess Amount	No. of Unenergized Sitio	Amount Allocated for Unenergized Sitio
43	SORECO I	5	6,656,247.24	5,000,000.00	1,656,247.24	0	0
44	SORECO II	47	61,915,005.32	47,000,000.00	14,915,005.32	0	0
45	TISELCO	2	3,807,120.51	2,000,000.00	1,807,120.51	0	0
46	AKELCO	15	19,848,243.93	15,000,000.00	4,848,243.93	0	0
47	ANTECO	40	55,775,904.50	40,000,000.00	15,775,904.50	0	0
48	CAPELCO	21	29,227,918.56	21,000,000.00	8,227,918.56	0	0
49	GUIMELCO	23	31,506,909.32	23,000,000.00	8,506,909.32	0	0
50	ILECO I	14	18,688,146.99	14,000,000.00	4,688,146.99	0	0
51	ILECO II	2	2,021,824.95	2,000,000.00	21,824.95	0	0
52	ILECO III	10	12,954,076.03	10,000,000.00	2,954,076.03	0	0
53	NOCECO	74	135,272,064.84	74,000,000.00	61,272,064.84	7	12,499,896.62
54	NONECO	41	62,268,895.35	41,000,000.00	21,268,895.35	13	20,193,845.50
55	NORECO I	11	16,536,644.37	11,000,000.00	5,536,644.37	6	10,601,915.93
56	NORECO II	24	37,454,378.91	24,000,000.00	13,454,378.91	0	0
57	BOHECO II	8	11,256,048.92	8,000,000.00	3,256,048.92	0	0
58	CEBECO I	29	36,427,339.41	29,000,000.00	7,427,339.41	0	0
59	CEBECO II	14	18,436,611.38	14,000,000.00	4,436,611.38	0	0
60	CEBECO III	3	3,358,278.79	3,000,000.00	358,278.79	0	0
61	CELCO	15	16,199,342.86	15,000,000.00	1,199,342.86	0	0
62	PROSIELCO	1	1,018,493.42	1,000,000.00	18,493.42	0	0
63	BILECO	8	9,881,596.17	8,000,000.00	1,881,596.17	0	0
64	ESAMELCO	9	11,336,643.51	9,000,000.00	2,336,643.51	4	5,341,955.63
65	LEYECO II	3	4,368,435.12	3,000,000.00	1,368,435.12	0	0
66	LEYECO III	9	11,514,281.38	9,000,000.00	2,514,281.38	4	4,771,981.84
67	LEYECO IV	1	1,914,567.34	1,000,000.00	914,567.34	0	0
68	LEYECO V	12	15,784,014.04	12,000,000.00	3,784,014.04	0	0
69	NORSAMELCO	15	18,476,794.43	15,000,000.00	3,476,794.43	5	6,146,579.91
70	SAMELCO I	2	3,594,902.02	2,000,000.00	1,594,902.02	0	0
71	SAMELCO II	15	17,238,167.10	15,000,000.00	2,238,167.10	2	2,147,621.88
72	SOLECO	3	4,020,302.03	3,000,000.00	1,020,302.03	0	0
73	ZAMCELCO	6	10,402,910.94	6,000,000.00	4,402,910.94	0	0
74	ZAMSURECO I	71	111,129,865.55	71,000,000.00	40,129,865.55	15	28,561,280.04
75	ZAMSURECO II	45	79,546,469.79	45,000,000.00	34,546,469.79	21	36,331,152.83
76	ZANECO	44	71,988,642.58	44,000,000.00	27,988,642.58	9	12,715,515.20
77	BUSECO	27	43,269,846.20	27,000,000.00	16,269,846.20	1	1,444,153.32
78	CAMELCO	1	1,296,134.31	1,000,000.00	296,134.31	0	0
79	FIBECO	141	220,376,923.22	141,000,000.00	79,376,923.22	60	91,800,078.04
80	LANECO	7	9,247,802.34	7,000,000.00	2,247,802.34	0	0
81	MOELCI I	2	2,732,900.60	2,000,000.00	732,900.60	0	0
82	MOELCI II	1	1,293,451.79	1,000,000.00	293,451.79	0	0
83	MORESCO I	6	11,243,671.62	6,000,000.00	5,243,671.62	1	1,247,890.25
84	MORESCO II	75	117,301,657.00	75,000,000.00	42,301,657.00	10	18,477,181.10
85	DANECO	57	99,053,719.76	57,000,000.00	42,053,719.76	11	20,917,770.08
86	DASURECO	45	74,814,385.05	45,000,000.00	29,814,385.05	0	0
87	DORECO	25	34,038,208.82	25,000,000.00	9,038,208.82	2	2,947,975.33
88	COTELCO	154	267,284,505.97	154,000,000.00	113,284,505.97	0	0
89	COTELCO PPALMA	66	117,581,225.33	66,000,000.00	51,581,225.33	0	0
90	SOCOTECO I	52	77,796,017.19	52,000,000.00	25,796,017.19	6	7,523,094.69
91	SOCOTECO II	77	114,125,034.80	77,000,000.00	37,125,034.80	24	37,152,901.90
92	SUKELCO	9	14,782,622.45	9,000,000.00	5,782,622.45	0	0
93	BASELCO	7	8,246,684.07	7,000,000.00	1,246,684.07	2	2,126,072.24
94	MAGELCO	88	132,584,454.95	88,000,000.00	44,584,454.95	40	61,381,798.88

EC		No. of Sitio	Amount Allocated per MOA	Threshold per Sitio (P1 million)	Excess Amount	No. of Unenergized Sitio	Amount Allocated for Unenergized Sitio
95	SIASELCO	1	1,530,007.45	1,000,000.00	530,007.45	1	1,530,007.45
96	ANECO	30	65,498,579.30	30,000,000.00	35,498,579.30	0	0
97	ASELCO	75	143,027,376.39	75,000,000.00	68,027,376.39	0	0
98	DIELCO	6	12,391,566.21	6,000,000.00	6,391,566.21	0	0
99	SIARELCO	3	4,228,909.31	3,000,000.00	1,228,909.31	0	0
100	SURNECO	3	4,229,379.35	3,000,000.00	1,229,379.35	0	0
101	SURSECO I	17	33,414,578.18	17,000,000.00	16,414,578.18	1	4,468,811.08
102	SURSECO II	5	9,625,547.89	5,000,000.00	4,625,547.89	0	0
	TOTAL	**2,224**	**P3,583,747,822.13**	**P 2,224,000,000.00**	**P1,359,747,822.13**	**310**	**P502,162,685.57**

Summarized in the succeeding table is the number of sitios that exceeded the threshold and the corresponding unenergized sitios:

No. of ECs	Range of Sitios	Total No. of Sitios	Total Amount Allocated	Total Excess Amount from P1 Million Threshold	Total No. of Unenergized Sitios	Total Amount of Unenergized Sitios
2	100 -150	295	P 487,661,429.19	192,661,429.19	60	91,800,078.04
11	50 -99	778	1,274,417,415.22	496,417,415.22	133	217,244,628.42
17	25-49	609	971,735,646.77	362,735,646.77	82	134,542,145.13
72	1-24	542	849,933,330.93	307,933,330.93	35	58,575,833.99
102		**2,224**	**P3,583,747,822.11**	**P1,359,747,822.11**	**310**	**P502,162,685.58**

28.5 As mentioned in par. 28.4.b, four (4) sitios completed on December 14, 2015 to July 11, 2016 and December 16, 2016, have not been inspected, thus remained unenergized, detailed as follows:

Name of EC	No. of Sitios Not energized
KAELCO	3
NOCECO	1

28.6 The allocation of ECs project cost per sitio more than the threshold of P1 million is not in conformity with NEA Memorandum Circular No. 3 to DOE dated November 12, 2010 and NEA Memorandum No. 2014-007 dated February 18, 2014.

28.7 The non-energization delays or compromises the attainment of total electrification and deprived the intended beneficiaries of the maximum benefits that could be derived from the program. This may also result to waste of government funds.

28.8 **We recommended that Management:**

a. **Observe the P1 million threshold project cost subsidy per sitio/purok to accommodate all the targeted sitios/puroks to be energized by the program;**

b. **Submit explanation/justification for the approval made by the ATEO of the 2,224 sitios that exceeded the construction cost threshold of P1 million;**

c. **Conduct inspection of the four (4) completed projects implemented by KAELCO and NOCECO for the issuance of the CFIA and subsequent energization of the projects; and**

d. **Determine the reason/s for not energizing the completed projects and enforce the immediate energization of the completed projects to fully attain the objectives of rural electrification and that the intended beneficiaries enjoy the maximum benefits that can be derived from the program.**

28.9 Management commented that:

a. The P1 million cost per sitio is the estimated cost used by NEA in requesting fund from the Department of Budget and Management (DBM) in the Year 2010. The strict implementation of P1 million threshold project cost per sitio/purok is not possible considering the following reasons:

- Each sitio has a different profile and/or technical characteristics. The geographical location, size of sitio, distance from the nearest tapping point are major considerations in the construction design requirements such as length of lines, type and size of poles and wires, assembly units, spanning of poles, etc.

- The difficult terrain, unavailable road network of some areas as well as the island sitios require additional fund for freight and handling. The cost of freight and handling also varies

- The scattered potential household connections also affect the project cost.

- The sitios in Mindanao areas which are bigger and have more number of potential household connections than the sitios in Luzon and Visayas areas have higher project cost.

- Also, COA was advised that the Management ensures that the total fund for released to the EC is based on the actual expenses. In case of excess fund, the EC is required to return it to NEA or the EC may request from NEA to use the savings/balance as well as the interest accruing to the fund for realignment to its other projects. Further, included in the total accomplishment under SEP Phase I are sitios funded by the subsidy savings.

b. Based on the General Appropriations Act for each year, NEA must complete the target number of sitios with the given budget. Considering the factors which affect the cost of sitio, ATEO evaluated the EC's submitted SEP projects based on their prioritization. While there are sitios with a project cost of more than P1 million, it has been observed that the average cost of completed/energized sitios from Year 2011-2017 did not exceed the P1 million threshold.

The Management informed us that for other SEP projects funded by the 2017 SEP subsidy, the average cost per sitio is P1.212 million. Such increase in project cost can be attributed to currency depreciation and inflation which are factor totally beyond NEA's control. Considering also that these remaining unenergized sitios are the last mile sitios.

Also, since there were reported failure of biddings of 2017 SEP projects of several ECs due to lower project cost, the NEA's Price Index for equipment and materials had been updated. For 2018 SEP projects, the basis of computation of Bill of Materials is the 2018 Price Index. Thus, based on NEA's initial evaluation of sitios for 2018 SEP, the average cost per sitio is P1.546 million.

c. The project in NOCECO was already inspected, while the conduct of final inspection and acceptance of sitios in KAELCO is scheduled this month. KAELCO requested the inspection to be delayed due to bad weather condition.

d. To energize a sitio, some ECs require at least 5 household connections to minimize system loss. However, the several requirements and the permit fees being charged by the Local Government Unit (LGU) have greatly hampered the household connections. Those potential consumers are mostly marginalized households who have no capacity to pay the required permit fees. To assist the marginalized consumers, the ECs have coordinated with the concerned LGUs on the possibility of waiving the submissions of some documentary requirements and the payment of the permit fees. Some LGUs had already waived the collection fees for the electricity service connection.

   To address this concern, NEA proposed for a MOA between the Department of Energy (DOE) and Department of Interior and Local Government (DILG). As recommended by DOE, NEA will have an exploratory meeting with the DILG. The management is still in the process of identifying which municipalities under the coverage areas of the ECs had either waived or not waived the fees/charges for electric service connection of marginalized households.

   Further, for several times, the Management had requested the ECs to energize the completed SEP projects. Likewise, this issue was included during their SEP/BLEP consultation meetings with the ECs.

28.10 The Audit Team acknowledged Management justification, however, NEA should revisit the NEA Memoranda previously issued and attune to the Materials Price Indexes issued for 2012 to 2018 whichever is applicable per source fund as released to ECs.

29. **The implementation of the Housewiring Program was not effective due to deficiencies noted, depriving the privilege of the intended beneficiaries from the government that will help uplift their lives and not compliant with NEA Memorandum No. 2011-024, to wit:**

a. **Seventy-five beneficiaries have no electrical connections in OMECO due to its imposed policy of metering standard pole connections costing P3,500 each;**

b. **The housewiring materials issued by OMECO for the 97 household beneficiaries were not compliant with NEA Memorandum No. 2011-024, defeating the purpose of the program;**

c. **Four electric cooperatives (ECs) failed to meet the 22,690 potential households or only 13,449 or 59 percent actually benefitted the program; and**

d. **Ninety beneficiaries who were granted the housewiring materials of P2,500 per consumer or a total of P225,000 were not households or marginalized consumers.**

29.1 Paragraph 3 of NEA Memorandum No. 2011-024 dated 26 December 2011 states that:

> *"To further support connection to marginalized consumers, the EC is hereby authorized to include the cost of housewiring materials and labor in the submission of funding request for target sitios for 2012 and onwards.* ***The maximum amount of P2,500 shall be allowed per household to cover two bulbs, two tumbler switches, one outlet and safety switch, and labor****." (emphasis ours)*

29.2 The house wiring program for the subsidy funded projects was established for the households or marginalized consumers in the far flung areas and the poorest segment of the society to help them defray the cost of house wiring materials and labor and uplift the lives of the rural people.

29.3 Interview conducted in selected sitios/barangays on housewiring program under 2012 – 2013 SEP/BLEP revealed the following:

a. Out of the 301 household beneficiaries listed in OMECO's record were provided/installed with the electrical housewiring, however, 75 household beneficiaries have no electric connections due to the new policy imposed by OMECO on metering standard pole approved under OMECO Resolution No. 103-A series 2009. The cost of one metering pole to be installed in every household is P3,500, detailed as follows:

Name of Sitio/Brgy.	***No. of HH Beneficiaries as of 7/25/17***	***No. of Household Without Connections***
Labangan	141	50
Ansiray Prk 1 & 2	47	11
Ansiray Prk 3	37	3
Ansiray Prk 4	23	4
So. Pucatod	34	7
So. Abayon*	19*	0
Total	**301**	**75**

**No distribution lines yet at the time of inspection*

As of inspection date, the household beneficiaries confirmed that though they were provided with the housewiring materials by the government thru OMECO, they have no electrical connections due to the imposed metering standard pole of P3,500.00.

The success of SEP/BLEP can be measured by the number of household connection electric power it generates. Hence, the implementation of housewiring program involving millions of pesos provided by the government for the marginalized consumers was not effective, if these beneficiaries have no electrical connections due to the imposed costly metering standard pole amounting to P3,500.00 .

b. Likewise, of the 97 interviewed beneficiaries from the 756 household beneficiaries, 95 beneficiaries received/installed with only one bulb and two households confirmed that they did not receive any bulb at all but only electrical installation, contrary to NEA Memorandum No. 2011-024 which specifically states the quantities of materials to be installed for each qualified household.

c. Further, of the four ECs with potential households (PHH) of 22,690, only 13,449 or 59 percent were the actual number of household beneficiaries, detailed as follows:

EC Name	***Source Fund***	***Potential Households***	***Actual Household Beneficiaries***	***Percentage***
LUBELCO	SEP/BLEP	2,392	591	25%
CENECO	2012-2014	4,936	3,435	70%
BOHECO II	2013-2014	10,249	8,473	83%
NORECO II	2013-2014	5,113	950	19%
Total		**22,690**	**13,449**	**59%**

The following were the identified reasons why not all PHH were actually connected or have benefitted from the program:

- In LUBELCO, no potential beneficiaries for the location/sitio specifically during the hit of typhoon;

- In CENECO. though the beneficiaries were installed either with complete or incomplete housewiring materials, the common complaints of the marginalized consumers who have no electrical connections were the documentation required by EC such as land titles or owner’s certification, the membership of P1,250 to EC, permits from the LGUs such as fire, etc. and other additional charges by the sub-contractor specifically the electricians;

- During the conduct of the survey for PHH in Sitio Hacienda Elisa 1, Brgy. Granada, the 30 household workers living in the Hacienda were included in the list of PHH, however, upon implementation and energization of the said sitio, only 12 workers currently working in the Hacienda were given permit/certification by the landowner, despite the project is for the marginalized consumers. Other PHHs, only tapped to a nearby neighborhood, but the housewiring materials were installed in their houses and several of them already paid the corresponding fee to CENECO Office.

d. Furthermore, 90 non-household beneficiaries from five ECs under SEP/ BLEP 2011-2015 were given housewiring materials aggregating to P225,000.00. These were schools, multi-purpose, health centers, barangay halls and churches, etc, summarized as follows:

EC Name	***No. of Non-Household Beneficiaries***	***Amount***
NOCECO	2	P 5,000.00
CEBECO I	52	130,000.00
OMECO	23	57,500.00
MOELCI I	2	5,000.00
ILECO I	11	27,500.00
Total	**90**	**P 225,000.00**

29.4 This practice is not compliant with the aforementioned NEA Memorandum No. 2011-024, hence, deprived the privilege of the poorest segment in the rural areas from the extended government program that will help uplift their lives.

29.5 **We recommended that Management:**

a. **Require ECs to strictly observe the house wiring policy in compliance with NEA Memorandum No. 2011-024;**

b. **Facilitate the implementation of the housewiring program to attain the objective of total electrification to help uplift the lives of the marginalized consumers;**

c. **Require ECs to assist the households/beneficiaries in securing an affordable and hassle-free electricity connection;**

d. **Encourage ECs to energize the potential households to ensure the effectiveness of the implementation of the electrification projects; and**

e. **Require ECs to request post facto approval from NEA for the free house wiring and installations granted to 90 non-residential consumers amounting to P225,000 and submit to COA Office the approved copy, for monitoring purposes, otherwise, return to NEA the total amount granted.**

29.6 Management commented that they will issue an advisory to the ECs and they will also require the concerned ECs to submit a request for post facto approval from NEA for the free housewiring materials and installations granted to non-residential consumers.

30. **The status of project implementation of the approved realignment of funds of various electric cooperatives (ECs) from CYs 2013-2017 aggregating P225.338 million was not monitored and inspected contrary to Items 5.1 and 5.2 of COA Circular No. 2017-001 and Item 6, Section 4 of P.D. No. 1445. Further, no terms and conditions were provided in the Memorandum issued to the ECs pertaining to the realigned subsidy funds.**

30.1 COA Circular No. 2007-001 dated October 25, 2007 on Accounting and Reporting of funds released to Non-Governmental Organizations/People's Organizations (NGOs/POs) provides that:

5.2 "The GO shall keep and maintain financial and accounting records of funds granted to the NGO/PO in accordance with the Philippine Financial Reporting Standards (PFRS).

5.3 The signing officials of the GO to the MOA shall cause close monitoring and inspection of project implementation and verification of financial records and reports of the NGO/PO, and shall ensure compliance with the provisions of the MOA and of this Circular."

Item 6, Section 4 of P.D. No. 1445 states that:

"Claims against government funds shall be supported with complete documentation."

30.2 NEA Memorandum No. 2013-023 dated October 10, 2013 provides for the submission of original documents to support the liquidation of subsidy funds. It categorically enumerates the documents needed to support the liquidation of subsidies received for the electrification projects.

30.3 NEA Memorandum No. 2015-015 dated June 22, 2015 provides that:

"It is agreed that all amount in excess of the total disbursement and cost of unimplemented project including interest earned thereon shall be returned/remitted to NEA and or the Recipient may request written authority from NEA to use the savings/balance as well as interest accruing to the fund for activities allied to the projects. NEA Memorandum Circular No. 2013-022 dated 30 September 2013 provides that the request of ECs for written authority from NEA to use the savings/balances of the subsidy funds shall be considered only in balances amounting to P100,000.00 and above. Excess balances below P100,000.00 shall be returned to NEA one (1) month after NEA final inspection and acceptance. ECs requesting for realignment are given three (3) months to prepare all the necessary documents and submit the same to NEA within three (3) months from NEA final inspection and acceptance. Request for realignment shall no longer be accepted beyond this period."

30.4 The EC's realignment of subsidy fund is requested from NEA thru a Board Resolution together with the required documents in the following circumstances: a) when one/some of the sitios/puroks within the project was not implemented due to right of way problem, peace and order situation, funded/implemented already by the local government units (LGUs), private property, zero household, etc; and b) due to COA audit which resulted in unutilized/excess funds.

30.5 Review of the realigned projects under Sitio Electrification Program (SEP) subsidized by the National Government (NG) from CY 2013-2017, disclosed that there were 104 approved realigned projects from 57 electric cooperatives (ECs), summarized as follows;

Year of Approval	***No. of Approved Realigned Projects***	***Realigned Amount***
2013	30	P45,713,847.14
2014	24	28,933,223.35
2015	15	29,623,853.40
2016	17	44,818,088.32
2017	18	76,249,436.47
Total	**104**	**P225,338,448.68**

EC Name		***No. of Approved Realigned Projects***	***Amount Approved***
1	ABRECO	2	P 2,063,190.51
2	AKELCO	1	831,000.00
3	ANECO	3	4,330,367.48
4	ANTECO	6	16,181,335.88
5	BANELCO	2	4,018,646.69
6	BATANELCO	2	1,322,010.11
7	BATELEC II	1	2,948,264.14
8	BISELCO	1	10,442,647.00
9	BUSECO	3	2,020,946.97
10	CAGELCO II	1	10,694,634.64
11	CAMELCO	1	807,603.88
12	CANORECO	2	1,035,281.59
13	CASURECO I	2	1,158,534.69
14	CEBECO I	2	13,696,993.19
15	CEBECO III	2	5,320,387.35
16	CENECO	2	1,346,801.52
17	COTELCO PPALMA	1	323,731.08
18	DIELCO	1	579,118.70
19	DORECO	1	1,040,822.03
20	FIBECO	1	2,045,884.30
21	IFELCO	1	1,669,218.13
22	ILECO I	1	126,476.94
23	ILECO II	1	3,155,479.57
24	ILECO III	3	1,112,303.08
25	ISELCO I	1	579,620.31
26	ISELCO II	1	580,808.52
27	LANECO	5	6,166,837.69
28	LASURECO	2	4,765,785.56
29	LEYECO IV	1	588,288.18
30	LEYECO V	1	1,350,367.97
31	MAGELCO	2	7,782,843.77
32	MARELCO	1	696,862.93
33	MASELCO	1	663,939.78
34	MOELCI I	1	1,559,523.88

	EC Name	No. of Approved Realigned Projects	Amount Approved
35	MOPRECO	1	1,849,739.42
36	MORESCO II	4	4,394,372.83
37	NEECO I	2	3,257,060.09
38	NEECO II A-2	2	1,438,000.42
39	NOCECO	2	2,921,867.29
40	NONECO/VRESCO	3	10,667,452.62
41	NORECO I	2	3,085,798.62
42	ORMECO	1	6,516,384.47
43	PANELCO	2	2,969,641.45
44	PELCO I	1	719,399.30
45	PELCO II	2	2,234,140.03
46	PELCO III	1	423,824.98
47	PENELCO	1	4,319,901.57
48	ROMELCO	5	44,314,870.83
49	SOCOTECO I	2	2,101,700.85
50	SORECO II	3	3,456,301.18
51	SURSECO I	1	2,074,690.20
52	TARELCO I	1	3,293,189.02
53	TARELCO II	1	100,400.20
54	TIELCO	1	282,091.38
55	ZAMSURECO I	2	4,123,848.12
56	ZAMSURECO II	1	1,241,733.75
57	ZANECO	4	6,545,482.00
	TOTAL	**104**	**P225,338,448.68**

30.6 We also noted that there were no accounting records/reports maintained by NEA on the monitoring of the status/movement of the approved realigned subsidy funds nor inspection of project implementation as confirmed from the 2017 validated status of implementation of prior year's audit recommendations, as follows:

Audit Observations	Audit Recommendations	EC's Management Action	Auditor's Validation/Action in CY 2017
In BOHECO II			
1. Unexpended subsidy Fund balance, including interest amounting to P3,115,666.18 as of September 30, 2009 was not returned to NEA	The EC must return the excess fund to the NEA or request approval for the utilization of the remaining fund on activities allied to the project.	The Cooperative submitted Board Resolution to NEA on its BOD meeting on May 23, 2010, requesting for realignment. Said request was approved on September 14, 2010.	Validated EC BR No. 061-2010 requesting for the utilization of excess fund to 30 sitios approved on Sept. 15, 2010 amounting to P3,115,666.18. The Accounting of Fund and its supporting documents were only submitted on Dec.18, 2017 upon the request of the Audit Team which resulted in another audit observation included in the 2017 ML.
In CENECO			
2. Excess amount of subsidy fund	Return the unexpended amount of subsidy to	EC submitted an updated Accounting of Funds, thus,	Review on the utilization of funds resulted in an

Audit Observations	Audit Recommendations	EC's Management Action	Auditor's Validation/Action in CY 2017
totaling P11.148 million.	NEA or request authority to realign the said fund to other projects.	unexpended fund was adjusted and reduced. The EC requested for the realignment of the excess fund as follows: a. EC BR No. 10057, s. 2012, Realignment amounting to P4,113,869.08 for line extension to 10 sitios and approved by NEA and signed by Admin. Bueno on November 12, 2012; b. EC BR No. 9769, Series of 2012, realignment amounting to P2,293,781.60 for the construction of distribution lines to four sitios/puroks and approved by NEA and signed by Admin. Bueno on April 11, 2012.	issuance of audit observations and recommendations incorporated in the 2017 ML.

30.7 Furthermore, during the conduct of audit in BOHECO II and CENECO, the requested Accounting of Fund (AF) and its supporting documents for the approved realigned funds amounting to P3,115,666.18 and P6,407,650.68, respectively, were not completely presented for audit to validate the disbursements made nor Certificate of Final Inspection and Acceptance (CFIA) were presented for audit since no inspection was conducted by NEA.

30.8 Inquiry from the concerned personnel of CENECO disclosed that the realigned projects were not properly documented for liquidation since NEA no longer requires for the submission of AF while BOHECO II explained that the realigned projects were not prepared with the necessary documents for liquidation since no fund was received and that NEA no longer requires for the submission of AF.

30.9 In addition, documentation for the realigned project amounting to P1,099,326.83 in NORECO II for the construction of line extension to Sitio Tavera remained unsubmitted as of June 30, 2017 and no CFIA was issued by NEA. Though the final inspection is not yet conducted, the said amount was already recorded as fully liquidated in NEAs books on May 13, 2011.

30.10 We also noted that the Memorandum issued to ECs has no information on how to implement the approved realigned projects except for the approved amount and charging to EC's General Fund in case of deficit. No information on how the realigned subsidy will be reported/accounted such as the time frame for liquidation, and implementation of the realigned project and whether this has the same liquidation procedures when the fund is released.

30.11 The above practices indicate lapses in monitoring the subsidy funds specifically on the realigned projects due to the absence of monitoring, accounting records and conduct of inspection. It is reiterated that claims against government funds must be supported with complete documentation and these must be properly accounted and liquidated within the time frame.

30.12 **We recommended that Management:**

a. Create a system for the monitoring and inspection of the status of implementation of realigned projects such as keeping and maintaining a sub-account to ensure accountability and transparency;

b. Require the ATEO to conduct an inspection of the realigned projects to ensure the existence and serve as the basis for liquidation;

c. Require the 57 ECs to submit the Accounting of Funds and the necessary liquidation documents for the 104 projects with a total realigned project cost of P225,338,448.68 and the three ECs – CENECO, BOHECO II and NORECO II; and

d. Henceforth, include in the Memorandum a provision on the terms and conditions for the approved realigned project to include the time frame within which the project is to be undertaken and other conditions necessary in the monitoring of the realigned project.

30.13 Management will comply with the recommendations. The NEA Cluster on Total Electrification will propose an amendment to the Policy Guidelines on the Implementation of SEP-Phase 2 to include the monitoring, inspection and liquidation of realigned projects. This will be submitted to the NEA Board for approval.

ATEO's conduct of inspection and acceptance of realigned projects is still on-going while some of the projects were already inspected and accepted.

31. **The 1,845 allocated sitios aggregating P1.061 billion for the implementation of the 2017 Sitio Electrification Program (SEP) projects were not in accordance with NEA Memoranda 2011-021 and 2018-001;**

Likewise, of the 1,845 sitios, 1,184 sitios or 64.17 percent were implemented, of which 810 sitios or 68.41 percent were not yet energized as of December 31, 2017, thus, depriving the intended prioritized beneficiaries of the electrification program that could uplift their social and economic living.

31.1 The Special Provisions of the General Appropriations Act (GAA) for CY 2012 to 2017 provides that NEA shall prioritize the implementation of sitios, *"Where the absolute number of indigents and the incidence of poverty are high as* *identified in the latest official poverty statistics of the PSA-National Statistics and Coordination Board (NSCB) as well as those with the high capability/probability of being energized."*

31.2 NEA Memorandum No. 2011-021 dated November 3, 2011 states that only those sitios identified in the NEA database as of end of August 2011 shall be eligible and shall have priority for subsidy allocation.

31.3 NEA Memorandum No. 2018-001 dated December 7, 2017 provides that "*Under SEP Phase 1, the target is to complete/energize the 32,441 sitios (based on June 2011 inventory). By end of December 2016, a total of 34,209 sitios were completed/energized. However, based on NEA's database as of December 31, 2016, there are still 23,364 sitios with 1,610,860 households in the coverage area of the Electric Cooperatives (ECs) nationwide that need to be electrified. NEA is targeting the completion of these sitios during the present Administration's term as follows:*

Year	***Target No. of Sitios***
2017	*2,410*
xxx	*Xxx"*

31.4 NEA submitted the proposed 2017 Sitio Electrification Program (SEP) projects to the Department of Budget and Management (DBM) the total amount of P1.817 billion covering 2,410 sitios. However, only P1.061 billion was released in three tranches under SARO No. BMB-C-17-0004945 dated April 10, 2017.

31.5 NEA allocated the total fund received amounting to P1.061 billion for the1,845 sitios from 69 electric cooperatives nationwide and its implementation details are as follows:

Region	2017 SEP			Implementation Details of New Sitios				Not Implemented
	Included in the 32,441 Priority SEP	New Sitios	Total	Completed	Energized	Unenergized	With CFIA	
I	3	28	31	28	0	28	0	0
II	4	94	98	59	3	56	0	35
CAR	0	72	72	55	6	49	12	17
III	2	77	79	65	55	10	20	12
IV-A	1	56	57	24	0	24	0	32
IV-B	23	190	213	69	13	56	0	121
V	1	39	40	9	1	8	0	30
VI	4	109	113	94	18	76	0	15
NIR	21	106	127	68	21	47	21	38
VII	13	222	235	206	170	36	76	16
VIII	7	73	80	48	8	40	0	25
IX	18	89	107	33	0	33	0	56
X	36	134	170	89	12	77	0	45
XI	32	89	121	59	11	48	0	30
XII	48	149	197	72	3	69	0	77
CARAGA	3	102	105	98	28	70	71	4
Total	**216**	**1,629**	**1,845**	**1,076**	**349**	**727**	**200**	**553**

31.6 As shown in the preceding table, the 1,845 sitios were composed of 1,629 new sitios and the 216 sitios from the SEP inventory/priority list of 32,441 sitios.

31.7 Verification of NEA's Report disclosed that of the 1,629 new sitios, 1,076 sitios or 66.05 percent were completed starting July 11, 2018 and onwards. However, as of December 31, 2017, only 349 sitios or 32.43 percent were energized leaving 727 sitios or 67.56 percent unenergized, while the 553 sitios or 33.95 percent are not yet implemented.

In addition, as of year-end, of the implemented sitios, the 200 sitios were already inspected and issued with Certificate of Final Inspection and Acceptance (CFIA). On the other hand, the 216 sitios from the SEP inventory priority list are summarized as follows:

REGION	No. of ECs	2017 SEP					
		Included in the 32,441 Priority SEP	Completed	Energized	Unenergized	With CFIA	Not Implemented
I	1	3	3	0	3	0	0
II	2	4	1	0	1	0	3
III	1	2	2	2	0	2	0
IV-A	1	1	0	0	0	0	1
IV-B	6	23	8	2	6	0	15
V	1	1	1	1	0	0	0
VI	3	4	2	0	2	0	2
NIR	3	21	15	2	13	2	6
VII	4	13	13	12	1	2	0
VIII	2	7	4	3	1	0	3
IX	2	18	1	0	1	0	17
X	3	36	24	0	24	0	12
XI	2	32	16	1	15	0	16
XII	4	48	16	2	14	0	32
CARAGA	2	3	2	0	2	2	1
GRAND TOTAL	**37**	**216**	**108**	**25**	**83**	**8**	**108**

31.8 As can be gleaned from the preceding table, the 216 sitios included in the 2017 SEP were derived from the 32,441 sitio priority list of 2011, of which 108 sitios or 50 percent were implemented, but only eight were inspected and issued with CFIA as at year end, however, as of December 31, 2017, only 25 sitios or 11.57 percent were energized, leaving 83 sitios unenergized.

31.9 To summarize the 2017 SEP projects:

Particulars	No. of Sitio	Completed	Energized	Unenergized	With CFIA	Not Implemented
Other SEP projects	1,629	1,076	349	727	200	553
Inventory of 32,441 priority SEP	216	108	25	83	8	108
Total	**1,845**	**1,184**	**374**	**810**	**208**	**661**

31.10 **We recommended that Management:**

a. **Strictly comply with the criteria on selection and prioritization of SEP project and give priority to sitios/puroks that are specifically identified in the target list, so as not to deprive the beneficiaries of the electrification program that could uplift their social and economic living;**

b. **Require ECs to energize the 810 sitios completed projects so as to maximize the benefits of the program and encourage prospective program beneficiaries to have their household energized; and**

c. **Conduct immediate inspection of the 976 sitios completed subsidized funded projects which will serve as the basis of EC's liquidation and closed-out of books of both NEA and EC's.**

31.11 Management commented the following:

a. The remaining inventory of 23,464 sitios area the unviable areas of which some have the following constraints in implementation:

- Remote and far flung areas
- ROW problem
- No road network/inaccessible
- Scattered households
- Island barangay/municipality
- Peace and Order problem
- No potential consumers
- Danger zones
- Non existing
- Already energized and/or extension of lines only

b. The ECs were requested to further validate the existence of those remaining sitios listed in the initial inventory and to identify which are doable/implementable. The 2017 SEP funded projects are those prioritized by the ECs taking into consideration the compliance with the requirements for fund allocation;

c. Management will comply with the audit recommendation to energize the 810 sitios completed projects; and

d. Inspection and acceptance of the completed/energized 2017 SEP projects are on-going.

31.12 As a rejoinder, the Audit Team further recommends NEA to prepare a status of the remaining unimplemented sitios stating if the sitios are doable for construction of distribution lines or indicate the reasons for not prioritizing the project/s with the supporting certification from the respective Barangay Chairman and the concerned personnel of ECs.

D. Gender and Development (GAD) Plan

32. **The GAD allocation of P5.037 million for CY 2017 representing only 0.05 percent of the total appropriations was not compliant with the 5.0 percent mandatory requirement of the General Appropriations Act (GAA). Likewise, the utilization of GAD funds was not maximized.**

32.1 Section 30 of Republic Act (RA) No. 10964 provides that:

"The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets."

32.2 Verification of the GAD Plan and Budget for CY 2017 submitted to the Department of Energy (DOE) on March 30, 2016 and was forwarded to Philippine Commission on Women (PCW) on June 21, 2016 and was endorsed on October 25, 2016 through the GMMS, disclosed that NEA's budget allocation for GAD was below the 5.0 percent minimum required of the total appropriation, detailed as follows:

Programs/Activities/Projects	***Amount***
Profiling of ECs with majority of households headed by females (1 sitio each from the 3 major islands: Luzon, Visayas, Mindanao)	P180,000.00
Dissemination of Information, Education and Communication (IEC) materials on the MCW and other women-related laws for stakeholders	450,000.00
Conduct of Seminars in Electric Distribution Construction and Maintenance Course to women	960,000.00
Conduct Seminars on Meter Reading	960,000.00
Conduct Consultation/meetings with the ECs employees in reviving the Women in Rural Electrification (WIRE) program in raising awareness of the ECs employees specifically those in Finance and Member Services Departments in inclusion / institutionalization of GAD activities in ECs plans, targets and sustainability programs for member-consumers, issuance of policy among ECs to include GAD activities to Corporate Social Responsibility (CSR) of ECs and in having a GAD focal Point in their own cooperatives.	207,200.00
Seminar- Workshop on Gender Mainstreaming	90,000.00
Conduct GFPS/TWG Meetings	400,000.00
Seminars-Workshop on Sex-Disaggregated Data Batch 2	135,000.00
Attendance in local and international seminars/trainings/ for a offered by PCW or other agencies and linkages that caters to capacity building needs of the members of NEA-GFPS	1,075,000.00
Attendance in seminars featuring women's empowerment	480,000.00
Maintenance of GAD Corner in PGD Library	100,000.00
Total	**P5,037,200.00**
Divided by total appropriation for CY 2017	**11,084,332,000.00**
Percentage of allocated GAD	**0.05%**
Should be at least	**5%**

32.3 As shown above, only 0.05 percent of the total appropriation was budgeted for GAD-related activities, instead of at least 5.0 percent or equivalent to P554,216,600.00.

32.4 Inquiry on the non-allocation of the 5.0 percent budget for GAD revealed that the NEA GAD Focal Point System (GFPS) is not yet capable of mainstreaming gender into the different programs, activities and projects of

NEA. Thus, NEA GFPS is still attending capacity building programs and seeking the assistance from other organizations like the World Bank in doing gender mainstreaming.

32.5 Likewise, we noted that implementation of NEA GAD Plan and Budget was not maximized due to unutilized fund amounting to P3,612,788.70. Out of the total budgeted GAD fund of P5,037,200.00, actual disbursements amounted only to P1,424,411.30 or 28.28 percent of the total, thus resulting in unutilized balance amounting to P3,612,788.70, detailed as follows:

	Per GAD Plan	*GAD Plan Budget*	*Actual Disbursement*	*Unutilized*	*Remarks*
1	Profiling of ECs with majority of households headed by females (1 sitio each from the 3 major islands: Luzon, Visayas, Mindanao)	P180,000.00	P15,043.50	P164,956.50	Implemented
2	Dissemination of Information, Education and Communication (IEC) materials on the MCW and other women-related laws for stakeholders	450,000.00	3,800.00	446,200.00	Implemented
3	Conduct of Seminars in Electric Distribution Construction and Maintenance Course to women	960,000.00	652,149.50	307,850.50	Implemented
4	Conduct Seminars on Meter Reading	960,000.00	-	960,000.00	Implemented No budget requirement (The activity was sponsored by the ECs involved)
5	Conduct Consultation/meetings with the ECs employees in reviving the Women in Rural Electrification (WIRE) program in raising awareness of the ECs employees specifically those in Finance and Member Services Departments in inclusion/institutionalization of GAD activities in ECs plans, targets and sustainability programs for member-consumers, issuance of policy among ECs to include GAD activities to Corporate Social Responsibility (CSR) of ECs and in having a GAD focal Point in their own cooperatives.	207,200.00	181,568.44	25,631.56	Implemented
6	Seminars on Gender and Development for ECs (in exchange to Seminars-Workshop on Sex-Disaggregated Data Batch 2)	135,000.00	192,375.00	(57,375.00)	Implemented Targeted as an Organization Focused Activity for NEA-GFPS under item 7; but cascaded to ECs since NEA-GFPS have already completed this training on March 15-16, 2016
7	Seminar- Workshop on Gender Mainstreaming	90,000.00	126,732.36	(36,732.36)	Implemented
8	Conduct GFPS/TWG Meetings	400,000.00	39,410.36	360,589.64	Implemented

	Per GAD Plan	GAD Plan Budget	Actual Disbursement	Unutilized	Remarks
9	Attendance in local and international seminars/trainings/ for a offered by PCW or other agencies and linkages that caters to capacity building needs of the members of NEA-GFPS	1,075,000.00	5,702.64	1,069,297.36	Implemented
10	Attendance in seminars featuring women's empowerment	480,000.00	167,750.50	312,249.50	Implemented
11	Maintenance of GAD Corner in PGD Library	100,000.00	7,290.00	92,710.00	Implemented
12	Seminars on Gender and Development for ECs - TARELCO II - Sept. 28-29, 2017 - Batch 1	0	30,580.00	(30,580.00)	Intervening GAD Program Majority of the expenses was shouldered by TARELCO II
13	Seminars on Gender and Development for ECs - TARELCO II - Nov. 23-24, 2017 - Batch 2	0	2,009.00	(2,009.00)	Intervening GAD Program Majority of the expenses was shouldered by TARELCO II
Total		P5,037,200.00	P1,424,411.30	P3,612,788.70	

32.6 We also noted the inclusion in the Annual GAD Accomplishment Report of intervening GAD related programs of NEA which were not among the list of budgeted programs submitted to PCW but considered as GAD activities.

32.7 On the other hand, all the planned GAD activities were executed and the gender issue and/or GAD mandate were addressed but the fund utilization was not maximized, hence, the benefits that could be derived were not fully achieved.

32.8 **We recommended that Management:**

a. **Provide substantial and reasonable GAD budget as required by RA 10964 or GAA of 2017 to effectively carry out GAD activities and achieve GAD's mandate in NEA;**

b. **Continue attending capacity building programs to fully achieve gender mainstreaming;**

c. **Maximize the utilization of budgeted planned GAD activities to achieve the desired goals and objectives; and**

d. **Provide additional activities to promote plans and policies on women empowerment and gender equality in the GAD Plan and Budget.**

32.9 Management commented that the Audit Team's audit recommendations were duly noted and will carry out to comply with the recommendations for the succeeding planning years.

32.10 NEA's compliance with the recommendations will be monitored to ensure its implementation.

E. Compliance with Tax Laws and GSIS Law

For the CY 2017, the NEA complied with the Bureau of Internal Revenue (BIR) Regulations and the Government Service Insurance System (GSIS) law by regularly withholding taxes from the employees' salaries and wages and deducting the mandatory deductions for employees' GSIS life and retirement insurance premiums and remitting the same to BIR and GSIS, together with the NEA's counterpart thereat. The employees' withholding taxes, and GSIS premiums and loan payments deducted for the month of December 2017 was remitted as follows:

a. BIR – the taxes withheld for the month of December 2017 amounting to P1.802 million was remitted to BIR on January 15, 2018.

b. GSIS – the GSIS Social Insurance Contributions premium for both the employees and NEA for the month of December 2017 amounting to P1.034 million and the payment of loan deducted from employees' salary were remitted to GSIS on January 10, 2018.

F. Status of Audit Suspensions, Disallowances and Charges

Based on the Notice of Disallowances issued, total audit disallowances as of December 31, 2017, after the effectivity of the Rules and Regulations of Settlement of Accounts (RRSA) amounted to P108.613 million. There was no Notice of Suspension and Notice of Charge issued as of December 31, 2017. Details are shown in the table below:

List of Notices of Disallowances
After the Effectivity of the Rules and Regulations of Settlement of Accounts
As of December 31, 2017

Date Issued	***ND. No.***	***Expense Disallowed and Reasons for Disallowance***	***Amount Disallowed***	***Status***
With Appeal				
August 29, 2017	17-001-101(16)	Retirement Benefits/ No Legal Basis	P 2,180,000.00	With appeal filed with the Cluster
August 29, 2017	17-002-101(16)	PRAISE Incentives/No Approved COB	21,503,131.10	

Date Issued	ND. No.	Expense Disallowed and Reasons for Disallowance	Amount Disallowed	Status
With Petition For Review				
August 02, 2016	16-001-101(16)	Honorarium for OGCC Lawyers/ No Legal Basis	300,000.00	With appeal filed with COA
August 3, 2016	16-003-101(15)	Rice and Medical Allowances/ No Legal Basis	16,452,572.51	
August 3, 2016	16-004-101(15)	Mid-year Incentive/No Legal Basis	2,941,666.62	
November 9, 2015	15-001-101(14)	Honorarium for OGCC Lawyers/ No Legal Basis	300,000.00	
November 9, 2015	15-002-101(14)	Honorarium for OGCC Lawyers/ No Legal Basis	270,000.00	
November 9, 2015	15-003-101(14)	PRAISE Incentives/No Legal Basis	12,149,651.53	
August 2, 2016	16-002-101(15)	PRAISE Incentives/No Approved COB	43,913,293.87	
July 2, 2014	14-001-101(12)		1,984,024.00	
July 2, 2014	14-002-101(13)	Comprehensive Health Services/ No Legal Basis	4,195,132.90	
July 2, 2014	14-003-101(13)		2,368,091.93	
March 4, 2010	010-014-501(09		8,552.44	
March 4, 2010	010-014-501(09		6,382.00	
March 12, 2010	010-015-501(09		4,851.00	
March 15, 2010	010-016-501(09)		535.70	
March 15, 2010	010-017-501(09)		2,625.30	
March 15, 2010	010-018-501(07)		24,243.75	
March 15, 2010	010-019-501(07)		7,123.34	
March 15, 2010	010-020-501(07)		1,388.98	
Total			**P108,613,266.97**	

Prior to the effectivity of the Rules and Regulations on Settlement of Accounts (RRSA), COA records disclosed that several transactions totaling P692,349.81 have been disallowed in audit.