A. Introduction

Presented below are the CY 2018 significant audit observations and recommendations with immediate action taken by NEA Management:

1. Subsidy funds received by NEA from the Bureau of the Treasury (BTr) for Rural Electrification (RE) projects totaling P6.050 billion were recognized as trust liability under account Other Payables instead of Subsidy from National Government contrary to Section 44 of Philippine Public Sector Accounting Standards (PPSAS) 23 and COA Circular No. 2015-010. Likewise, EC liquidations for CY 2018 amounting to P2.650 billion were recorded as debit to account Other Payables instead of account Financial Assistance to NGOs/POs contrary to the same COA Circular. As a result, account Other Payables was overstated by P6.050 billion and accounts Subsidy from National Government, Retained Earnings and Financial Assistance to NGOs/POs were understated by P722 million, P7.977 billion and P2.650 billion, respectively.

   We recommended that Management:

   a. Prepare and effect the following adjusting entries to reclassify the subsidy receipts from the National Government and liquidations of subsidy receipts by electric cooperatives (ECs) recorded/debited under account Other Payables – BTr; and

Particulars	***Debit***	***Credit***
Other Payables – BTr	*6,050,290,756.10*	
Financial Assistance to NGOs/POs	*2,649,528,494.79*	
Subsidy from National Government		*722,727,747.00*
Retained Earnings		*7,977,091,503.89*

   b. Henceforth, record all succeeding subsidy receipts from the BTr as subsidy income under account Subsidy from National Government in compliance with Section 44 of PPSAS 23 and COA Circular No. 2015-010.

   Action Taken:

   NEA has effected in its 2018 books for financial statements (FS) presentation the recommended adjusting entries to reclassify the subsidy receipts from the National Government previously recognized as trust liability under account Other Payables to income under account Subsidy from National Government and liquidations of subsidy receipts by ECs previously debited to account Other Payables to account Financial Assistance to NGOs/POs.

2. Interests on loans requested for condonation amounting to P0.959 million were dropped from NEA's books even without the approval from Congress and was based on COA Decisions only.

We recommended that Management reinstate the interest receivable balances written-off based on COA Decisions and drop only such accounts upon the approval of the Congress on the request for condonation.

Action Taken:

NEA has restored the amount of interest receivable written-off based on COA Decisions only without approval from the Congress amounting to P958,926.26.

3. Foreclosed property in Bani/Bolinao was classified as Property, Plant and Equipment in the Financial Statements, which is not in conformity with PPSAS 17 and COA Circular No. 2015-010.

   Likewise, 2.5 hectares of idle land located in Tandang Sora which was acquired in 1989 and has not been utilized and developed since acquisition as it is under court litigation pending with the court was classified as Property, Plant and Equipment contrary to PPSAS 17.

   We recommended that Management:

   a. Reclassify and present the foreclosed lands purchased in Bani/Bolinao to account Foreclosed Property/Asset under Other Assets pursuant to PPSAS 17 and COA Circular No. 2015-010; and

   b. Reclassify the idle land located in Tandang Sora under Other Assets in the Financial Statements pursuant to PPSAS 17 and COA Circular No. 2015-010.

   Action Taken:

   NEA has effected in its 2018 books for FS presentation the recommended adjusting entries to reclassify the foreclosed property in Bani/Bolinao and the idle land located in Tandang Sora totaling P9,525,800 to Other Assets.

4. The subsidy funds returned/remitted by 72 Electric Cooperatives (ECs) in CYs 2017-2018 amounting to P574.04 million remained in the possession of NEA and not returned to the Bureau of the Treasury (BTr) contrary to Section 83 of the General Provisions of General Appropriations Act (GAA) of 2018.

   We recommended that Management remit to the BTr the total amount of P574,043,108.79 for the subsidy funds returned by ECs in compliance with Section 83 of the General Provisions of GAA of 2018.

   Action Taken:

   NEA Management justified to which we agreed that pursuant to FY 2018 GAA (RA No. 10964) which provides Special Provision on NEA's Budget, the NEA Board of Administrators is authorized to augment and disburse beyond the total amount approved in this Act exclusively for the continuous implementation of Sitio Electrification and Barangay Line Enhancement Projects. The funds shall come from the unutilized balances of previous years subsidy by the National

Government or from new funding sources as certified by the Chief Accountant and Administrator of NEA."

Based on the above Special Provisions and considering that the implementation of Sitio Electrification and Barangay Line Enhancement Projects is an on-going program of the agency, the returned amount of P574.043 million shall be utilized by NEA in accordance with the Special Allotment Release Order (SARO) after securing approval from the NEA Board to utilize the funds returned in the continuous implementation of SEP/BLEP.

5. The declaration of the amount of dividend remitted to the Bureau of the Treasury (BTr) was not approved by the Board of Administrators (BOA) as required under Section 9 of Revised Implementing Rules and Regulation (RIRR) for RA 7656.

   We recommended that Management:

   a. Submit computation of the required dividend to the Board of Administrators for their declaration and approval pursuant to Section 9.a of the RIRR of RA 7656; and

   b. Strictly comply with the provisions of RA 7656 and its RIRR on the declaration and remittance of Dividends due to the BTr.

   Action Taken:

   NEA submitted a copy of the Certification of NEA Board Resolution No. 50 dated 16 April 2019 approving the declaration of dividend covering CY 2018.

6. Officers designated as authorized and counter signatories in the issuance of checks and approval of disbursement vouchers (DVs) were not bonded in violation of Section 101 of PD No. 1445 and Sections 4.1 and 4.3 of the General Provisions of Treasury Circular No. 02-2009, thus, exposing NEA of not being indemnified in case of loss due to improper or unauthorized use or misapplication of public funds and for all losses attributable to negligence in the keeping thereof.

   We recommended that the authorized and counter signatories in the issuance of checks and approval of disbursement vouchers (DVs) be bonded pursuant to the requirements of Section 101 of PD No. 1445 and Sections 4.1 and 4.3 of Treasury Circular No. 02-2009.

   Action Taken:

   NEA submitted on March 28, 2019 the List of Bonded Officials and Employees.

B. Financial

1. **The accuracy and reliability of the year-end balance of Loans Receivable - ECs amounting to P10.934 billion (current and long-term) is doubtful as the results of confirmation from Electric Cooperatives (ECs) disclosed net understatement variance amounting to P45.388 million, attributed mainly to inclusion of interest/surcharge, advance payment for interest, and paid amortization in the EC confirmation, excess payments not deducted in EC's confirmation, and loans and capitalized interest not recorded in NEA books. Likewise, advance payment included/excluded in EC's confirmation, unpaid amortization per NEA's books, and loans not included in EC's confirmation renders the balance of loans receivable per NEA books overstated, affecting the fair presentation of accounts affected which is not in conformity with paragraph 27 of PPSAS 1.**

1.1 Paragraph 27 of PPSAS 1 states:

> *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in PPSASs."*

1.2 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.

1.3 Loans Receivable from ECs has an outstanding balance of P10,933,959,218.26 as of December 31, 2018 which is composed of matured (current) and long term receivables as follows:

SL Code	***Classification***	***Amount***
126-01-01	Current	113,732,050.23
126-02-01	Long Term	10,820,227,168.03
Total		**10,933,959,218.26**

1.4 Confirmation letters were sent to 121 ECs to verify its respective loan balances as against NEA records. Out of the total ECs that confirmed, 60 ECs or 50 per cent have replied with NEA's total book balance of P5,619,402,863.45 that represents 50 per cent of the total Loans Receivable balance.

1.5 Confirmation showed that except for 1 EC, 28 ECs books/records were understated while 31 ECs records were overstated as compared to NEA books resulting in net understatement amounting to P45,388,479.92 as follows:

Particulars	NEA Books	EC Confirmation	Over / (Under)
Overstated Loans	*2,952,772,976.17	2,692,259,126.07	260,513,850.10
Understated Loans	2,613,141,130.28	2,919,043,460.30	(305,902,330.02)
Total	**5,565,914,106.45**	**5,611,302,586.37**	**(45,388,479.92)**

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

1.6 Verification of subsidiary ledgers against EC's confirmation revealed that the overstatement of the outstanding book balance of Loans Receivable of P260,513,850.10 is attributed to the following:

Particulars	Amount	Remarks
Unreconciled Balance	69,732,981.81	NEA and ECs' books
Loans not included in EC confirmation for two ECs	174,726,903.71	Taken up in NEA's books, not included in EC Confirmation
Unpaid amortization per NEA books of three ECS	1,842,289.00	Paid per EC's Confirmation
Advance payment on Interest of seven ECs	12,522,448.62	Deducted in EC's Confirmation
Advance payment on Principal of four ECs	1,953,842.66	Not taken up in NEA's books
Advance payment on Principal of two ECs	(266,151.48)	Not taken up in EC's Confirmation
Others	1,535.78	
Total	**260,513,850.10**	

1.7 On the other hand, the amount of understatement of P305,902,330.02 is composed mainly of unreconciled balance, interest/surcharge and advance payment on principal, to wit:

Particulars	Amount	Remarks
Unreconciled Balance	(36,316,297.53)	NEA and ECs' books
Interest/Surcharge	(260,785,157.95)	Included in EC's Confirmation
Advance payment on Interest	26,540.99	Taken up in EC's Confirmation
Excess Payments	(1,775,839.66)	Not taken up in EC's Confirmation
Paid amortization per NEA books	(700,626.00)	Unpaid per EC's Confirmation
Loans included in EC confirmation	(3,846,152.00)	Not taken up in NEA's books
Capitalized Interest	(2,504,797.87)	Not taken up in NEA's books
Total	**(305,902,330.02)**	

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 the ECs records to present the actual outstanding loan balance as of reporting date; and**

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

1.9 Management submitted their comments that they reflected some adjustments in NEA's books and a minimal variance of P58.59 was arrived at taking into account the re-confirmation made by eight ECs.

The variance of Loans Receivable amounting to P260,513,850.10 was caused by the following:

a. Post dated checks dated December 30 and 31, 2018 taken up on January 3, 2019;
b. EC deducted the advance payment for the interest and Miscellaneous Liabilities and Deferred Charges (MLDC) in the amount confirmed; and
c. Loan released taken-up in NEA's books but not included in the confirmed amount by the EC.

On the other hand, the amount of P305,902,330.02 was understated due to the following: .

a. Interest and surcharges arrearages were included in EC confirmation;
b. Advance payments on principal as of December 31, 2018 were not deducted in the confirmation made by the ECs;
c. Capitalized interest of loans under grace period confirmed by the EC but not yet taken up in the NEA books;
d. Calamity loan converted into grants/subsidy was not recognized in the confirmed amount of EC; and
e. Loan released in January 2019 was included in EC's confirmation.

NEA will prepare the corresponding Journal Entry Vouchers to take up the necessary adjustments on the variance noted in the reconciliation and will comply with the recommendation that a regular reconciliation be under taken.

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1.10 To thresh out the differences in loan balances, we further recommended that NEA update its Loan Profile, reconcile and adjust its balance against the balance per e-NGAS. Also, inform ECs on the proper treatment of Advance payment on principal and interest of loans.

2. **The accuracy and reliability of the year-end balance of Loans Receivable – Others (PSALM) amounting to P2.155 billion is doubtful as the results of confirmation from PSALM disclosed material variance amounting to P369.652 million, overstating the Loans Receivable - Others – PSALM, contrary to one of the qualitative characteristic of financial reporting which is reliability of information under Appendix B of PPSAS 1.**

2.1 Appendix B of PPSAS 1 under Qualitative Characteristic of Financial Reporting states: Reliability – "*Reliable information is free from material error and bias, and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.*"

2.2 PSALM was created through the enactment of Republic Act (RA) 9136 – Electric Power Industry Reform Act (EPIRA) of 2001 wherein its principal purpose is to manage the orderly sale, disposition, and privatization of the National Power Corporation (NPC) generation assets, real estate and other disposable assets, and IPP contracts with the objective of liquidating all NPC financial obligations and stranded contract costs in an optimal manner.

2.3 To promote rural electrification, Section 60 of RA 9136 provides that: "all outstanding financial obligations of Electric Cooperatives (ECs) to NEA and other government agencies incurred for the purpose of financing the rural electrification program shall be assumed by the PSALM Corporation in accordance with the program approved by the President of the Philippines within one year from the effectivity of this Act which shall be implemented and completed within three years from the effectivity of the Act."

2.4 Section 2, Rule 31 of the Implementing Rules and Regulations (IRR) of the EPIRA stated that the assumption covers all outstanding Rural Electrification Program (REP) related financial obligations of the ECs as of June 26, 2001.

2.5 As of March 31, 2005, loans receivable from PSALM has a beginning balance of P691,016,610.58. From CY 2005 to CY 2013, NEA recorded amortizations due on Rural Electrification Loans, Housewiring, Mini-Hydro and Thermal Project Loans totaling P15,112,735,001.63. On the other hand, P13,648,261,393.12 was credited to the account of PSALM leaving a balance of P2,155,490,219.09 as of December 31, 2018, detailed as follows:

Year	Debit	Credit	Balance
Balance as of 3/31/2005	691,016,610.58		691,016,610.58
2005	1,348,346,355.00	1,277,301,266.01	762,061,699.57
2006	1,797,795,137.00	1,760,260,000.16	799,596,836.41
2007	1,797,795,136.00	1,800,329,829.00	797,062,143.41
2008	1,797,795,136.00	1,342,734,772.00	1,252,122,507.41
2009	1,797,795,136.00	1,503,266,744.00	1,546,650,899.41
2010	2,001,236,595.00	975,664,643.00	2,572,222,851.41
2011	1,797,795,136.00	2,217,570,833.93	2,152,447,153.48
2012	1,797,795,136.00	1,871,861,149.67	2,078,381,139.81
2013	962,326,565.11	839,611,522.34	2,201,096,182.58
2014	0	45,605,949.78	2,155,490,232.80
2015	14,054,669.52	14,054,683.23	2,155,490,219.09
TOTAL	**15,803,751,612.21**	**13,648,261,393.12**	

2.6 In a letter of confirmation sent to PSALM, it was confirmed that P1,785,838,219.09 was due to NEA as of December 31, 2018 in which NEA's records of balance due from PSALM is overstated by P369.652 million.

2.7 Last collection from PSALM was made in January 2014 and no further payments were collected from PSALM after the said date.

2.8 Moreover, the PSALM Notes to Financial Statements disclosed that: *"the assumed loans of ECs from NEA, even before entering into the Memorandum of Agreement (during the period June 27, 2001 up to March 3, 2003), NEA already collected P2.22 billion from ECs for the corresponding amortizations interest/surcharges of the loans assumed by PSALM. These collections effectively decreased the condoned REP amount."*

2.9 **We recommended that Management:**

a. **Reconcile with PSALM the P369.652 million discrepancy and identify the causes for consideration of settlement;**

b. **Analyze the P2.22 billion collection covering June 27, 2001 to March 3, 2003 to establish legitimacy; and**

c. **Adjust as necessary and enforce settlement of any unpaid balance.**

2.10 Management submitted the following comments:

a. These are the amounts deducted by PSALM from various billings of NEA on assumed loans starting April 2010 relative to their alleged claims that NEA's collections of P2.215 billion after the effectivity of EPIRA on June 26, 2001 are part of the assumed loans, hence, PSALM will apply the amount of P369.652 million to pay its amortization until it is fully offset citing insufficiency of funding source as basis.

b. Management provided the breakdown of P369.652 million that was directly deducted from the monthly billings of NEA in 2010.

c. NEA continued to accrue interest and surcharges on the outstanding diminishing balance and collected from the ECs loan amortization due on the assumed loans by PSALM and from residual loans of ECs (not assumed by PSALM) during the period June 27, 2001 up to the issuance of ERC of EC's Provisional Authority (PA). NEA is not precluded from collecting any obligations due and payable from the ECs as provided for in Article VI, Section 4 of the MOA which states that:

> *"Nothing in this MOA shall preclude the NEA to collect from the EC any loan obligations due and payable to NEA if the amortizations cost component of the EC's tariff is still collected from the customers or for failure of the ECs to qualify as beneficiary of the loan condonation referred to and as prescribed under EO 119."*

These are also the bases of the NEA Board of Administrators in issuing Board Resolution No. 15 s. 2005 confirming NEA Board Resolution No. 40 dated April 28, 2004 approving the following:

1. Consider all loans as outstanding up to the issuance by Energy Regulatory Commission (ERC) of the PA to reduce rates due to loan condonation. Hence, the effectivity date of the loan condonation will commence on the day ERC issued PA;

2. Total outstanding loans of ECs to NEA as of June 26, 2001 will be the amount to be assumed by PSALM as provided for in the EPIRA;

3. All amortization payments made by the ECs from June 26, 2001 up to the effectivity date of the loan condonation shall be applied to outstanding loans based on existing loan contracts, and;

4. Unpaid interest, surcharges and penalties on assumed loans from June 26, 2001 to issuance of PA by ERC shall be added to the outstanding loan balance of the residual loan.

PSALM claims that the collections made was part of the assumed loans and alleged that there was a double collection, hence, PSALM did not pay the outstanding balance of P2.155 billion and claimed that they overpaid NEA by P60 million.

NEA cited in its pleading filed with the Office of the Government Corporate Counsel (OGCC) that what NEA had collected were the interest and surcharges on the amortization due from June 27, 2001 up to issuance of PA of the ERC. The principal portions of collected amortizations due was in effect returned to EC by applying to or deducting from the outstanding loans of ECs that were not included in the assumed loans of PSALM.

d. Due to the claim of PSALM that the P2.215 billion collections was part of the assumed loans and be offsetted to the unpaid outstanding balance of loans of ECs assumed by PSALM, on January 3, 2011, NEA elevated the matter to the Office of the Solicitor General (OSG) on the issue of the effectivity of the loan assumption/condonation and the ancillary of payment of PSALM of the outstanding balance. However, the OSG endorsed the request of NEA to the Office of the Government Corporate Counsel (OGCC) which handed down resolution stating that the key officials of both parties must be afforded the chance to study the issues and to explore the possibility of settlement.

From 2014 to 2017, several meetings/discussions were held but both parties had its own position on the issue.

On September 26, 2018, another meeting was held at the DOE and attended by the new PSALM President and CEO and NEA Officials. Still, both parties taking their respective positions had not reached a suitable settlement, it was agreed that both parties will file a separate pleading with the OGCC and enforce Article V Section 2 of the MOA.

On November 30, 2018, a Notice of Arbitration was filed with the OGCC for the settlement of unpaid outstanding loan of ECs assumed by PSALM.

On January 19, 2019, NEA received the Answer of PSALM on its pleadings and afterwards on March 04, 2019, NEA submitted to OGCC its reply on PSALM Answer to NEA's Notice of Arbitration.

The scheduled conduct of Conciliation Conference by the OGCC Panel of Arbitrators on March 19, 2019 was re-scheduled to May 28, 2019 since the respective Board of Directors of both parties have not yet passed resolutions on the authority of the designated representatives to represent the parties in the proceedings.

e. NEA will comply to enforce PSALM to pay its unpaid balance, if any, after reconciliation.

2.11 As a rejoinder, the Audit Team will wait for the Decision of the OGCC to properly evaluate the matter.

3. **Out of the total outstanding Miscellaneous Receivables amounting to P49.332 million (net) as of December 31, 2017, only P0.900 million were collected and the amount of P48.473 million remained unsettled and outstanding in the books for more than 10 years with remote possibility of collection, which may qualify for write-off in accordance with the provisions of COA Circular No. 2016-005.**

3.1 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.

3.2 Management commented that they will request to write-off the dormant receivable accounts based on COA Circular 2016-005 dated December 19, 2016.

3.3 For CY 2018, NEA collected a total amount of P896,484.13 from ECs as payment for the GSIS Industrial All-Risk Insurance Receivables, detailed as follows:

Name of EC	Balance as of 12/31/2017	Collection	Balance as of 12/31/2018	Remarks
BOHECO I	3,976,679.37	552,316.50	3,424,362.87	10 year installment basis
OMECO	836,585.44	104,573.18	732,012.26	10 year installment
MARELCO	691,937.62	193,742.50	498,195.12	5 year installment
TIELCO	458,519.46	45,851.95	412,667.51	10 year installment
Total	**5,963,721.89**	**896,484.13**	**5,067,237.76**	

Out of P36,011,987.90 balance as of December 31, 2017, the balance was reduced to P35,115,503.77 for the payments made by the aforementioned ECs. The remaining 28 ECs with outstanding balance under the GSIS Industrial All-Risk Insurance Receivables did not convey intention to pay their accounts.

3.4 In addition, NEA collected a total of P3,745.65 from former NEA employees as payment for Educational and Medical Loan as well as balances in Regional Centers. NEA also made adjustment to various accounts with negative balances amounting to P42,040.86. Such balance was transferred to Other Payables – NEA Provident Fund (For adjustment) account (SL 439-004-6), for repayment to retired employees with overpayments.

3.5 After the adjustments discussed in the preceding paragraphs, Miscellaneous Receivables has an updated balance of P48,473,328.57 (net) as of December 31, 2018, to wit:

SL Code	SL Name	Amount
149-006	Insurance GSIS (various Electric Cooperatives)	35,115,503.77
149-003	Other Receivables (various suppliers)	12,404,156.75
149-xxx	Other Receivables (various employees)	510,765.64
149-xxx	For adjustment/reconciliation	442,902.41
Total		**48,473,328.57**

**See Annexes for detailed list of subsidiary ledger balances*

Insurance GSIS (various ECs)

3.6 These are 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 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 (MOA). 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)

3.7 For the account of Strand Industries, Ltd. amounting to P9,340,411.41 which is 75 per cent 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.

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)

3.8 Other Receivables amounting to P510,765.64 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

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

3.10 To date, Management has not yet submitted request for authority to write-off dormant receivable accounts as prescribed in COA Circular No. 2016-005 dated December 19, 2016.

3.11 **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.**

3.12 Management commented that of the total outstanding Miscellaneous Receivables of P49,331,517.49 as of December 31, 2017, NEA collected a total of P997,196.34, leaving a balance of P48,334,321.15 as of April 04, 2019.

Further, a collection letter dated June 07, 2018 was sent to a creditor. No payment was made to date. Additional collection letters will be sent out once necessary contact information of the debtors/creditors are gathered.

NEA will be requesting for the write-off of Other Receivable accounts totaling Php13,357,824.80 once appropriate supporting documents are gathered as prescribed under COA Circular No. 2016-005.

SL Code	***SL Name***	***Amount***
149-003	Other Receivables (various suppliers)	12,404,156.75
149-xxx	Other Receivables (various employees)	510,765.64
149-xxx	For adjustment/reconciliation	442,902.41
Total		**13,357,824.80**

3.13 For the Insurance GSIS (Various ECs), we further recommend Management to review the provisions of MOA and execute any available course of action and determine the applicability of the GSIS Insurance.

In order for the account "For adjustment/reconciliation" to be included in the request for write-off, Management is advised to provide justification since the balance was recorded during the set-up of the beginning balances of accounts in the e-NGAS.

4. **Receivables from Local Government Units, Non-Government Agencies (NGAs) and Private Franchise amounting to P17.591 million and interests/surcharges amounting to P16.674 million totaling P34.265 million which have become dormant for more than 20 years remained unsettled as of audit date.**

4.1 This is a reiteration of prior year's audit finding with updated figures as of year-end wherein 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.

4.2 Management commented that assistance from the Bureau of Local Government Finance (BLGF) and Department of Finance (DOF) was requested 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 and BLGF failed to issue guidelines for the implementation of the program.

4.3 Furthermore, Management sent various demand letters to various borrowers and was able to collect P3,082,499.45 as of December 31, 2017. However, some borrowers denied the existence of the loan and requested for condonation.

4.4 Interest written off amounting to P913,923.61 based on Board Resolution No. 13 dated January 23, 2006 without reference to any COA Decision was reverted back to NEA books on May 16, 2018. NEA also adjusted interest amounting to P1,695,304.89 reversing the entry made on the set up of beginning balances on various Social Program Loans that was fully paid prior to the set up date on December 6, 2018.

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4.5 NEA already submitted its request to the previous Auditor for condonation for the interest previously written off amounting to P913,923.61. However, further evaluation has to be made on NEA's request for condonation based on the documents submitted. Updated balance as of December 31, 2018 are as follows:

GL Acct	Account Name	Beginning Balance	Adjustments		Total
			Debit	Credit	
136	Due from NGAs	6,416,513.63		400.00	6,416,113.63
125	Loans Receivable – LGUs	7,247,234.27	92,985.58	92,985.58	7,247,234.27
126	Private Franchise	1,660,603.65			1,660,603.65
126	MERALCO	2,267,398.00			2,267,398.00
Sub-total		**17,591,749.55**			**17,591,349.55**
129	Interest/Surcharge	17,455,247.40	913,923.61	1,695,304.89	16,673,866.12
Total		**35,046,996.95**	**1,006,909.19**	**1,788,690.47**	**34,265,215.67**

4.6 The adjustment of P400.00 is a reversal of beginning balance of Zamboanga del Sur Agricultural College and P92,095.58 is a correction of erroneous posting of payment from Gen. Luna (Surigao del Norte) to Gen. Luna (Quezon).

4.7 The abovementioned balances are loans granted to 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.

4.8 Among the loans granted are Municipal Loans, Private Franchise Loans and Systems Taken Over Loans to provide Municipalities and Private Franchise Owners to operate and maintain an electric system.

4.9 NEA also 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 and 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.

4.10 Through Presidential Decree 269, NEA 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.

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

4.12 **We recommended that Management:**

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

b. **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.**

4.13 Management informed that they were able to collect from LUELCO the amount of P444,005.92 on May 21, 2018 as evidenced by OR No. 7897578.

In compliance to the requirements of COA Circular no. 2016-005, the NEA Finance Services Department (FSD) took the following actions:

i. Sent Memo to NEA Legal Services Office (LSO) referring the list of borrowers from LGUs, NGAs and Private Franchise with corresponding outstanding dormant accounts receivable balances requesting for endorsement to the NEA Board for approval for request for write-off based on COA Circular No. 2016-005 if the bases would warrant; and for the legal assistance to obtain additional proof/documents that will support and ascertain that the settlement/collection are no longer possible on the borrowers that did not reply to the Demand Letters sent in 2011.

ii. Provided LSO copies of Statement of Account as of December 31, 2018 since last Demand Letters were sent sometime in 2011.

4.14 The NEA's collection of P444,005.02 was recognized and further recommended to continue to exert possible remedies to collect the receivables from the debtors and comply with the requirements of COA Circular No. 2016-005 to support the request for write-off.

5. **The advance payment of loans consisting of principal and interests by Electric Cooperatives (ECs) amounting to P99.579 million and P58.148 million, respectively, or a total of P157.727 million for CY 2018 were recognized as credits to Loans Receivables and Interest Receivables, respectively, instead of credits to Deferred Credits and Other Unearned Income, respectively, contrary to COA Circular No. 2015-010, thereby understating the year-end balance of both Loans Receivables and Interest Receivables.**

5.1 COA Circular No. 2015-010 defines *Other Deferred Credits* as account used to recognize other transactions not falling under any of the specific deferred credits accounts. Debit this account when related income is earned.

Whereas *Other Unearned Income* is defined as account used to recognize other income/revenue received in advance not falling under any of the specific unearned revenue/income accounts. Debit this account when revenue is earned.

5.2 As disclosed in the CY 2018 Notes to Financial Statements, *Deferred Credits account* represents the balance of the advance payments made by ECs after June 26, 2001 (effectivity of the EPIRA). These were applied to ECs outstanding loans in previous years, however, no applications were made for the past 3 to 13 years except for the account of DASURECO and PALECO with application of advance payments in 2018 and ZAMSURECO I wherein the advance payment was used to pay the unexpended 2013 subsidy.

5.3 Management informed that EC's offsetting/application of advance payment to their outstanding loans and refund to ECs were temporary held in abeyance pending resolution of the on-going arbitration filed with the Office of the Government Corporate Counsel (OGCC) between NEA and Power Sector Assets and Liabilities Management (PSALM) Corporation on the unpaid balance of ECs assumed by PSALM. Management further commented that there is no provision in the loan contract between NEA and ECs on the application of advance amortization payments. That all payments made by ECs are applied based on the order specified in the section for "Application of Payment" which is surcharges, interest and principal.

5.4 Review of transactions involving payments of amortization of loans by ECs in CY 2018 showed that 55 ECs made advance payment on both principals and interest totaling P157,726,802.36.

5.5 The advance payments were taken up in the books as credits under the accounts Loans Receivables for the principal and Interest Receivables for the interest earned wherein it reflected a negative balance in the Trial Balance contrary to COA Circular No. 2015-010. As a result, the accounts current Loan Receivables and Interest Receivables were understated by P99,579,056.79 and P58,147,745.57, respectively.

5.6 Advance payment of loan principal should be treated as Other Deferred Credits while the advance payment of interest on loans should be taken up in the books as Other Unearned Revenue. Since the account Other Deferred Credits was previously used by NEA to recognize advance payments of principals, the recording of the same should be updated and debit this account when loan is due or upon application. Likewise, the advance payment of interest should be recorded as Other Unearned Income and debit this account when revenue/income is earned.

5.7 **We recommended that Management:**

a. **Make the necessary adjustments in the books to reflect the correct balance of the affected accounts; and.**

b. **Record future advance payments of principal to Other Deferred Credits and future advance payments on interest to Other Unearned Revenue for proper presentation in the financial statements pursuant to COA Circular No. 2015-010.**

5.8 Management committed to make necessary adjustments based on the updated balance of advance payment as of April 30, 2019 to include additional advance payment (if any) on postdated checks issued by ECs dated March 30 and 31, 2019 taken up per books in April 2019. All advance payments will be recorded under Other Deferred Credits to minimize and simplify monitoring of accounts. Proper charging to principal and interest will be recognized when amortization payment become due or upon application.

5.9 The compliance of the Audit Team's recommendations will be monitored to ensure its implementation.

6. **The existence, accuracy and reliability of account Merchandise Inventory as at year-end which have been dormant for more than 10 years amounting to P4.876 million cannot be ascertained, due to:**

a. **Merchandise Inventory for Sale representing the cost of equipment and materials inventory amounting to P5.231 million have been damaged/burned in NUVELCO Staging Area in November 2001. The request for relief from accountability, however, had not been approved due to incomplete documentation as required under COA Memorandum No. 92-751 dated February 24, 1992 and paragraph 44 of PPSAS 12, hence, the accountability and dropping from the books could not be undertaken; and**

b. **Merchandise Inventory In Transit included negative balances totaling P12.346 million and delivered items totaling P11.992 million no longer existing.**

Damaged/Burned Merchandise Inventory for Sale costing P5.231.million

6.1 Paragraph 44 of PPSAS 12 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. The amount of any reversal of any write- down of inventories shall be recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs."*

6.2 Section 73 of PD No. 1445 provides that:

> *"(1)* ***When a loss of government funds or property occurs*** *while they are in transit or the loss* ***is caused by fire****, theft, or other casualty or force majeure, the officer accountable therefor or having custody thereof shall immediately notify the Commission or the auditor concerned and, within thirty days or such longer period as the Commission or auditor may in the particular case allow,* ***shall present his application for relief, with the available supporting evidence. Whenever warranted by the evidence credit for the loss shall be allowed****.* ***An officer who fails to comply with this requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts***." *(emphasis supplied)*

6.3 The Merchandise Inventory for Sale pertains to the cost of equipment and materials inventory damaged/burned in NUVELCO Staging Area in November 2001. On September 14, 2010 after nearly 9 years, NEA submitted a request for relief from accountability to the then Auditor which to date, no decision has been received granting the said request and the account still exists in NEA's books.

6.4 The following documents submitted for the request of relief of accountability are incomplete/non-compliant to COA Memorandum No. 92-751 dated February 24, 1992, based on the checklist provided:

Particular	Yes	No	Remarks
1. The basic notice of loss to be filed immediately **after the discovery of the loss** and the **request for relief from accountability which should be filed by the proper accountable officer within the reglementary period of 30 days from the occurrence of the loss,** with the Auditor concerned or the Commission, as the case may be.	✓		There was notice in the form of letter to Deputy Maddatu from NUVELCO GM Flores, but request for relief was not made.
1.1 **In case of delay in the filing of** the aforesaid notice and **request**, satisfactory explanation or the reason(s) for such delay should be submitted, after which the		✓	Date of fire: November 21, 2001

Particular	Yes	No	Remarks
reasons/explanation given should be verified or confirmed by the Auditor concerned.			Date of Request for Relief of Accountability: September 14, 2010
1.2 If the occurrence of the loss has also been reported to other police agencies, like the N.B.I., C.I.S., etc., the progress/final investigation report thereon should be submitted.	✓		NBI Certification requested by GM Patrick A. Flores dated February 4, 2003.
2. Affidavit or Sworn Statement of the proper accountable officer on the facts and circumstances surrounding the said loss, supported by the Affidavit of two (2) disinterested persons who have personal knowledge of such fact of loss;	✓		Only 1 Affidavit, dated Sept. 9, 2010, of person who have personal knowledge of such incident was attached to the request.
3. Comment and/or recommendation of the Agency Head concerned on the request;	✓		
4. Exact or accurate amount of government cash or book value of the property, subject of the request for relief;	✓		Per inventory submitted in CY 2010, the amount of damage/burned items and subject of the relief was P5,211,785.96 but as of December 31, 2018, the Merchandise Inventory for Sale is P5,230,616.14.
5. Property Acknowledgement Receipt (PAR)/Memorandum Receipts (MR) covering the properties subject of the request, if any;		✓	
6. Report of Lost, Stolen, Damaged or Destroyed Property		✓	Per letter/certification from NBI, there was a finding of the local Bureau of Fire Protection and Police Report but none of the reports were attached to the request.
Additional documents for FIRE INCIDENT;			
1. The **progress and/or final report** of the local Police/Fire Department or Station on the incident;	✓		Per letter to Deputy Maddatu, there was a Police Report relative to the fire incident but was not attached to the request.
2. List or inventory of burned or destroyed properties as well as those properties retrieved after the fire, stating therein the acquisition cost/book value of each item;	✓		No signature affixed on the List of Inventory.
3.Authenticated picture(s) showing the site/office or government properties razed by the fire	✓		Not authenticated. Subject to provision of a clearer copy.
4. Fire insurance policy, if any, covering subject property. If the property is insured, information as to whether or not the Agency concerned has already been paid the proceeds of the said insurance policy should be secured and, if so, evidence to this effect should be submitted. If the property has not		✓	

Particular	Yes	No	Remarks
been insured, reasons to this effect should be submitted.			

6.4.1 Likewise, the damaged/burned items per List of Inventory totaled P5,211,785.96 while the Merchandise Inventory for Sale recorded as of December 31, 2018 is P5,230,616.14, or a difference of P18,830.18.

6.4.2 NEA may still request for a Relief from Accountability up to the actual accounted amount of P5,211,785.96 provided that all the necessary requirements are present providing justification from Head of Agency for its delay.

6.5 ***Merchandise Inventory In Transit with negative balances totaling P12.346 million and delivered items totaling P11.992 million no longer existing.***

6.5.1 The account Merchandise Inventory In Transit was used in the previous years to record procurement from foreign suppliers while still in transit to its respective destination in different staging areas/electric cooperatives. As of December 31, 2018, the account consisted of 10 inventory items and was still existing in the books of NEA, detailed as follows:

Code	***Description***	***Amount***
	With Negative Balances	
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)
154-002-008	IN TRANSIT (OPEC(Other SL)	(1,521,998.07)
154-002-010	IN TRANSIT (WB (Other SL)	(717,559.69)
154-002-011	IN TRANSIT (For adjustment (Other SL)	(4,006,228.23)
	Sub-total	**(12,346,324.86)**
	Items no Longer Existing	
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
154-002-009	IN TRANSIT (OTHERS(Other SL)	11,979,684.00
	Sub-total	**11,992,087.50**
Total		**(354,237.36)**

6.5.2 The sub-accounts/inventory items remained dormant/non-moving for more than 10 years and were already delivered per certifications from NEA's Engineering Department and Accounts Management and Guarantee Department attached to its request for write-off. However, these inventory items no longer exist.

6.5.3 On May 15, 2007, NEA initially requested authority from COA to write-off the said account and was reiterated on May 13, 2010 addressed to the Cluster Director (CD). Subsequently, in a

Memorandum dated March 28, 2011, CD referred the request to the Adjudication and Legal Services Office of COA.

6.5.4 On December 23, 2013, NEA received COA Decision No. 2013-247 denying NEA's request because of COA's existing regulations on grant of write-off which pertains to the write-off of unliquidated cash advances and dormant accounts receivable. Also, mentioned in the decision was that a **request for dropping of the accounts should be taken individually and not on the net amount after offsetting the negative and positive balances unless it has been proven that the negative and positive balances pertain to a particular or one and the same contract.** Nevertheless, the Commission considered the observation of the CD which could help NEA on the proceedings following the denial of the request, to wit:

> *"Management should implement first the recommendations of the NEA Internal Audit and Quality Standards Management Office in its January 4, 2006 Audit Report for the Accounting Services to exert more effort to locate the necessary documents and continue to reconcile the account for IFB 72 and other IFBs/accounts using as a model the analysis of IFB 74 material schedules and to tabulate and show in detail by individual IFB/Contract the various adjustments as indicated in the Status of EMIT-Account from 2005 to 2009 or up to the current period."*

6.6 **We recommended that Management:**

a. **Gather complete documentation and resubmit request for Relief from Accountability on the damaged/burned inventory items recorded as Merchandise Inventory for Sale up to P5,211,785.96 with justification on its delay pursuant to COA Memorandum No. 92-751 for proper recording/reporting of the Inventory's balance;**

b. **Explain the discrepancy of the account Merchandise Inventory for Sale per books and per List of Inventory attached to the previous request amounting to P18,830.18; and**

c. **Review and analyze Merchandise Inventory in Transit account with negative balances and those no longer existing and effect the necessary adjustments in the books to present the true balance of the account.**

6.7 Management responded that NEA prepared a letter to NUVELCO requesting the EC to submit the lacking documents particularly the report from the Bureau of Fire Protection and Police Report, so it can pursue its request for a Relief from Accountability amounting to P5,211,785.96 and committed to continue to reconcile the said amount.

6.8 The Audit Team will wait for the submission of the lacking documents to properly evaluate NEA's request for Relief of Accountability and the compliance of the Audit Team's recommendations will be monitored to ensure its implementation.

7. **The reliability of accounts Deferred Charges and Receivables totaling P3.672 million recorded as Other Assets cannot be ascertained as the accounts have been outstanding for more than 10 years wherein the deferred charges were not consumed and the possibility of collecting receivables is remote.**

Likewise, Investment in Gasifier Equipment Manufacturing Corporation (GEMCOR) amounting to P0.938 million which was already foreclosed and the 10 per cent equity in Bagong Lipunan Improvement of Sites and Services (BLISS) Livelihood Program amounting to P100,000 which had been outstanding since 1990s casts doubt on the existence of such investment.

7.1 Other Assets (GL 290) has a year-end balance of P4,908,801.43 and presented as Non-Current Assets in NEA's Statement of Financial Position, detailed as follows:

FS Presentation	***Particulars***	***Amount***	***Remarks***
Deferred Charges	Deposit Administrative - For Adjustment	1,757,038.73	Long Outstanding for more than 10 years
	Regional Centers	609,870.58	
	GSIS General Insurance Fund - For Adjustment	20,000.00	
Sub-Total		**2,386,909.31**	
Receivables Included in NEA's Bail-Out Program	Advances to RECs-BLISS	1,222,627.11	Long Outstanding for more than 10 years
	Skyfreight Brokerage/Comm. Traffic Express	15,574.48	
	ECO BLISS	14,250.00	
	MHS-LSSP	7,346.00	
	F.E. Zuellig	6,475.00	
	Alsthom Atlantique/Comm. Traffic Express	5,506.00	
	Daewoo Corporation	4,416.00	
	Toyo Corporation	3,079.55	
	Naison International, Ltd.	2,598.81	
	Overland Brokerage	2,061.55	
	Axis Cargo Specialist	1,199.77	
	Hodam & Associates	176.68	
	M & P Brokerage	147.00	
	Various coops	75.00	
	Honeywell, Inc.	60.65	
Sub-Total		**1,285,593.60**	
Total		**3,672,502.91**	

FS Presentation	Particulars	Amount	Remarks
Cash	Regional Centers (For Recon)	198,298.52	Previously reclassified from Cash account - For Recon
Investment	GEMCOR	938,000.00	Already Foreclosed
	BLISS-Livelihood	100,000.00	Projects were already Conveyed and Written off
Sub-Total		**1,236,298.52**	
Grand Total		**4,908,801.43**	

Deferred Charges

7.2 A deferred charge is a long term prepaid expense that is carried as an asset until used/consumed. Once consumed, it is reclassified as an expense in the period in which the expense was incurred.

7.3 However, Deferred Charges totaling P2,386,909.31 have not been consumed for more than 10 years. The availability and existence of such deposits cannot be ascertained, and the breakdown of balances of accounts Deferred Charges - Deposit Administrative cannot be determined contrary to what was disclosed in the Notes to FS, that it pertains to Miscellaneous Deposits to PLDT, MERALCO and Invitation To Bid (ITB) in the absence of documents to support it.

Receivables Included in NEA's Bail-Out Program

7.4 NEA's bail-out program has a cut-off period of December 31, 1989 and only those receivables included at that time are to be written off. However, receivables amounting to P1,285,593.60 which are included in NEA's bail-out program were not written off and still outstanding as of audit date wherein the probability of collection is already remote.

Investment

7.5 Philippine Public Sector Accounting Standards (PPSAS) 29 provides that:

> *Financial Instruments: Recognition and Measurement under Impairment and Uncollectibility of Financial Assets Carried at Cost states that: "the amount of the Loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset."*

7.6 COA Circular No. 2015-010 defines Other Investment - Investments in Stocks as account used to recognize money invested in the stocks of government corporations and public utilities measured at cost other than those invested to joint venture, associates/affiliates and government corporate subsidiaries. Credit this account upon sale, transfers and write-off.

Likewise, it also defines Allowance for Impairment-Investments in Stocks as account used to recognize the amount of impairment loss that has been incurred on investments in stocks. Debit this account upon derecognition of the investments in stocks, and reversal of impairment loss.

7.7 *Investment in Gasifier Equipment Manufacturing Corporation* consists of 938 shares with P1,000.00 par value amounting to P938,000.00. In 1981, the Philippine Government financed the operations of GEMCOR but was foreclosed per Memorandum Circular No. 42-A dated December 10, 1987 in line with the policy of the Government to expedite the privatization/foreclosure of non-performing assets and those that are not essential or necessary for the Government to retain. The GEMCOR was among of the companies and corporations included in the list submitted by Committee on Privatization.

7.8 *Investment in BLISS Livelihood Program* represents 10 per cent equity amounting to P100,000.00. Executive Order No. 517 dated January 9, 1979 – Adopting the Bagong Lipunan Sites and Services Program as a Development Strategy is a national policy to achieve an equitable distribution of socio-economic opportunities in the country, among others, curb the alarming migration rate. Per Letter of Instruction No. 1088 dated November 29, 1980, in order to strengthen and hasten the implementation of the BLISS program, it was directed by President Marcos that the Ministry of Human Settlements (MHS) develop and implement a countryside livelihood program through BLISS in which shelters, land development and livelihood expenditures for BLISS projects were treated as one single investment of the MHS/Human Settlements Development Corporation (HSDC)

7.9 In December 1989, all BLISS projects rights and interests including receivables and investments were assigned to the Home Guaranty Corporation (HGC). Some of the projects turned over to HGC were already conveyed to Local Government Units, Bagong Lipunan Community Association and some were written off due to damages caused by the elements or natural disasters.

7.10 Both investments were included in NEA's Statement of Financial Position since 1990 and no adjustments or allowance for impairment have been provided in NEA's books considering the foreclosure of GEMCOR and the conveyance and written off of BLISS projects which resulted in loss of future economic benefits on the part of NEA contrary to PPSAS 29 and COA Circular No. 2015-010.

7.11 **We recommended that Management:**

a. **Review the miscellaneous deposits made for ITB for incidental costs and determine if such deposits were already consumed or used based on the contract agreement and make the necessary adjustments in the books and use it to fund other projects of NEA;**

b. **Determine the possibility of collection for receivables included in NEA's bail-out program, otherwise, request for authority to write-off dormant receivable accounts per COA Circular No. 2016-005 dated December 19, 2016; and**

c. **Determine if there is any return of investment from GEMCOR and BLISS livelihood program, otherwise make necessary journal entries to adjust the investment's net realizable value by providing allowance for impairment to reduce the balance to its recoverable amount in accordance with PPSAS 29 and COA Circular No. 2015-010.**

7.12 Management committed to review/analyze the accounts and the necessary adjustments will be made once they gathered the necessary supporting documents. Likewise, a request for authority to write-off will be made once the necessary supporting documents as required under COA Circular No. 2016-005 dated December 31, 2016 are gathered.

Also, once NEA gathered the necessary supporting documents, an appropriate JEV will be prepared to take up Allowance for Impairment Loss for the account Investment from GEMCOR and BLISS livelihood program.

7.13 For the request to write-off on the receivables included in the NEA's bail-out program, ensure that all necessary requirements as prescribed in COA Circular 2016-005 dated December 19, 2016 are complied with.

The compliance of the Audit Team's recommendation in providing allowance for impairment for the investment from GEMCOR and BLISS livelihood program will be monitored to ensure its implementation.

8. **The accuracy and reliability of the year-end balance of Property, Plant and Equipment (PPE) amounting to P201.019 million is doubtful due to:**

a. **Inclusion of unidentified items described as "For Adjustment" in the PPE Schedule and Subsidiary Ledger maintained by Accounting Division costing P36.454 million contrary to paragraphs 13, 26 and 27 of PPSAS No. 17;**

b. **Over provision of depreciation of some items with an aggregate cost of P5.510 million by P185,727.43.**

c. **Overstatement of Accumulated Depreciation by P6.109 million and understatement of Retained Earnings by same amount due to over depreciation by P4.963 million of some unidentified PPE costing P11.295 million and provision of depreciation by P1.145 million of PPE with no cost.**

d. **Variance between Subsidiary Ledger (SL) and Lapsing Schedule balance for IT Equipment and Software amounting to P36,279.41 was noted.**

8.1 **Inclusion of seven unidentified items described as "For Adjustment" in the PPE Schedule and Subsidiary Ledger costing P36.454 million.**

8.1.1 Paragraph 26 and 27 of PPSAS 17 states that:

"26 .An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.

27. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition."

8.1.2 Moreover, Section 13 of the same Standard defines Property, Plant and Equipment as follows:

"Property, plant and equipment are ***tangible items*** *that:*

a. Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b. Are expected to be used during more than one reporting period.

8.1.3 The PPE Schedule and Subsidiary Ledger showed that seven unidentified items described as "For Adjustment" with an aggregate cost of P36,454,997.17 are included as part of PPE, detailed as follows:

Property Number	Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Office Equipment				
221-999-9999	For Adj-Office Equipment	1,787,200.79	3,433,842.56	(1,646,641.77)
Sub-total		**1,787,200.79**	**3,433,842.56**	**(1,646,641.77)**
Furniture & Fixture				
222-999-99991	For Adj-Furniture and Fixtures	9,508,143.23	12,824,906.31	(3,316,763.08)
Sub-total		**9,508,143.23**	**12,824,906.31**	**(3,316,763.08)**
IT Equipment & Software				
223-009-0001	For Adjustment (Other SL)	(109,776.00)	0	(109,776.00)

Property Number	Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Sub-total		**(109,776.00)**	**0**	**(109,776.00)**
229-Communication Equipment				
229-999-9999	Communication Equip.-For Adj.	297,611.25	267,850.13	29,761.12
Sub-total		**297,611.25**	**267,850.13**	**29,761.12**
241-Motor Vehicle				
241-999-9999	Others - For Adj.	0	1,145,970.78	(1,145,970.78)
Sub-total		**0**	**1,145,970.78**	**(1,145,970.78)**
250-Other PPE				
250-999-9999	Other PPE-For Adj.	24,789,817.90	22,547,811.94	2,242,005.96
250-003-0001	Other Property-For Adj. (Other SL)	182,000.00	0	182,000.00
Sub-total		**24,971,817.90**	**22,547,811.94**	**2,424,005.96**
Grand Total		**36,454,997.17**	**40,220,381.72**	**(3,765,384.55)**

8.1.4 The details of the abovementioned PPE items with property numbers were not specifically indicated/identified in the Schedule/Subsidiary Ledger. PPE account should only include tangible properties that meets the criteria for its recognition pursuant to Section 13 and 26 of PPSAS 17. In addition, these PPE with property numbers cannot be found in the Property Records.

8.1.5 Moreover, unidentified properties totaling P11,295,344.02 was over depreciated by P4,963,404.79, while PPE with no cost was provided with depreciation amounting to P1,145,970.78, resulting in overstatement of the account Accumulated Depreciation by P6,109,375.57 million and Retained Earnings was understated by the same amount.

8.2 **Over provision for depreciation of some items with an aggregate cost of P5.510 million by P185,727.03.**

8.2.1 Under Philippine Public Sector Accounting Standard (PPSAS) 17, "Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life."

8.2.2 NEA uses the straight line method of depreciation over its properties. A property is said to be fully depreciated when the carrying amount of the property is equal to zero or its estimated residual value. The residual value adopted by NEA is equivalent to ten per cent (10%) of the cost of property. The monthly depreciation is computed as follows:

$$\textit{Depreciation} = \frac{\textit{Cost less estimated residual value}}{\textit{Estimated useful life in months}}$$

8.2.3 The PPE Schedule disclosed that 108 PPE items were over depreciated in 2018 by P185,727.03, detailed as follows:

Account Name	No. of Items	Acquisition Cost (a)	Accumulated Depreciation (b)	Carrying Amount c = (a – b)	Residual Value (10%) (d)	Over Depreciation e = (d – c)
Communication Equipment	46	1,837,365.70	1,714,576.90	122,788.80	183,736.57	60,947.77
Furniture and Fixtures	6	106,499.00	96,827.73	9,671.27	10,649.90	978.63
IT Equipment and Software	54	3,164,198.97	2,847,779.07	199,683.52	316,419.90	116,736.38
Office Equipment	2	401,650.00	368,549.25	33,100.75	40,165.00	7,064.25
Total	**108**	**5,509,713.67**	**5,027,732.95**	**365,244.34**	**550,971.37**	**185,727.03**

8.2.4 The carrying amount of the PPE is less than its estimated residual value, hence, the said PPE items were over depreciated, which resulted in overstatement of Accumulated Depreciation and Depreciation Expense accounts by P185,727.03.

8.3 **Variance between Subsidiary Ledger (SL) and Lapsing Schedule balance for IT Equipment and Software amounting to P36,279**

8.3.1 Review of the PPE Schedule for CY 2018 obtained from the Accounting Division showed that balances of account IT Equipment and Software did not tally with the Subsidiary Ledger balance with variance amounting to P36,279.41, detailed as follows:

Account Name	Code	Balances		Discrepancy
		Per SL	Per Lapsing Schedule	
IT Equipment and Software	223	45,407,742.21	45,371,462.80	36,279.41

8.4 **We recommended that Management:**

a. **Require the Accountant and Property Officer to coordinate and reconcile Accounting and Property records respectively to be able to identify the PPE items with no specific descriptions. If such PPE items do not really exist with proper documentation, make the necessary adjustments in the books for proper presentation in the financial statements;**

b. **Require the Accountant to review and ensure that provision of depreciation of PPE should not exceed the residual value to avoid over depreciation. Effect the accounting adjustments in the books to reflect the correct balance of the account; and**

c. **Analyze and reconcile the variance noted on the balance of IT Equipment and Software and make the necessary adjustments in the books.**

8.5 Management prepared adjusting entries and submitted JEV No. 2019-04-002448 dated April 30, 2019 to remove the unidentified items from NEA's books of accounts considering that such accounts were balancing figures during the set-up of the beginning balances in e-NGAS made in March 2005. Starting CY 2019, FSAD will manually check the PPE Schedule to ensure correctness of the book value of PPE items. On the other hand, adjusting entries under JEV No. 2019-03-002427 dated March 29, 2019 was prepared to reflect the correct balance of IT Equipment and Software supported by a reconciliation of accounts.

8.6 As a rejoinder, no supporting document nor reconciliation was attached to the adjustment made for the unidentified PPE, rendering the adjustment made not valid.

Provide COA the Lapsing Schedule of all PPE to validate the correctness of the carrying amount or book value of the assets and the corresponding depreciation expense incurred during the period.

The immediate compliance for the reconciliation and adjustment on IT Equipment and Software amounting to P36,279.41 is appreciated. Since adjustment was made only in March 2019, the balance of the said account as of December 31, 2018 remain uncorrected.

Management is advised to make a follow-up with the Government Accountancy Sector (GAS) on its request for calibration of the e-NGAS to update the accounts and resolve some issues.

9. **Foreclosed property in Bani/Bolinao was recognized in the books at its book value which is not in conformity with COA Circular No. 2015-010.**

9.1 COA Circular No. 2015-010 dated December 1, 2015 defines the account Foreclosed Property/Assets under Other Assets as follows:

> ***Foreclosed Property/Assets*** *- This account is used to recognize the* ***fair value*** *of foreclosed real and other property/assets acquired (ROPA) by government corporations. Credit this account for disposal or reclassification to other PPE/asset accounts.*

9.2 As disclosed in the Notes to Financial Statements, NEA acquired foreclosed land in Bani/Bolinao in 1967 with a book value of P28,500.00 by virtue of Sheriff's Certificate of Sale Issued by the Court of First Instance of Pangasinan. Most of the lands located at Catuday, Bolinao, Pangasinan are classified as forest and pasture lands. The lot are within the Alienable and Disposable zones and the cluster on Utilization and Disposal of NEA's Acquired and Foreclosed Property is working on the possibility of titling or turnover of the same to the DENR.

9.3 The said property was recognized in NEA's books at its book value. However, foreclosed property acquired should be valued at fair value in conformity with COA Circular No. 2015-010.

9.4 **We recommended that Management present the foreclosed lands purchased in Bani/Bolinao at its current fair value under Other Assets pursuant to COA Circular No. 2015-010.**

9.5 Management informed that the value of the property in Bani/Bolinao will be adjusted in NEA's books of accounts as soon as the market value is determined by Bani Municipal Assessor's Office.

9.6 The compliance of the Audit Team's recommendation in presenting the foreclosed property at fair value will be monitored to ensure its implementation.

10. **Property acquired through donation in CY 2017 were not recorded in the books as of December 31, 2018 which is not in conformity with paragraphs 95 and 97 of PPSAS 23 and Section 3.4 of COA Circular No. 97-003 dated May 22, 1997.**

10.1 Paragraphs 95 and 97 of PPSAS 23 states that:

> *"95. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous; in such circumstances, there is no doubt as to the future economic benefits flowing to the entity."*
>
> *97. On initial recognition, gifts and donations including goods in-kind are measured at their <u>fair value</u> as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. Xxx "*

10.2 Paragraphs 26 and 27 of PPSAS 17 states that:

> *"26 .An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost.*
>
> *27. Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition."*

10.3 Likewise, Section 3.4 of COA Circular No. 97-003 dated May 22, 1997 states that:

"Donated IT resources shall be recorded based on fair market value, if the value/amount of the donation is not specified."

10.4 Moreover, Section 3.7 of NEA's Notes to Financial Statements (FS) for CY 2018 states NEA's policy regarding donations as follows:

3.7 Income and Expenses

Xxx. Donations in cash or in kind are recognized as income upon receipt.

10.5 Gifts and donations are voluntary transfers of assets, including cash or other monetary assets, goods in-kind, and services in-kind that one entity makes to another. The transferor may be an entity or an individual. For gifts and donations of goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation.

10.6 During the conduct of physical inventory of PPE, some of the desktop computers were not accounted, labelled and provided with individual property number. The Property Officer stated that the property were acquired through donations in CY 2017. The Property Officer disclosed that NEA owned and controlled a total of 80 PPE items consisting of 50 units of Lenovo desktop computer, 28 units Lenovo Yoga Book, all donated by World Bank, and 2 units of Apple iPad from DBP, detailed as follows:

Description	Qty.	Date of Donation	Donor
Lenovo Desktop Computer	50	August 2017	World Bank
Lenovo Yoga Book	28	August 2017	World Bank
Apple iPad	2	Not available	DBP
Total	**80**		

10.7 Documents related to the donation were not presented during the audit. Validation in NEA's book for CY 2018 revealed that the 80 PPE items were still not recognized in the books. However, these PPE were distributed/issued for the use of NEA officers and employee covered by Property Acknowledgment Receipt (PAR).

10.8 NEA should recognize the cost of PPE and its related accumulated depreciation or impairment losses of the PPE items acquired through donation based on the fair value as of the date of donation.

10.9 Non-recognition of the cost of acquired property through donation resulted in understatement of PPE accounts and its related accumulated depreciation and revenue of NEA.

10.10 **We recommended that Management:**

a. **Require the Property Officer to submit Report to the Accountant relative to the donated properties;**

b. **Provide labels and individual property numbers for the donated desk computers; and**

c. **Require the Accountant to record in NEA's books all property acquired through donation pursuant to Paragraphs 95 and 97 of PPSAS 23 and adjust the carrying amount of the said properties as of December 31, 2018.**

10.11 Management commented that the concerned Office is coordinating with Indra Philippines, Inc. the donor of the 78 Property, Plant and Equipment (PPE) items, to request for the necessary document related to the donation.

JEV will be immediately prepared to recognize the cost of the PPE and its related accumulated depreciation once the appropriate documentary requirements are available at hand.

10.12 The compliance of the Audit Team's recommendations will be monitored to ensure its implementation.

11. **The accuracy and reliability of the P17.398 billion year-end balance of account *Due to National Treasury* which represents Advances by the National Government thru the Bureau of the Treasury on NEA's foreign loans is doubtful due to the existence of variance amounting to P2.752 million per NEA's books against the confirmation from the BTr.**

11.1 The account *Due to National Treasury* represents advances made by the National Government (NG) thru the Bureau of Treasury (BTr) consisting of the following:

a. NEA's foreign loans from:
   i. International Bank for Reconstruction and Development (IBRD),
   ii. Overseas Economic Cooperation Fund (OECF), and
   iii. Organization of the Petroleum Exporting Countries (OPEC)

b. Guaranteed loans from:
   i. Asian Development Bank (ADB),
   ii. IBRD,
   iii. Export Development Corporation (EDC),
   iv. United Kingdom (UK),
   v. Kreditanstalt fuer Wiederaufbau (KfW),
   vi. French,
   vii. China
   viii. EDC

c. Domestic loans from:
   i. Union/Filipinas Bank.

11.2 As of December 31, 2018, the account has a balance of P17,397,642,655.86, summarized as follows:

Particulars	Balance
Beginning Balance	18,233,921,101.95
Payment of principal and interest	(970,707,639.57)
Interest on NG Advances	134,429,193.48
Total	**17,397,642,655.86**

11.3 On January 28, 2019, NEA received a confirmation letter from the BTr dated January 19, 2019 requesting NEA to confirm/reconcile with its books/records the aggregate BTr advances amounting to P17,394,891,130.87 inclusive of interest on advances in the amount of P6,859,913,263.82.

11.4 The initial reconciliation showed the discrepancy between the records of NEA and BTr resulting in a variance amounting to P2,751,524.99, detailed as follows:

Description	Per NEA Books As of 12.31.18	Per BTr Books As of 12.31.18	Variance
Advances	13,561,636,368.65	10,534,977,867.05	3,026,658,501.60
Interest on Advances	3,836,006,287.21	6,859,913,263.82	(3,023,906,976.61)
Total	**17,397,642,655.86**	**17,394,891,130.87**	**2,751,524.99**
Breakdown of variance: Interest on Advances booked as increase in SL of the corresponding Loan Account			
Old Loans			1,622,331.91
New Loans			1,129,193.08
Total			**2,751,524.99**

11.5 However, the Reconciliation of Statement of Accounts as of December 31, 2018 between NEA books and BTr books provided by NEA to the BTr showed no variance which is contrary to what was recorded in the books of NEA.

11.6 Management explained that they received the letter from BTr on the confirmation of advances on January 28, 2019, and NEA's books of accounts had already been closed and the FS was submitted to COA on January 18, 2019. Hence, adjustments were taken up in NEA's books in February 2019.

11.7 Based on the preceding table showing a variance of P2,751,524.99, NEA clarified that records of the BTr and NEA's books showed that there are identified reconciling item totaling P2,751,524.99 (net understatement) presented under principal and interest on advances of old and new loans per BTr records and variances from individual loan accounts under foreign loans (old) - guaranteed loans and foreign loans (new) – guaranteed loans aggregating to P2,751,524.99 (net overstatement) per NEA's books. Details are itemized as follows:

Particulars	Balance per NEA's Books			Balance per BTr's Books			Variance
	Principal	Interest	Total	Principal	Interest	Total	Overstatement (Understatement)
I. Foreign Loans –Old							
a. Relent Loans per BTR records							
IBRD 1120PH	1,701,110.38	0	1,701,110.38	1,701,110.38	0	1,701,110.38	0
IBRD 3165-OPH	806,890,396.71	0	806,890,396.71	806,890,396.71	0	806,890,396.71	0
OECF-PH-P14	100,095,007.65	0	100,095,007.65	100,095,007.65	0	100,095,007.65	0
OECF-PH-P19	1,321,602,052.01	0	1,321,602,052.01	1,321,602,052.01	0	1,321,602,052.01	0
OECF-PH-P49	80,066,700.18	0	80,066,700.18	80,066,700.18	0	80,066,700.18	0
OPEC 283-PHI	358,188,888.56	0	358,188,888.56	358,188,888.56	0	358,188,888.56	0
UK II Portion I	362,898,107.62	0	362,898,107.62	362,898,107.62	0	362,898,107.62	0
Sub-total	**3,031,442,263.11**	**0**	**3,031,442,263.11**	**3,031,442,263.11**	**0**	**3,031,442,263.11**	**0**
b. Guaranteed Loans							
ADB 542-PHI	3,503,579,397.74	0	3,503,579,397.74	2,588,466,926.31	988,848,787.84	3,577,315,714.15	(73,736,316.41)
IBRD 1547 PH	1,576,662,364.92	0	1,576,662,364.92	1,576,662,364.92		1,576,662,364.92	0
KFW Loan 1 & II	204,379,024.58	0	204,379,024.58	158,158,169.08	46,220,855.50	204,379,024.58	0
FRENCH Loan II	783,504,983.65	0	783,504,983.65	783,504,983.65		783,504,983.65	0
PROC	159,197,131.14	0	159,197,131.14	159,197,131.14		159,197,131.14	0
Sub-total	**6,227,322,902.03**	**0**	**6,227,322,902.03**	**5,265,989,575.10**	**1,035,069,643.34**	**6,301,059,218.44**	(73,736,316.41)
II. Domestic Loans – Old							
UNION/FILIPINAS BANK	318,770,093.12	0	318,770,093.12	318,770,093.12	0	318,770,093.12	0
Sub-total	**318,770,093.12**	**0**	**318,770,093.12**	**318,770,093.12**	**0**	**318,770,093.12**	**0**
Interest on Advances	0	3,836,006,287.21	3,836,006,287.21	0	3,836,006,287.21	3,836,006,287.21	0
Sub-total	**0**	**3,836,006,287.21**	**3,836,006,287.21**	**0**	**3,836,006,287.21**	**3,836,006,287.21**	**0**
Total Old Loans	**9,577,535,258.26**	**3,836,006,287.21**	**13,413,541,545.47**	**8,616,201,931.33**	**4,871,075,930.55**	**13,487,277,861.88**	(73,736,316.41)
III. Foreign Loans – New							
a. Guaranteed Loans							
IBRD 3439	1,057,237,655.28	0	1,057,237,655.28	761,565,818.30	295,671,836.98	1,057,237,655.28	0
EDC 880-PHI	300,709,461.79	0	300,709,461.79	236,168,467.51	64,540,994.28	300,709,461.79	0
Sub-total	**1,357,947,117.07**	**0**	**1,357,947,117.07**	**997,734,285.81**	**360,212,831.26**	**1,357,947,117.07**	**0**
b. Relent Loans							
OECF-PH-P138-NEA	2,626,153,993.32	0.00	2,626,153,993.32	921,041,649.91	1,628,624,502.01	2,549,666,151.92	76,487,841.40
Total New Loans	**3,984,101,110.39**	**0**	**3,984,101,110.39**	**1,918,775,935.72**	**1,988,837,333.27**	**3,907,613,268.99**	**76,487,841.40**
Grand Total	**13,561,636,368.65**	**3,836,006,287.21**	**17,397,642,655.86**	**10,534,977,867.05**	**6,859,913,263.82**	**17,394,891,130.87**	**2,751,524.99**

11.8 The account *Due to National Treasury* remained unreconciled despite the existence of an identified reconciling items per BTr's confirmation schedule and unreconciled individual old and new loan accounts resulting in a net variance amounting to P2,751,524.99. The reconciling items are the difference/variance in the computation of interest on advances and principal of loan accounts ADB 542-PHI and OECF-PH-P138-NEA amounting to P(73,736,316.41) and P76,487,841.40, respectively or a net overstatement of P2,751,524.40 in the books of NEA.

11.9 The non-recognition of interest on advances on both old and new loans to its proper account and the discrepancy on the principal resulted in variance on individual accounts in the books of NEA. NEA should record separately the interest charges on advances of the loan accounts to present the correct balance of the loan accounts. Hence, the accuracy and reliability of the account Due to National Treasury is doubtful.

11.10 **We recommended that Management:**

a. **Make necessary adjustment on affected accounts totaling P2,751,524.99 due to incorrect computation of interest charges on advances and incorrect amount of principal to correct the balance of the accounts as of December 31, 2018;**

b. **Record separately the interest charges on advances from the principal to present the correct balance of the individual accounts as of December 31, 2018.**

11.11 Management has made an adjustment per JEV No. 2019-02-001862 dated February 28, 2019 to correct the computation of interest charges on advances and principal as well as reclassification per JEV No. 2019-03-001835 dated March 31, 2019 to separate the interest charges on advances from the principal.

11.12 The immediate compliance of the Audit Team's recommendation is appreciated. However, since the adjustments are reflected in CY 2019, the year-end balance still do not reconcile with the records of the BTr.

12. **Cash balance of Regional Electrification Centers (RECs) classified under Other Assets – Regional Centers amounting to P198,298 remained unreconciled/unadjusted which casts doubt on the existence of the year-end balance.**

12.1 In previous years, NEA had 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).

12.2 However, 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 CY 2017 despite its termination in 2003. The reported balance as of CYs 2003 and 2004 amounted to P4,871,272.00 and (P5,213,376.00), respectively.

12.3 Net cash flows from Regional Centers for CYs 2003 and 2004 per Cash Flow Statement amounted to (P64,311,796.00) and (P10,024,648.00), respectively. While Cash Flow Statement for CY 2005 showed an adjustment of Regional Centers account amounting to P6,226,869.00.

12.4 Starting March 31, 2005, NEA adopted the Electronic New Government Accounting System (e-NGAS) to ensure correctness, reliability, completeness and timeliness in recording government financial transactions and to generate financial reports in accordance with the policies and procedures of the NGAS. On even date, 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 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)	**198,298.52**

12.5 After the adjustment made in May 31, 2006, no further adjustments/reconciliations were made to clear the account as of audit date.

12.6 We recommended in previous years that Management perform and expedite 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.

12.7 Management commented 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, on May 16, 2017, 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. A follow-up letter dated August 22, 2017 was sent to PNB and DBP but copies of various REO's bank transaction history were not secured. Hence, the remaining cash balance of various RECs remained unreconciled and unadjusted as of audit date.

12.8 On November 5, 2018, the account was reclassified to Other Assets – Regional Centers (for recon) (SL 290-006) per Journal Entry Voucher No. 2018-11-008160.

12.9 **We recommended that Management:**

a. **Continue to gather documents and reconcile the balances; and**

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

12.10 Management committed to continue to gather the necessary supporting documents and will make necessary adjustment in NEA's books to close the account.

12.11 NEA's compliance with the recommendations will be monitored to ensure its implementation.

C. Compliance Audit

13. **Deficiencies were noted in the grant and liquidation of cash advances, contrary to COA Circular No. 97-002 dated February 10, 1997, indicating that monitoring of the same was not effective, to wit:**

1. **Excess or unutilized cash advance was not returned immediately by the Accountable Officer (AO) upon liquidation in violation of Item 5.7 of COA Circular No. 97-002, which may result in improper disposition or possible loss;**

2. **Liquidation of cash advance was made on staggered basis, making it difficult to match liquidation report against the supporting documents, contrary to sound management;**

3. **Additional cash advances were granted to two AOs despite non-liquidation or non-settlement of their previous cash advances, which is not in accordance with Item 4.1.2 of COA Circular No. 97-002, resulting in accumulation of cash advance; and**

4. **Cash advances granted to 13 AOs totalling P246,378.00 were not liquidated at the end of the year, contrary to Item 5.8 of COA Circular No. 97-002, resulting in accumulation of cash advance at year-end.**

13.1 **Excess or unutilized cash advance was not returned immediately by the AO upon liquidation in violation of Item 5.7 of COA Circular No. 97-002, which may result in improper disposition or wastage of resources.**

13.1.1 Item 5.7 of COA Circular No. 97-002 dated February 10, 1997 provides that: "When a cash advance is no longer needed or has not been used for a period of two (2) months, it must be returned to or refunded immediately to the collecting officer."

13.1.2 On July 24, 2018, Accountable Officer (AO) 1, Special Disbursing Officer, was granted cash advance amounting to P337,100.00 to defray expenses to be incurred for the 49^{th} NEA Anniversary Celebration for the month of August 2018. The amount was budgeted and allocated for the following activities/expenses:

Particulars	Amount	Remarks/Department In-Charge
NEA Day Meals (Snack AM/PM)	59,100.00	AMGD
Corporate Token	20,000.00	IAQSMO/GDS
Wellness Program	6,000.00	Eng'r Department
IT and Communication Support Audio Visual Request	45,000.00	ITCSD
NEA Day Program Prizes & Token	28,000.00	RAO/IDD
Fellowship	90,000.00	HRMD/ATEO
Physical Arrangement	20,000.00	GSD
Activities on Publicity & Documentation	69,000.00	CCSMO/Corplan
Total	**337,100.00**	

13.1.3 The above cash advance was in the nature of special cash advance for specific undertaking which is subject to full liquidation after completion of its purpose. Verification of the Subsidiary Ledger (SL) for the account Advances to Officers and Employees revealed that the AO made liquidations and refunds of excess/unutilized cash advance on staggered basis, to wit.

	Liquidation			Refund		
No.	**Date Liquidated**	**JEV No.**	**Amount**	**Date**	**OR No./JEV No.**	**Amount**
1	8/17/2018	2018-08-006055	86,007.50	8/15/2018	7898464/ 2018-08-006351	36,456.50
				8/17/2018	7898475/ 2018-08-006363	2,019.35
				8/22/2018	7898487/ 2018-08-006392	46,694.00
				9/7/2018	7899042/ 2018-09-006893	1,922.65
						87,092.50
2	9/3/2018	2018-09-006050	28,000.00	-	-	0.00
3	9/3/2018	2018-09-006488	20,430.00	8/30/2018	7899013/ 2018-08-006424	1,070.00
				9/3/2018	7899033/ 2018-09-006888	3,000.00
				9/24/2018	7899151/ 2018-09-006896	1,500.00
4	9/11/2018	2018-09-006609	103,170.25	9/3/2018	7899031/ 2018-09-006886	5,138.50
				9/4/2018	7899034/ 2018-09-006889	1,691.25
						12,399.75
		Total	**237,607.75**		**Total**	**99,492.25**

13.1.4 As presented above, the cash advance granted to the AO was liquidated in four batches totalling P237,607.75 with excess/unutilized amount of P99,492.25 and the same were not immediately returned to the collecting officer. The latest Official Receipt was dated September 24, 2018 which is 20 days after final liquidation.

13.1.5 Interview with the AO 1 revealed that though she was the one designated as SDO, she was not the sole person disbursing the said cash advance. For this particular cash advance, there were eight employees designated to disburse such cash advance. Thus, she was having hard time collating the supporting documents that caused delay in liquidation. To reduce her accountability, she partially liquidated her cash advance for the supporting documents partially received such as official receipts.

13.1.6 We find no deficiency in liquidating cash advance on staggered basis while it is not yet due for liquidation, however, the Audit Team encountered difficulty in matching liquidation report against the supporting documents which is not in adherence with sound management.

13.1.7 If a cash advance is not yet due for liquidation and the AO received partial supporting documents, she can prepare a Report of Disbursements to properly account while waiting for the submission of other supporting documents pursuant to Item 4.4.2 of COA Circular No. 97-002 which states that: "The amount of the cash advance shall be limited to the requirements for two months. Within 5 days after the end of each month, the AO shall submit a Report of Disbursements."

13.1.8 It was also noted that copies of the Disbursement Voucher (DV) and Budget Utilization Request (BUR) were not attached to some of the liquidation report.

13.2 **Additional cash advances were granted to AOs despite non-liquidation or non-settlement of their previous cash advances which is not in accordance with Item 4.1.2 of COA Circular No. 97-002, resulting in difficulty of liquidation, improper/unmonitored utilization and accumulation of cash advance.**

13.2.1 Item 4.1.2 of COA Circular No. 97-002 dated February 10, 1997 provides that no additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.

13.2.2 For CY 2018, simultaneous cash advances were granted to two SDOs without liquidating first their previous cash advances contrary to the abovementioned provision of COA Circular.

13.2.3 AO 1 was granted four cash advances for the month of July 2018 which were liquidated only starting August 8, 2018 to September 2018. While the previous cash advances had not been liquidated, another five cash advances were granted to her for the month of August 2018.

Likewise, AO 2, Special Disbursing Officer, was granted four cash advances from October to December 2018, two of which were granted without liquidating her previous cash advance.

13.2.4 Per submitted List of Bonded Public Officers dated January 7, 2019, there were other bonded employees designated as Special Disbursing Officers. Despite that, only AO 1 was granted cash advances to be used for specific undertakings for the earlier months of CY 2018 which resulted in the overlapping of her cash advances and non-liquidation prior to the grant of additional cash advance. However, for the month of October, AO 2 was given three cash advances to disburse expenses for the subsequent events of CY 2018. The same was granted with successive cash advances without liquidating first her previous cash advances.

13.2.5 The practice of granting overlapping cash advances may result in difficulty of liquidation, improper/unmonitored utilization and accumulation of CA.

13.3 **Cash advances totaling P246,378 granted to 13 AOs were not liquidated at the end of the year, contrary to item 5.8 of COA Circular No. 97-002, resulting in accumulation of cash advance.**

13.3.1 Item 5.8 of COA Circular No. 97-002 provides that “All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt.”

13.3.2 Records showed that as of December 31, 2018, cash advances totaling P246,378.00 were not liquidated at the end of the year by the AOs. Of the P246,378.00 unliquidated cash advances, P181,878.00 were cash advances for travel made by various employees while P64,500.00 was granted for specific undertakings.

13.3.3 The non-liquidation of cash advances at the end of the year is contrary to Item 5.8 of COA Circular No. 97-002, resulting in accumulation of cash advance.

13.3.4 The deficiencies in the grant and liquidation of cash advances indicate ineffective monitoring of the same.

13.4 **We recommended that Management:**

a. **Require Accountable Officers to:**

i. **prepare Report of Disbursements for partial liquidation documents of cash advance and submit one liquidation report only when the liquidation supporting documents are complete before the due date of liquidation;**

ii. **return immediately any excess/unutilized cash advance upon liquidation; and**

iii. **that all the required liquidation supporting documents are attached.**

b. **Require the Accounting Department to:**

i. **demand Accountable Officers to liquidate all their cash advances with complete supporting documents, except petty cash fund, at the end of the year and require them to refund immediately any unexpended balance; and**

ii. **refrain/stop from granting additional cash advances to officers and employees without liquidating first their previous cash advance/s;**

c. **Designate other bonded employees with no outstanding cash advance as SDO for specific undertakings to prevent simultaneous/overlapping of cash advance to one particular SDO; and**

d. **Closely monitor the granting and liquidation of cash advance to ensure compliance with the aforecited provisions of COA Circular No. 97-002.**

13.5 Management submitted the following comments:

a. As usual practice, the excess cash advance (CA) for specific undertakings are refunded on or before the submission of liquidation documents. However, in some instances, after the Financial Services and Accounting Division (FSAD) reviews the liquidation report and its supporting documents, some items were considered unrelated to the purpose of the CA or there is insufficient supporting documents. In such cases, refund is requested from the AO.

b. For the CA specifically intended for meals during NEA Day Celebration, the purchase items from Hi-Top amounting to P1,922.65 was not considered as expenses directly related to the 49th NEA Anniversary Celebration. FSAD required the AO to return the amount and charged the same to the miscellaneous expenses of the concerned office. However, the employee concerned was on official travel and was only able to refund the amount upon her return to NEA.

c. The refund of P1,500.00 pertains to the professional fee of the yoga instructor for the yoga session scheduled on August 23, 2018. However, the said activity did not push through because of the unavailability of the instructor. The yoga session was eventually cancelled on September 24, 2018 after several attempts to reschedule the activity.

d. As a standard procedure, cash advances are immediately liquidated after the activity or as soon as the purpose to which it was granted has been served. The partial liquidation was prepared to reduce the accountability of the AO and to easily verify the completeness of supporting documents and identify the validity of the expense incurred. For easy reference, a uniform control number was used in the liquidations made on staggered basis. Also, supporting documents were arranged according to the summary of expenses prepared by each committee in-charge of the activity.

e. Multiple CAs were granted to AOs due to the urgency to purchase the necessary items for various and simultaneous activities to be conducted and/or participated in by NEA.

f. The employees whose travel will end before December 31, 2018, submitted their liquidation reports in advance of the thirty (30) day allowable liquidation period. One employee whose travel was until January 17, 2019 liquidated his CA for travel on January 22, 2019.

g. Several liquidations were returned by FSAD to the concerned employees due to lack of supporting documents and/or payment of excess CAs.

   The other AOs/employees liquidated their cash advances on or before the due date as reported in the Status of Unliquidated Cash Advances as of December 31, 2018 submitted to COA. Furthermore, the expenses incurred in 2018 by these AOs were accrued in the books of accounts.

h. NEA ensures that the liquidation of CAs including the immediate refund of excess CAs is within the prescribed period indicated in COA Circular No. 97-002. Upon liquidation of CAs, Reports of Disbursements including the complete supporting documents are always prepared and attached to the Liquidation Report.

i. NEA finds partial liquidation effective in monitoring the CAs to reduce the accountability of the AO/s and easily verify the completeness and soundness of supporting documents for the expenses incurred.

   Additionally, the AOs will be required to prepare a Report of Disbursement five (5) days after the end of each month pursuant to Item 4.4.2 of COA Circular No. 97-002.

j. NEA will strictly implement the policy in the grant of cash advance to officers and employees and will evaluate the necessity of designating other Special Disbursing Officers for specific undertakings. FSAD, at all times, requires AOs to liquidate their CAs and the immediate refund of unused CA, observing the prescribed period stated in COA Circular No. 97-002. FSAD will continue to observe and follow the process of granting and liquidation of CAs pursuant to existing rules and regulations.

13.6 Per Item 5.3 of COA Circular 97-002 "Within ten (10) days after receipt of the report and supporting documents from the AO, the Accountant shall verify the report, record it in the books and submit the same with all the vouchers/payrolls and supporting documents to the Auditor. The cash advance shall be considered liquidated upon recording thereof by the Accountant in the books of accounts although not yet audited by the COA Auditor."

Considering the foregoing and given that liquidation of CA on travel does not require many supporting documents, the ten days given to the Accountant to require the AO to provide the lacking documents and to return the excess CA is sufficient for them to complete the liquidation process before the end of the year.

We maintain our position and reiterate our recommendation to submit one liquidation report instead of a partial liquidation or on staggered basis.

The submission of Report of Disbursements within five days after the end of each month is only applicable to Cash Advance on Field/Activity Current Operating Expenses (COE).

Designation of other bonded SDOs for the cash advance for specific undertaking is advisable to prevent the simultaneous/overlapping of cash advance to one particular SDO.

14. **Employees who retired/resigned were given terminal leave benefits in CY 2018 totaling P2.936 million without complying with the prescribed documentary requirements under Section 5.13 of COA Circular No. 2012-001 and GSIS Memorandum Circular No. 003, s. 2015, hence the amount paid cannot be ascertained.**

Moreover, NEA paid monetization of leave credits to employees without observing the required accumulated fifteen (15) days vacation leave (VL) credits, minimum ten (10) days and at least five (5) days retained after monetization which is not in accordance with Section 22 of Omnibus Rules on Leave.

14.1 Terminal Leave Benefits is applied for by an official or an employee who intends to sever his connection with his employer. Accordingly, the filing of application for terminal leave requires as a condition precedent, the employee's resignation, retirement or separation from the service.

14.2 Section 5.13 of COA Circular No. 2012-001 dated June 14, 2012 prescribes the General Guidelines and Documentary Requirements on Terminal Leave Benefits as follows:

1. Clearance from money, property and legal accountability from the Central Office (CO) and Regional Office of last assignment;

2. Certified photocopy of employees leave card as at last date of service duly audited by the Personnel Division and COA/Certificate of leave credits issued by the Admin/Human Resource Management Office (HRMO);

3. Approved leave application;

4. Complete service record;

5. Statement of Assets, Liabilities and Net Worth (SALN);

6. Certified photocopy of appointment/Notice of Salary Adjustment (NOSA) showing the highest salary received if the salary under the last appointment is not the highest;

7. Computation of terminal leave benefits duly signed/certified by the accountant;

8. Applicant's authorization (in affidavit form) to deduct all financial obligations with the employer/agency/LGU;

9. Affidavit of applicant that there is no pending investigation or prosecution against him/her (RA No. 3019);

10. In case of resignation, employee's letter of resignation duly accepted by the Head of the Agency.

14.3 It is also worth mentioning the GSIS Memorandum Circular No. 003 Series of 2015, reminding agencies on securing clearance from the GSIS for separating employees (retiring or resigning/separating employee) before payment of their terminal leave. The GSIS Clearance is in consonant with one of the documentary requirements of the aforementioned COA Circular that is the applicant’s authorization (in affidavit form) to deduct all financial obligations with the employer/agency/local government unit which includes obligations such as premium arrearages and loan balances from GSIS.

14.4 On the other hand, Section 22 of Omnibus Rules on Leave provides that: “officials and employees in the career and non-career service whether permanent, temporary, casual, or coterminous, who have **accumulated fifteen (15) days of vacation leave credits shall be allowed to monetize a minimum of ten (10) days: Provided, that at least five (5) days is retained after monetization** and provided further that a maximum of thirty (30) days may be monetized in a given year.” (Emphasis supplied)

14.5 For CY 2018, there were 19 employees who were separated from their employment in NEA. Out of the 19 employees, 11 of them were able to claim their terminal leave benefits totaling P2,936,345.08.

14.6 The supporting documents attached to the Disbursement Vouchers (DVs) showed that the said 11 retired/resigned employees were given their terminal leave benefits without completing the required documents enumerated in 5.13 of COA Circular No. 2012-001 and the GSIS Clearance. The lacking documents that are necessary to support and determine correct amount of terminal leave claims are summarized below:

- Certified photocopy of appointment/ Notice of Salary Adjustment (NOSA) showing the highest salary received if the salary under the last appointment is not the highest;
- Computation of terminal leave benefits duly signed/certified by the accountant;
- Applicant's authorization (in affidavit form) to deduct all financial obligations with the employer/agency/LGU;
- Affidavit of applicant that there is no pending investigation or prosecution against him/her (RA No. 3019); and
- GSIS Clearance pursuant GSIS Memo Circular No. 003.

14.7 Instead of Employee Leave Cards (ELC), a Status of Leave Credits was attached to the DVs submitted.

Validation of the ELCs revealed that monetization of vacation leave (VL) credits were granted despite not having enough accumulated 15 days VL credits, below the minimum 10 days and below the five (5) days retained after monetization which is not in accordance with Section 22 of Omnibus Rules on Leave.

14.8 **We recommended that Management:**

a. **Require the Human Resource and Management Office (HRMO) to submit the lacking documents pursuant to Section 4.6 of PD No. 1445 to avoid the issuance of a Notice of Suspension;**

b. **Require the HRMO and Accountant to closely monitor leave credit balances of the employees to ensure that only employees with accumulated fifteen (15) days VL should be allowed to monetize the minimum ten (10) days and at least five (5) days is retained after monetization; and**

c. **Henceforth, strictly comply with the documentary requirements under COA Circular No. 2012-001 and GSIS Memorandum Circular No. 003, s. 2015 on the payment of terminal leave benefits and observe the rules on monetization of leave provided under Section 22 of Omnibus Rules on Leave.**

14.9 NEA submitted the lacking documents as compliance to the first recommendations. NEA commented that it was in year 2012 that it has applied the appropriate manner of utilizing leave credit monetization by deducting the number of days applied for monetization from the vacation leave (VL) credit under Section 22 and 23 of Omnibus Rules on Leave. In year 2015, NEA issued internal policy on the monetization of Leave Credits. Employee’s beneficiaries have benefitted on the leave monetization as they have limited sources of financial assistance to address the needs of their families.

NEA also commented that it has noted the appropriate application of the provision and made assurance that there was no deliberate intention to contradict the CSC rules and that in all future approved leave monetization, they will strictly adhere to the Civil Service Commission (CSC) rules and regulations.

14.10 We acknowledged Management's submission of Affidavit of the Applicant certified by the Legal Service Office of NEA, Chairman of ADCOM and Chairman of NEA-Internal ADCOM stating that: "there is a pending Appeal on Notice of Disallowance on benefits and incentives received by the said employees" in lieu of Affidavit of the Applicant that there is no pending investigation or prosecution against him/her.

As to the monetization of leave credits, some of the deficiencies noted were in the year 2006 to 2017.

15. **The subsidy balance ranging from 1 to 56 per cent totaling P2.499 billion pertaining to the 1,773 liquidated SEP/BLEP/PAMANA projects remained unreleased to the concerned ECs as of December 31, 2018 contrary to Section 4.5.3 of COA Circular No. 2007-001, hence, casts doubt on the reliability of the evaluated project cost.**

15.1 Section 4.5.3 of COA Circular No. 2007-001 on Procedure for the Availment, Release and Utilization of funds provides that:

> "Upon proper evaluation, the GO, thru the Committee, shall award the project to the NGO/PO which meets the minimum qualification requirement and the specifications for the project and which can satisfactorily undertake the project at term most advantageous to the beneficiaries, <u>taking into consideration the cost effectiveness of the project</u>". (emphasis ours)

15.2 The NEA and ECs are mandated to ensure total electrification which is one of the major programs of the former and present administration.

15.3 The ECs received a directive from NEA's Total Electrification Division (TED) formerly Accelerated Total Electrification Office (ATEO) to submit a list of sitios for electrification/rehabilitation. In compliance thereof, the ECs submitted the following documents:

- Request for the Release of Construction Fund (RRCF)/Budget Request;
- Barangay Certification that the sitio is unenergized with the number of potential household and population;
- Location Map;
- Certification of Right of Way Easement;
- As Plan Staking Sheets;

- As Plan Bill of materials;
- Board Resolution;
- Execution Plan; and
- Letter of Commitment to finish the project based on the timeline

15.4 The TED checks the completeness of the documents submitted; evaluates the project cost by assessing the As-Plan Staking Sheets and computes the project cost using the Enhanced Materials Price Index (MATDX) Software. The software has a feature that automatically and separately generates the Bill of Materials, the Detailed Project Evaluation Cost and Evaluation Memorandum for the subsidy funded project.

15.5 Interview with the concerned personnel of TED revealed that there are instances that the amount of project evaluated cost per NEA differs from the ECs project cost because the version of MATDX software used by the electric cooperatives (ECs) could change the materials price based on the result of the bidding. Upon approval of the project cost, TED endorses the same to the Accounts Services Division (ASD) for the preparation of Memorandum of Agreement (MOA) and for signature of the concerned officials of NEA and the respective ECs.

It appears that evaluation of project cost requirements were based only on the documents presented without confirmation/inspection of the reported number of potential household and population stated in the Barangay Certification.

15.6 Review of the 2,189 evaluated Rural Electrification projects covering the period 2011 to 2016 under SEP/BLEP and PAMANA with project cost amounting to P31,620,113,342.25, disclosed that 1,773 with partial/fully liquidated projects or 81 per cent of the total projects with approved evaluated cost of P24,198,504,329.99 included unreleased funds aggregating to P2,498,580,583.34, detailed as follows:

Table 1: Unreleased Fund Balance of the 2011-2016 SEP/BLEP and PAMANA Granted to ECs with Partial/Fully Liquidated Projects as of December 31, 2018

No. of Proj.	Approved Evaluated Cost	Amount Released to ECs (at gross)	Total Unreleased Fund Balance	% of Unreleased
	(A)	(B)	(C=A-B)	Balance
1,521	21,843,174,480.09	20,007,615,500.40	1,835,558,979.69	Less than 20
63	1,002,368,144.42	771,258,848.21	231,109,296.21	20 - 29
164	1,235,608,762.98	863,361,534.84	372,247,228.14	30 – 39
2	8,823,418.96	4,885,508.55	3,937,910.41	40 - 49
23	108,529,523.54	52,802,354.65	55,727,168.89	50 and above
1,773	**24,198,504,329.99**	**21,699,923,746.65**	**2,498,580,583.34**	

15.6.1 For the period covered 2011-2016, out of the 1,773 with partially/fully liquidated projects with approved evaluated cost of P24,198,504,329.99, 2 to 1,521 projects showed the corresponding unreleased funds totaling P2,498,580,583.34. These unreleased balance of the partially/fully liquidated and completed subsidy funded projects (detailed in the succeeding table) is accounted as follows:

a. The balance of P1,136,597,988.05 is no longer necessary to be released, however, as of December 31, 2018, these balances are not yet obligated by NEA for new projects;

b. The amount of P1,024,689,577.93 which is likewise no longer required to be released was transferred by NEA as subsidy savings as approved under NEA Board Resolution No. 193 dated October 24, 2018 and obligated already for new projects; and

c. For the unreleased portion of the allocated cost for the equivalent projects totaling P337,293,017.36 as of December 31, 2018, there is a possibility that the concerned ECs will be requesting the unreleased portion since the amount released for the projects are partially liquidated or not yet liquidated at all.

Table 2: Details of Unreleased Fund Balance

No. of Project	Total Unreleased Fund Balance of the Partial/Fully Liquidated Projects	% of Unreleased Balance	No Longer Necessary to be Released and Not Yet Obligated for New Projects	No Longer Required to be Released and was Already Transferred as Subsidy Savings	For Possible Release to ECs for Partially Liquidated Projects
1,521	1,835,558,979.69	Less than 20	752,938,631.82	855,564,739.18	227,055,608.69
63	231,109,296.21	20 - 29	118,964,655.59	70,822,715.47	41,321,925.15
164	372,247,228.14	30 – 39	222,474,878.86	85,760,817.30	64,011,531.98
2	3,937,910.41	40 - 49	1,513,096.94	2,424,813.47	0.00
23	55,727,168.89	50 and above	40,706,724.84	10,116,492.51	4,903,951.54
1,773	**2,498,580,583.34**	**Total**	**1,136,597,988.05**	**1,024,689,577.93**	**337,293,017.36**

15.7 For ECs audited in CY 2018, the ECs reported Accounting of Funds (AFs) already showed an excess or unutilized balances for the 70 to 90 per cent release, summarized as follows:

Table 3: Unreleased Balance for the Liquidated Projects on ECs Audited in CY 2018

Name of EC	Source Fund	No. of Project	Subsidy Receipts (net)	Total Excess Fund Per EC's AFs	Unreleased Balance for the Liquidated Projects
1. BATELEC II	2011-2017	33	122,359,971.80	3,539,167.04	19,610,081.16
2. CENPELCO	2011-2015	19	202,072,801.04	0.00	0.00
3. ISELCO I	2011-2015	11	79,787,073.47	2,902,141.23	667,444.27
4. ISELCO II	2012-2014	9	132,526,009.04	2,607,502.96	1,391,076.90
5. MORESCO I	2011-2017	26	255,450,357.36	15,989,337.87	24,358,185.53
6. MORESCO II	Regular - 2017	26	427,161,710.92	2,001,535.27	2,424,813.47
7. PROSIELCO	2011-2014	9	40,174,364.10	6,230,394.81	8,431,117.70
8. SOLECO	2011-2015	12	100,808,814.41	8,105,427.75	3,719,409.23
9. SURSECO II	2011-2014	11	90,940,629.12	623,411.25	0.00
10. TISELCO	2011-2015	9	85,260,961.42	49,585.71	0.00
11. ZAMCELCO	2013-2014	3	24,213,783.79	1,635,900.58	3,422,562.50
Total		**168**	**1,560,756,476.47**	**43,684,404.47**	**64,024,690.76**

15.7.1 For the 11 ECs audited in CY 2018 with subsidy release ranging from 70 to 90 per cent, the submitted AFs for liquidation totaling P1,560,756,476.47 already reported an excess or unexpended balance aggregating to P43,684,404.47. However, audit of the disbursements and its supporting schedules disclosed that the reported excess or unexpended funds per EC had increased by an average of 30 - 35 per cent. This can be validated in the current and previous years audit of returned/refunds by ECs.

15.7.2 The eight ECs with 35 liquidated projects had an unreleased balance ranging from 20 to 50 per cent amounting to P64,024,690.76, of which the amount of P40,126,336.41 was already part of the P1,136,597,988.05 no longer necessary to be released and not yet obligated for new projects and P23,898,354.35 was included in the subsidy savings (paragraph 17.5.1(b). This implies that the unreleased balance of liquidated projects are no longer required to be released except for those with deficit balance, if any.

15.8 The existence of unreleased funds totaling P2,161,287,565.98, of which the total amount of P1,024,689,577.93 was already reported as subsidy savings implies that the approved project evaluated costs were doubtful.

15.9 **We recommended that Management:**

a. **Review the evaluation of project cost to determine the right amount to release based on the causes of unreleased funds ranging from 1 to more than 50 per cent for more efficient budget allocation of subsidized projects and to maximize the use of funds released by the National Government (NG) thru the BTr;**

b. **Evaluate thoroughly the ECs request for subsidy in accordance with the evaluated project cost and to release only what is required; and**

c. **Conduct confirmation/inspection of the reported potential household/population unenergized as per Barangay Certification.**

15.10 Management took note of the audit recommendations.

16. **The 90 per cent initial release of subsidy fund to electric cooperatives (ECs) in CY 2018 for the implementation of electrification projects totaling P1.479 billion (gross) was found to be excessive which was not in accordance with Item 4.2 of COA Circular No. 2007-001.**

Forty-two ECs were released with subsidy funds for 2018 SEP projects amounting to P1.208 billion even if there were subsidy balances totaling P529 million that were not yet fully liquidated, contrary to Section 2 of COA Circular No. 2012-001.

Also, subsidy for the construction of distribution lines were released to 40 ECs simultaneously with the release of subsidy for the installation of kwhr meters, duplex service drop wires and housewiring materials which is not in conformity with Section 2 of COA Circular No. 2012-001.

16.1 General Appropriations Act (GAA), FY 2018 - Special Provision No. 1 on Subsidy to the NEA provides:

> "*Release of funds for Sitio Electrification Projects shall be subject to the submission of a certification from the barangay chairperson on the population and number of houses per sitio, map of the municipality or city indicating the sitios and barangays to be energized and cost of energizing a sitio."*

16.2 Items 4.2 and 4.5.5 of COA Circular No. 2007-001 dated October 25, 2007, on the Revised Guidelines in the Granting, Utilization, Accounting, and Auditing of the Funds Released to Non-Governmental Organizations/Peoples' Organizations (NGOs/POs) provides that:

> *"The flow of the funds shall follow the normal procedures of allotment release by the Department of Budget and Management and the fund allocation/transfer and disbursement by the GOs. The guidelines that follow shall be strictly observed."*
>
> *"In case of staggered fund releases or new fund release covered by another MOA, no NGO/PO shall receive additional releases unless an interim Fund Utilization Report of the previous release certified by its Accountant and approved by its President/Chairman is first complied with, showing a summary of expenses and a status report of accomplishment evidenced by pictures. The validity of this document shall be verified by the internal auditor or equivalent official of the GO."*

16.3 Section 2 of COA Circular No. 2012-001 provides that:

> *"NGOs/POs are not allowed to participate in the implementation of any program or project of government agencies until such time that any earlier fund releases availed by the said NGOs/POs shall have been fully liquidated pursuant to pertinent accounting and auditing rules and regulations as certified by the Head of the Agency concerned and the COA Auditor."*

16.4 The first of the 5-Point Agenda of President Duterte in the Energy Sector is "Access to Electricity for All." To pursue this, the NEA Administrator's 7-point Agenda was carried out to complete the Rural Electrification Program.

16.5 The ECs received a directive from NEA to submit a list of sitios for electrification. In compliance thereof, the ECs submitted Request for the Release of Construction Fund (RRCF/Budget Request) duly signed by its

General Manager and Board President together with the documents as stated in paragraph 15.3.

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

16.7 For CY 2018, NEA released subsidy funds to ECs the full amount of allocated cost except for the 10 per cent retention money pursuant to NEA Memorandum No. 2018-032 dated May 9, 2018, thus, *"The initial subsidy fund (90% of the approved project cost) will be released to the EC as soon as the previous funds received are fully liquidated and a copy of the Notice of Award/Notice to Proceed with the winning bidder is submitted to ATEO/TED*". The 90 per cent release covered mobilization, full payment of the material and labor cost.

16.8 The approved appropriation for CY 2018 and the status of receipts from the Department of Budget and Management (DBM) showed the following:

Table 1: Subsidy Appropriation and Status of Receipts from DBM for CY 2018

Subsidy Appropriation	SARO No. / Date	NCA No. / Date	Amount Received	Date Received	% of Subsidy Receipts
2018 Subsidy					
P1,817,100,000	SARO-BMB-C-18-0006275/ 03-20-18	BMB-C-18-0005971 / 03-20-18	336,850,608	03-28-18	19
			336,850,608		
2018 GAA - Installation of Transformers in Public Schools					
9,000,000	BMB-C-18-0006275 / 03-20-18	BMB-C-18-0005971 / 03-20-18	4,500,000	03-28-18	50
	BMB-C-18-0006275 / 03-20-18	BMB-C-18-0005971 / 03-20-18	3,846,749	04-10-18	43
			8,346,749		
2018 GAA - Rural Electrification, Kapalong and San Isidro, Davao del Norte					
61,349,000	BMB-C-18-0006275 / 03-20-18	BMB-C-18-0005971 / 03-20-18	20,450,000	03-28-18	33
	BMB-C-18-0006275 / 03-20-18	BMB-C-18-0005971 / 03-20-18	20,450,000	04-10-18	33
	BMB-C-18-0006275 / 03-20-18	BMB-C-18-0005971 / 03-20-18	16,892,633	05-09-18	28
			57,792,633		
NDRRM Fund (Calamity Fund) -NHA RESETTLEMENT SITES					
509,414,,488	SARO-BMB-C-17-0023268/12-06-17		34,360,000	12-15-17	7
			34,360,000		

16.9 As shown in the preceding Table, the DBM released to NEA the approved total appropriation for CY 2018 in staggered basis summarized as follows:

Name of Project	Total Appropriation	No. of Release	Amount Received	% of Receipts	Balance	% of Balance
1. 2018 Subsidy	1,817,100,000	Ist	336,850,608	19	1,480,249,392	81
Subtotal	**1,817,100,000**		**336,850,608**	**19**	**1,480,249,392**	**81**
2. Installation of Transformers in Public Schools	9,000,000	Ist	4,500,000	50		
		2nd	3,846,749	43	653,251	
Subtotal	**9,000,000**		**8,346,749**	**93**	**653,251**	**7**
	61,349,000	Ist	20,450,000	33		

Name of Project	Total Appropriation	No. of Release	Amount Received	% of Receipts	Balance	% of Balance
3. Rural Electrification, Kapalong and San Isidro, Davao del Norte		2nd	20,450,000	33		
		3rd	16,892,633	28	3,556,367	
Subtotal	**61,349,000**		**57,792,633**	**94**	**3,556,367**	**6**
4. NDRRM Fund (Calamity Fund) - NHA Resettlement Sites	509,414,488	Ist	34,360,000	7	475,054,488	
Subtotal	**509,414,488**		**34,360,000**	**7**	**475,054,488**	**93**
Grand Total	**2,396,863,488**		**437,349,990**		**1,959,513.498**	

16.10 Examination of subsidy releases for CY 2018 disclosed that 90 per cent of the approved allocated cost was already granted to 61 ECs as the initial or first release, leaving only the 10 per cent retention fee, detailed as follows:

Table 2: Initial Release at 90 per cent for 2018 SEP Projects

Region	No. of ECs	No. of Sitios	Evaluated Project Cost (a)	Gross Amount Released (b)	Unreleased Balance (c)	2% Service Charge (d)	Amount Released e=(b-d)
REGION I	3	38	51,191,971.72	46,072,774.54	5,119,197.18	903,387.74	45,169,386.81
REGION II	1	17	24,273,232.56	21,845,909.31	2,427,323.25	428,351.16	21,417,558.15
CAR	1	32	29,945,398.80	26,950,858.92	2,994,539.88	528,448.21	26,422,410.71
REGION III	8	38	59,863,542.85	53,877,188.56	5,986,354.29	1,056,415.46	52,820,773.09
REGION IV-A	1	5	9,878,489.78	8,890,640.81	987,848.97	174,326.29	8,716,314.52
REGION IV-B	5	56	61,617,099.40	55,455,389.45	6,161,709.95	1,087,360.58	54,368,028.87
REGION V	6	63	85,902,796.44	77,312,516.82	8,590,279.62	1,515,931.70	75,796,585.10
TOTAL LUZON	**25**	**249**	**322,672,531.55**	**290,405,278.41**	**32,267,253.14**	**5,694,221.14**	**284,711,057.25**
REGION VI	7	203	248,005,009.14	223,204,508.23	24,800,500.91	4,376,558.99	218,827,949.24
REGION VII	4	139	146,877,569.74	132,189,812.77	14,687,756.97	2,591,957.11	129,597,855.65
REGION VIII	7	103	99,619,697.85	89,657,728.06	9,961,969.79	1,757,994.67	87,899,733.39
TOTAL VISAYAS	**18**	**445**	**494,502,276.73**	**445,052,049.06**	**49,450,227.67**	**8,726,510.78**	**436,325,538.28**
REGION IX	1	43	43,657,989.33	39,292,190.40	4,365,798.93	770,435.11	38,521,755.29
REGION X	5	123	149,583,896.61	134,625,506.96	14,958,389.65	2,639,715.83	131,985,791.13
REGION XI	1	23	29,023,988.24	26,121,589.42	2,902,398.82	512,188.03	25,609,401.39
REGION XII	3	169	291,542,705.64	262,388,435.09	29,154,270.55	5,144,871.28	257,243,563.80
ARMM	2	56	73,852,603.28	66,467,342.95	7,385,260.33	1,303,281.23	65,164,061.72
CARAGA	6	195	320,959,416.73	288,863,475.07	32,095,941.66	5,663,989.71	283,199,485.38
Total for Mindanao	**18**	**609**	**908,620,599.83**	**817,758,539.89**	**90,862,059.94**	**16,034,481.17**	**801,724,058.71**
Grand Total	**61**	**1,303**	**1,725,795,408.11**	**1,553,215,867.36**	**172,579,540.75**	**30,455,213.11**	**1,522,760,654.25**

16.11 As can be gleaned in the preceding Table, the total evaluated/allocated project cost for the implementation of construction lines to 1,303 sitios is P1,725,795,408.11. However, NEA has already released P1,553,215,867.36 (gross) to 61 ECs or 90 per cent of the DBM's approved budget for SEP amounting to P1,817,100,000 which was found to be excessive as compared with the amount received from the DBM amounting to P336,850,608.00 or only 19 per cent. Thus, leaving a subsidy balance of P172,579,540.75. The initial releases per EC are shown in Appendix A.

16.12 Based on DBM's approved budget against receipts for the 2018 SEP project totaling P336,850,608.00, the NEA had already incurred subsidy deficit. Nevertheless, NEA issued checks equivalent to 90 per cent of the evaluated/allocated cost as an initial release of subsidy funds to the 61 ECs. Verification from the Budget Planning and Control Division revealed that the 2011 to 2016 savings funds from the unreleased allocated projects ranging from 10 to 30 per cent and the unallocated funds received from the BTr were used.

16.13 The initial release of 90 per cent of subsidy funds to 61 ECs was made in compliance with the NEA Memoranda Nos. 2018-025 and 2018-032 dated April 11, 2018, and May 9, 2018, respectively. The initial release covers the mobilization and full payment of the materials and labor cost.

16.14 Though, the DBM issued SARO specifying the total amount of approved appropriation, however, the basis for the release of NCA is on a staggered basis subject to submission of documents such as certification from the barangay chairperson on the population and number of houses per sitio to be energized and the cost of energizing the project and such other related documents.

16.15 Further examination revealed that apart from SEP 2018 project, there were several subsidy projects granted to ECs at 90 per cent initial release sourced from another fund, detailed as follows:

Table 3: Subsidy Projects Granted to ECs Sourced from Other Funds

	Electric Cooperative	Source Fund	Evaluated Project Cost	Gross Amount Release	Unreleased Balance	2% Service Charge	Amount Released
1	LEYECO III	NHA Resettlement Sites SARO 2017	3,567,399.78	3,210,659.80	356,739.98	62,954.11	3,147,705.69
2	SAMELCO II		1,510,422.52	1,359,380.27	151,042.25	26,654.52	1,332,725.75
3	SAMELCO II		1,794,462.77	1,615,016.49	179,446.28	31,666.99	1,583,349.50
4	CEBECO II	NHA Resettlement Sites – SARO 2015	4,343,360.01	3,909,024.01	434,336.00	76,647.53	3,832,376.48
5	CEBECO II		3,142,645.95	2,828,381.35	314,264.60	55,458.46	2,772,922.89
6	ESAMELCO		16,875,247.06	15,187,722.35	1,687,524.71	297,798.48	14,889,923.87
7	MARELCO	2011-15 Subsidy Savings	69,584,864.59	62,626,378.13	6,958,486.46	1,227,968.20	61,398,409.93
8	DANECO	RE Kapalong & San Isidro Davao del Norte	49,624,188.40	44,661,769.56	4,962,418.84	875,720.97	43,786,048.59
9	DANECO		4,005,239.36	3,649,715.42	355,523.94	71,563.05	3,578,152.37
10	LASURECO	2017 NDRRM	13,180,165.75	13,180,165.75	0.00	263,603.31	12,916,562.44
	Total		**167,627,996.19**	**152,228,213.13**	**15,399,783.06**	**2,990,035.62**	**149,238,177.51**

16.16 As indicated in the preceding Table, there are 10 ECs with 90 per cent initial release from other NEA subsidy funds where three ECs, the LEYECO III, SAMELCO II and MARELCO have also subsidy released for 2018 SEP projects. Whereas, the project for LASURECO was 100 per cent released on December 20, 2017.

16.17 For CY 2018, the following 11 ECs audited, with reported Accounting of Fund totaling P1,560,756,476.47 for liquidation, with subsidy release of

70-90 per cent showed excess unutilized balance amounting to P43,684,404.47, detailed as follows:

Name of EC	Source Fund	No. of Project	Subsidy Receipts (net)	Total Excess Fund Per EC's AF
1. BATELEC II	2011-2017	33	122,359,971.80	3,539,167.04
2. CENPELCO	2011-2015	19	202,072,801.04	0.00
3. ISELCO I	2011-2015	11	79,787,073.47	2,902,141.23
4. ISELCO II	2012-2014	9	132,526,009.04	2,607,502.96
5. MORESCO I	2011-2017	26	255,450,357.36	15,989,337.87
6. MORESCO II	Regular - 2017	26	427,161,710.92	2,001,535.27
7. PROSIELCO	2011-2014	9	40,174,364.10	6,230,394.81
8. SOLECO	2011-2015	12	100,808,814.41	8,105,427.75
9. SURSECO ll	2011-2014	11	90,940,629.12	623,411.25
10. TISELCO	2011-2015	9	85,260,961.42	49,585.71
11. ZAMCELCO	2013-2014	3	24,213,783.79	1,635,900.58
Total		**168**	**1,560,756,476.47**	**43,684,404.47**

16.17.1 Audit of the disbursements and its supporting schedules disclosed that the reported excess or unexpended funds per EC has increased by an average of 30 - 35 per cent. This can be validated in the current and previous years audit of returned/refunds by ECs. Thus, an initial release of 90 per cent is certainly excessive.

16.18 As stated in par. 16.2, "the flow of the funds shall follow the normal procedures of allotment release by the DBM." The release at 90 per cent as initial disbursement is almost the cost of the project while the 10 per cent or the unreleased balance is the retention money. Moreover, the performance for the completion of projects is not guaranteed, since, to date, posting of security/performance bond has not been made. Hence, the practice of 90 per cent initial release is not in accordance with Item 4.2 of COA Circular No. 2007-001.

16.19 On the other hand, out of the 61 ECs with initial release of 90 per cent, 42 ECs have an existing subsidy fund balances for 2011 – 2016 as of December 31, 2018. Though remained unliquidated, these were granted with subsequent releases for projects in CY 2017 and 2018. Table 4 shows the summary of unliquidated subsidy fund balances and the corresponding source funds, details of which are presented in Table 5:

Table 4: Unliquidated Subsidy Fund Balances and the Corresponding Source Fund

	SL Code	Source Fund	Amount
1	139-005	2011 SEP/BLEP	17,762,706.77
2	139-006A	PAMANA – OPAPP	31,301,364.44
3	139-007	2012 SEP/BLEP	10,215,644.80
4	139-008	2013 SEP/BLEP	90,983,249.34
5	139-009	YRRP	582,231.84
6	139-014	2014 SEP/BLEP	75,008,813.34
7	139-021	LASURECO (Metering Program)	521,618.28
8	139-022	2015 Subsidy	105,955,216.98
9	139-023	2016 Subsidy	922,203.08
10	139-024	NHA Yolanda Housewiring	23,291,165.00
11	139-026	2017 Subsidy	118,353,424.50

	SL Code	Source Fund	Amount
12	139-027	Typhoon Nina	36,330,929.75
13	139-030	2018 QRF	17,427,260.87
		Total	**528,655,828.99**

Table 5: ECs with Releases of 2018 SEP Project but with Unliquidated Subsidy Fund Balances

	ELECTRIC Cooperative	No. of Sitio	Amount Released in 2018	Unliquidated Subsidy Balance CYs 2011-2016	Additional Releases				Total Unliquidated Fund
					2017		2018		
					No. of Proj.	Amount	No. of Proj.	Amount	
1	ISECO	11	7,338,406.60	298,075.07					298,075.07
2	LUELCO	11	14,393,261.45	1,052,207.26	1	P431,449.44			1,483,656.70
3	PANELCO I	16	23,437,718.76	0.00	1	21,263,498.61			21,263,498.61
4	CAGELCO I	17	21,417,558.15	0.00			1	P737,235.24	737,235.24
5	BENECO	32	26,422,410.71	0.00			3	13,362,178.54	13,362,178.54
6	NEECO II-A1	5	5,177,192.92	0.00			2	4,672,849.59	4,672,849.59
7	ZAMECO I	1	2,087,851.97	0.00	1	201,021.61			201,021.61
8	MARELCO	18	13,818,159.88	0.00			2	62,626,378.13	62,626,378.13
9	OMECO	23	24,602,559.73	0.00			1	13,069,746.49	13,069,746.49
10	PALECO	11	11,138,113.81	239,317.35			1	57,871,474.55	58,110,791.90
11	QUEZELCO II	2	2,699,146.41	1,721,803.63					1,721,803.63
12	CANORECO	17	20,299,374.72	2,425,914.25					2,425,914.25
13	CASURECO I	3	3,850,600.78	3,629,751.11					3,629,751.11
14	CASURECO III	4	4,328,540.73	0.00			2	1,423,650.58	1,423,650.58
15	FICELCO	2	2,124,303.35	0.00			1	29,947,977.45	29,947,977.45
16	AKELCO	27	39,847,687.77	15,489,661.95	2	912,231.45			16,401,893.40
17	ANTECO	37	45,273,682.38	4,045,491.96					4,045,491.96
18	CAPELCO	32	26,959,672.95	52,797,565.18					52,797,565.18
19	GUIMELCO	37	35,785,203.65	1,158,728.61					1,158,728.61
20	ILECO I	21	15,233,807.87	3,832,183.04			1	996,142.54	4,828,325.58
21	ILECO II	29	26,433,376.07	0.00	1	557,195.57			557,195.57
22	NOCECO	20	29,294,518.55	7,871,142.59					7,871,142.59
23	CELCO	16	14,232,438.47	4,785,500.31					4,785,500.31
24	NORECO I	46	53,705,739.96	2,313,252.49					2,313,252.49
25	DORELCO	7	6,049,784.02	15,874,192.13					15,874,192.13
26	LEYECO III	13	11,111,907.83	0.00			2	6,070,349.53	6,070,349.53
27	LEYECO IV	8	9,511,190.26	3,269,928.68					3,269,928.68
28	LEYECO V	40	27,934,341.62	307,491.16	3	14,227,155.62			14,534,646.78
29	SAMELCO II	12	11,129,629.48	561,437.86	2	3,817,055.13	3	9,419,787.17	13,798,280.16
30	ZANECO	43	38,521,755.29	0.00	1	3,616,336.23	1	13,204,259.61	16,820,595.84
31	FIBECO	70	69,832,936.52	6,000.00	1	10,660,119.33			10,666,119.33
32	LANECO	13	11,066,264.27	325,272.14			1	17,427,260.87	17,752,533.01
33	MORESCO II	10	10,489,130.37	236,365.54	2	2,649,675.62	2	24,456,836.44	27,342,877.60
34	DORECO	23	25,609,401.39	0.00	1	5,041,452.37			5,041,452.37
35	COTELCO	92	162,113,376.42	0.00	1	9,811,585.36			9,811,585.36
36	SOCOTECO I	19	25,241,753.81	0.00	1	4,601,034.28			4,601,034.28
37	MAGELCO	40	52,351,410.47	14,647,698.42					14,647,698.42
38	ANECO	19	24,827,031.27	1,401,575.18	1	1,133,248.51	2	24,199,643.46	26,734,467.15
39	ASELCO	106	180,975,892.26	4,153,974.82	3	17,526,059.48			21,680,034.30
40	SURNECO	11	10,733,720.67	0.00	2	3,278,872.87			3,278,872.87
41	SURSECO I	24	31,466,476.68	5,388,385.17					5,388,385.17
42	SURSECO II	29	29,343,852.38	0.00	1	1,609,151.42			1,609,151.42
	Grand Total	**1,017**	**1,208,211,182.65**	**147,832,915.90**	**25**	**101,337,142.90**	**25**	**279,485,770.19**	**528,655,828.99**

16.20 As can be gleaned from the preceding Table, 42 ECs with 90 per cent initial release from the 2018 SEP projects have unliquidated subsidy fund balances totaling P528,655,828.99. For 2011-2016 subsidy funds, 25 ECs have unliquidated balances aggregating to P147,832,915.90 or 28 per cent of the total unliquidated; 17 ECs have a total unliquidated balances totaling P101,337,142.90 or 19 per cent of the SEP 2017 projects and 15 ECs have unliquidated balances totaling P279,485,770.19 or 53 per cent of the 2018 SEP projects. The 2018 releases are in addition to the releases made by NEA from the 2018 SEP Fund.

16.21 The simultaneous and subsequent releases of subsidy funds to 42 ECs for CYs 2017 and 2018 amounting to P1,589,034,095.74, in spite of unliquidated funds aggregating to P147,832,915.90 is not in accordance with Item No. 4.5.5 of COA Circular No. 2007-001 and Section 2 of COA Circular No. 2012-001 and not compliant with NEA Memorandum No. 2018-032.

16.22 Though it is important for NEA to attain the targeted projects to be implemented by ECs, it must be emphasized that there are guidelines, rules, and regulations to be followed in the release of funds to NGOs/POs in accordance with the above-cited provisions.

16.23 In addition, the subsidy for the installation of kwhr meters, duplex service drop wires and housewiring materials was released to 40 ECs simultaneously with the release of subsidy for the construction of distribution lines.

In the same manner, subsidy for the installation of kwhr meters, duplex service drop wires and housewiring materials to 14 ECs was released two days, within a week or a month after the release of subsidy for the construction of distribution lines; though, installation of kwhr meters and service dropping will only start once the construction of distribution lines were completed.

Hence, the release of subsidy funds for the installation of kwhr meters, duplex service drop wires and housewiring materials should be made only after ECs submission to NEA of the Certification of Construction of Completed (COCC) projects duly certified by the Barangay Chairman of the respective sitios and the authorized officials of ECs.

16.24 **We recommended that Management:**

a. **Stop the grant of 90 per cent initial release of subsidy fund to ECs and conform with COA Circular No. 2007-001;**

b. **Process only request for subsidy releases when previous subsidy balances are fully liquidated;**

c. **Demand the concerned ECs to immediately liquidate the completed and energized projects pursuant to COA Circular No. 2012-001 and the MOA between NEA and ECs; and**

d. **Release subsidy funds for the installation of kwhr meters, duplex service drop wires and housewiring materials, after partial liquidation of construction of distribution lines by EC's submission to NEA the Certification of Construction of Completed (COCC) projects duly certified by the Barangay Chairman of the respective sitios and the authorized officials of ECs.**

16.25 Management submitted the following justifications:

a. During the Budget Forum for FY 2019 Budget Call held on January 17, 2018, the DBM Secretary made a pronouncement on the Shifting from Obligation-based to Cash-based Budgeting starting FY 2019. FY 2018, Budget shall be implemented as cash-based being the transition period for the implementation of the new budget policy of the government.

   With the annual cash-based budget, agencies are allowed to incur only contractual obligations and disburse payments for goods delivered and services rendered and inspected within one fiscal year, with an extended payment period of three months.

   In view of this, the NEA issued a revised policy guidelines on the implementation of Strategized Total Electrification Program (STEP) which provides the release of funds of 90 per cent of the total evaluated project cost (TEPC) as initial release and 10 per cent as final release. This was approved by the NEA in its Board meeting held on October 23, 2018, Board Resolution No. 191. This revised policy will likewise provide a higher budget utilization rate (BUR) for NEA which is one of the major consideration used by DBM in its evaluation and recommendation on the level of subsidy appropriation for electrification projects. Further, it will also address and improve the agency's absorptive capacity on physical and financial accomplishment.

   Further, based on DBM National Budget Circular No. 573 dated January 03, 2018. "Guidelines on the release of funds for FY 2018" Item No. 5.2.2.1 "Applying the Common Fund System to optimize the use of the available Notice of Cash Allocation (NCA) under the Regular MDS Sub-Account, NCAs released to agencies under this account can be used to cover payment of both current year and prior years' A/Ps of all creditors (external and internal) provided that PS requirements and mandatory MOOE are fully funded."

   This Common Fund System as allowed by DBM authorizes the agency to release funds beyond the amount released by the DBM to the agency if there are available cash balances from prior years subsidy funds/appropriations that are not released yet by NEA to the EC even if such subsidy cash balances have already been obligated to ECs projects. This is the main consideration that the DBM's release of the corresponding Notice of Cash Allocation (NCA) was issued on installment/staggered basis even if the Special Allotment and Release Order (SARO) for the specific appropriation have been issued in full amount based on the GAA.

b. NEA already required the 27 ECs to submit/update the AF, and the liquidation of final releases (21 ECs) are ongoing.

   Furthermore, 15 ECs were required to execute an "Affidavit of Undertaking" (AU) to fully liquidate the subsidy fund balances. To date, there are five ECs that had fully liquidated.

c. Since most of the ECs conducted their bidding simultaneously for distribution lines and housewiring facilities, in order to lessen the expenses and timeframe of the early completion of projects. It is also the practice of the EC to conduct/installation of housewiring concurrently while the construction of distribution line is on-going.

d. NEA has agreed to comply with the other recommendations of the Audit Team.

16.26 As a rejoinder, it is our view that the 90 per cent initial release is relatively high considering the usual incurrence of unexpended balance of subsidy fund by ECs for releases ranging from 70 to 90 per cent. The occasion of delay in the liquidation of subsidy fund by some ECs on the previous audit should also be considered in adopting the 90 per cent initial release of subsidy fund to ECs. Also, the implementation of the Cash-based Budgeting will start only in FY 2019. Therefore, our stand is maintained and our recommendation to stop the grant of 90 per cent initial release of subsidy fund to ECs is reiterated.

Also, since there is a separate MOA covering the housewiring materials, in compliance with Section 4.5.5 of COA Circular No. 2007-001, an interim Fund Utilization Report of the previous release certified by the Accountant and approved by the President should first complied be with. Hence we maintain our position and reiterate our recommendation to release subsidy funds for the housewiring after partial liquidation of construction of distribution lines.

16.27 During the exit conference, NEA further submitted additional justification as follows:

a. Reducing the amount of initial release from 90 per cent in the approved policy will negatively affect the Disbursement Budget Utilization (BUR) Rate of NEA which is being used by the Department of Budget and Management (DBM) in determining its subsidy appropriation level for the succeeding budget year/s. Thus, the subsidy appropriation of NEA for the coming budget years will be correspondingly reduced, thereby affecting the directive of the President to accelerate the implementation of total electrification. With a lower Disbursement BUR and lower funding from the National Government, the outcome of Total Electrification Program will definitely suffer depriving the marginalized potential consumers the benefit of electric service and sitios that are in dire need of energization.

b. One parameter that the DBM is using in rating GOCC's absorptive capacity is the Disbursement BUR, which is computed as Total Actual Disbursements divided by the Agency's Total Appropriations. The 90 per cent initial release will improve NEA's BUR, accelerate disbursement funds and fast-track program implementation which will redound to the benefits of the less-fortunate residents in the far-flung areas of the country. Likewise, the BUR is also included in the Performance Targets being monitored by the Inter-Agency Task Force on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems.

17. **Unliquidated subsidy balance amounting to P23.903 billion covering the period from CYs 2011-2018 for the SEP, BLEP, PKKV, TISP-ARMM, YRRP and other calamity grants projects was reduced to P1.052 billion, however, remained unliquidated as of December 31, 2018, which is not in conformity with Section 2 of COA Circular No. 2012-001 and Section 4 of the Memorandum of Agreement (MOA) between NEA and ECs.**

17.1 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 same 30-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."

17.2 The ECs have six months to implement the rural electrification/rehabilitation project from receipt of subsidy fund from NEA which maybe requested for extension up to maximum of three months. Also, upon completion of the project, the ECs have six months to liquidate the subsidy fund including the close-out of the project 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.

17.3 Subsidy releases to ECs are recorded as debit to Due from NGOs/POs (139) account and credit the same upon liquidation of ECs.

17.4 Review of the subsidy releases and its liquidations covering the period from CY 2011 to CY 2018 showed the following:

Period Covered	Unliquidated as of 12.31.15	Gross Amount Released	Accumulated Total	Amount Liquidated	Amount Unliquidated	Due for Liquidation
2016	8,847,590,430.00	9,110,866,986.00	17,358,457,416.00	12,030,324,129.00	5,928,133,288.00	853,887,724.60
2017		2,975,598,463.00	20,934,055,879.00	5,752,434,811.00	3,151,296,940.00	1,455,897,301.11
2018		2,969,244,272.00	23,903,300,151.00	2,485,527,230.00	3,635,013,982.00	1,051,928,346.10

The unliquidated amount as of given period includes the releases for the current year which projects are still on-going, thus, not yet due for liquidation.

17.5 As of December 31, 2018, the Due from NGOs/POs account has a reported balance of P3,635,005,981.95 representing subsidy releases to EC's for SEP, BLEP, PKKV, TISP-ARMM, YRRP, and Calamity Grant for earthquakes and other typhoons. Of this amount, P1,051,928,346.10 is already due/overdue for liquidation, detailed as follows:

Table 1: Schedule of Unliquidated Subsidy Funds

Source fund	No. of EC	Balance of Due from NGOs/POs Account as of 12.31.18	Total Amount Due/Overdue for Liquidation as of 12.31.18
PKKV	2	8,000.00	8,000.00
SEP/BLEP	112	3,453,221,206.04	969,391,931.38
Calamity Funds	8	93,251,674.12	19,618,606.97
OPPAP	7	56,891,005.43	31,267,711.39
TISP-ARMM	1	31,059,864.52	31,059,864.52
YRRP	1	582,231.84	582,231.84
Grand Total		**3,635,013,981.95**	**1,051,928,346.10**

17.6 Verification of the subsidy releases per account and its balances showed that there were fund balances disbursed in CYs 2011-2017 which were already overdue for liquidation. The unliquidated fund balances per subsidiary ledger account is shown in the following Table and the details per EC is attached as Appendix B.

Table 2: Aging of Unliquidated Subsidies

Source Fund	Balance of Due from NGOs/POs Account as of Dec. 31, 2018	Less than 1 Year	More than 1 Year	More than 2 Years	More than 3 Years	Total Amount Due for Liquidation
	(a)	(b)	(c)	(d)	(e)	f=(c+d+e)
PKKV	8,000.00				8,000.00	8,000.00
SEP	3,453,221,206.04	2,483,829,274.66	465,982,089.41	110,827,677.02	392,582,164.95	969,391,931.38
Calamity	93,251,674.12	73,633,067.15	19,616,450.96	942.45	1,213.56	19,618,606.97
OPPAP	56,891,005.43	25,623,294.04	1,389,464.43	6,000.00	29,872,246.96	31,267,711.39
TISP-ARMM	31,059,864.52				31,059,864.52	31,059,864.52
YRRP	582,231.84			582,231.84	0.00	582,231.84
Grand Total	**3,635,013,981.95**	**2,583,085,635.85**	**486,988,004.80**	**111,416,851.31**	**453,523,489.99**	**1,051,928,346.10**

17.7 The amount of P2,583,085,635.85 or 71 per cent of the total unliquidated subsidies are subsidy releases for 2018 which are below the 12 months maximum liquidation, hence, not yet due for liquidation.

17.8 On the other hand, P453,523,489.99 or 34 per cent of the unliquidated subsidies due for liquidation were from releases in CYs 2011-2016. These unliquidated amounts should have already been returned to NEA since these were already long outstanding for more than two years and the corresponding project for the said release should have already been implemented.

17.9 As shown in the preceding Tables, P1,051,928,346.10 or 29 per cent of the total unliquidated subsidies as of December 31, 2018 were already due for liquidation as it already exceeded the 12-month limit for the implementation of the projects as agreed in the MOA by NEA and ECs.

17.10 The accumulation of the unliquidated subsidy due for liquidation totaling P1,051,928,346.10 was due to ECs non-compliance with Section 4 of the MOA, and NEA's practice of releasing subsidies to ECs even if these were still with prior unliquidated subsidies which are not in accordance with Section 2 of COA Circular No. 2012-001.

17.11 During the audit, ECs reasoned out that most of the delays in liquidation were caused by the delay in NEA's inspection for the completed projects for the issuance of the Certificate of Final Inspection and Acceptance (CFIA) which is necessary for the liquidation process.

17.12 The balance of unliquidated subsidy could have been minimized had NEA strictly monitored the status of project implementation and obliged the ECs to request from NEA to inspect the completed projects. Thus, with the issuance of the CFIA, ECs can liquidate the funds as agreed in the MOA.

17.13 **We recommended that Management:**

a. **Require ECs to:**

   i. **liquidate all subsidy releases that are already due for liquidation by submitting all the required liquidation together with Accounting of Funds with its supporting documents to validate the charges made to the subsidy fund; and**

   ii. **return the unliquidated funds of all completed projects from prior years considering that the projects are already more than three years since its inception;**

b. **Refrain from releasing additional subsidy until ECs fully liquidate prior releases; and**

c. **Comply strictly with Section 4 of the MOA as agreed by NEA and ECs.**

17.14 Management submitted the following comments:

a. Out of the total amount of P1,051,928,346.10 due/overdue for liquidation, there are projects amounting to P541,143,608.46 that are not yet completed due to problems such as right of way easement due to DPWH, failure of bidding, late application of beneficiaries. A total of P321,938,329.89 was liquidated in January to March 2019. The remaining balance due for liquidation is P188,846,407.75.

b. NEA already required the 27 ECs to submit/update the AOF, and the liquidation of final release (21 ECs) are on going. Further, 15 ECs were required to execute an "Affidavit of Undertaking" (AU) to fully liquidate the subsidy fund balances. To date, there are 5 ECs that had fully liquidated.

17.15 As a rejoinder, verification made on April 30, 2019 on the liquidation from January to March 2019 totaling P321,938,329.89 revealed that only P214,107,607.23 had been liquidated or a difference of P107,830,722.66. On the ECs submission of updated AFs, ensure that these should be checked and verified as to the completeness and validity of the required supporting schedules and other related documents. Likewise, ensure that these are properly labeled, reviewed and signed by the immediate supervisor before submission to COA office for validation.

We reiterate our recommendation to liquidate any prior unliquidated subsidy releases before releasing any subsequent funds.

18. **The Accounting of Funds (AFs) submitted by some ECs for 170 liquidated subsidies under Regular Subsidy, SEP, BLEP, YRRP and Calamity Grant with reported unexpended/unutilized balance totaling P43.684 million were not returned/remitted immediately upon liquidation due to NEA's non enforcement of Section 7 of the MOA, hence, deprived the government of funds to utilize for other projects.**

Deficiencies/discrepancies were noted on the ECs' supporting documents, resulting in the increase of the reported unexpended balance of P43.684 million per AFs to P94.660 million (net of amount already returned) and the same was not returned/remitted to NEA contrary to Section 4.5.6 of COA Circular No. 2007-001 and Sections 2 and 7 of the MOA and NEA Memorandum No. 2013-023.

ECs with subsidy deficit of P19.232 million is to be covered with the release of the 49-50 per cent remaining/retention balance but not to exceed the actual disbursement under Section 4 of the MOA.

Unexpended balance amounting to P105.247 million remained unreturned for projects audited in CYs 2014 – 2017.

Liquidated subsidies were not reversed and unexpended subsidy balances per audit were not recognized in NEA's books contrary to Section 112 of PD No. 1445. Hence, the reliability of the account Due from NGOs/POs was doubtful.

18.1 Section 112 of PD No. 1445 on Recording of financial transactions provides that:

> *"Each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations."*

18.2 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.”*

18.3 Sections 2, 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 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.”*

c. 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.”*

18.4 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.

18.5 Review of the subsidy funds for 170 projects disclosed unexpended balance amounting to P94,660,417.81(net of returned amount to NEA) which remained unreturned/unremitted to NEA as of December 31, 2018, contrary to Section 7 of the MOA as shown in the following Table:

Name of EC	No. of Proj.	Subsidy Receipts	Expended/ Disbursed Per AF	Per EC's AF Per Audit	Unexpended	Subsidy Deficit	Unexpended Per Audit: Unexpended Prior to Return	Unexpended Per Audit: Returned to NEA	Unexpended Per Audit: Remaining Unexpended	Unexpended Per Audit: Excess of Return/s	Subsidy Deficit
		A	B	C	D=(A-B)		E=(A-C)	F	G=(E-F)	H=(E-F)	I=(A-C)
1. BATELEC II	33	122,359,971.80	127,895,100.92	106,630,526.80	3,539,167.04	9,074,296.16	16,824,095.08	3,251,077.49	13,573,017.59	0	1,094,650.08
2. CENPELCO	19	202,072,801.04	202,953,100.12	199,217,020.39	0.00	880,299.08	3,442,031.78	3,698,408.55	0.00	P256,376.77	586,251.13
3. ISELCO I	13	96,787,073.47	96,706,830.00	70,401,402.27	2,902,141.23	2,821,897.76	26,385,671.20	0.00	26,385,671.20	0.00	0.00
4.ISELCO II	9	132,526,009.04	130,874,044.91	130,874,044.91	2,607,502.96	955,538.83	2,607,502.96	2,651,331.02	0.00	43,828.06	955,538.83
5.MORESCO I	26	255,450,357.36	269,271,500.37	256,053,883.75	15,989,337.87	29,810,480.88	24,192,175.33	24,192,175.33	0.00	0.00	24,795,701.72
6.MORESCO II	26	427,161,710.92	440,588,173.45	406,647,846.48	2,001,535.27	15,427,997.79	26,157,527.48	0.00	26,157,527.48	0.00	5,643,663.03
7.PROSIELCO	9	40,174,364.10	37,014,765.45	31,781,960.06	6,230,394.81	3,070,796.17	8,922,,106.23	8,922,106.24	0.00	0.01	529,702.19
8.SOLECO	12	100,808,814.41	96,664,024.46	84,056,076.02	8,105,427.75	3,960,637.80	17,142,591.65	8,007,440.25	9,135,151.40	0.00	389,853.25
9.SURSECO II	11	90,940,629.12	94,106,413.10	84,649,910.70	623,411.25	3,789,195.23	7,075,732.27	0.00	7,075,732.27	0.00	785,013.75
10.TISELCO	9	85,260,961.42	97,166,900.56	72,927,643.55	49,585.71	11,856,353.43	12,333,317.87	0.00	12,333,317.87	0.00	0.00
11.ZAMCELCO	3	24,213,783.79	23,027,332.32	22,265,075.27	1,635,900.58	449,449.11	1,989,487.93	1,989,487.93	0	0.00	0.00
Total	**170**	**1,577,756,476.47**	**1,616,268,185.66**	**1,465,505,390.20**	**43,684,404.47**	**82,096,942.24**	**147,072,239.78**	**52,712,026.81**	**94,660,417.81**	**300,204.84**	**34,780,373.98**

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

18.6 From the preceding Table, the submitted AFs already reported unexpended/unutilized balance totaling P43,684,404.47. However, some ECs did not return/remit the unexpended/unutilized funds due to NEA's non-enforcement of Section 7 of the MOA, hence, deprived the government of funds to utilize for other projects.

18.7 There were deficiencies/discrepancies which were not considered, thus, increasing the amount of unexpended/unutilized balance from P43,684,404.47 to P147,072,239.78. Listed below are some of the material deficiencies/discrepancies which contributed to the increase of the unexpended/unutilized balance and not compliant with Section 2 of the MOA and NEA Memorandum No. 2013-023:

a. Expenses not related to the projects or unsupported with proper documentation;
b. accuracy of unsettled/unpaid payables to contractors cannot be determined due to variances on the submitted documents;
c. accounts payable without supporting detailed computation;
d. disbursements incurred before the receipt of subsidy fund or start of the project or beyond project completion and energization date;
e. personnel benefits and allowances of contractual employees of ECs were billed against subsidy funds such as SSS, PhilHealth and Pag-ibig contributions, COLA, 13th-month pay, Cash Gift, Rice/Meal allowance and Anniversary Bonus;
f. vehicle rentals supported by post-dated policy;
g. overcharging of salaries, vehicle rental and Special Equipment;
h. difference of cost of kWh meter, excess house wiring connections and uninstalled materials; and
i. non-allowable charges included in AFs such as claim for liquidated damages, Input tax for labor, visitors' accommodation/giveaways, cleaning of air conditioners, generator set, replenishment of materials in the warehouse for reinvestment fund, one unit transmission, vehicle spare parts and fuels, medicines, meals during bidding and energization of the projects and pre-membership seminars.

18.8 Seven ECs returned to NEA the unexpended subsidy fund totaling P52,712,026.81, of which the amount of P300,204.84 pertaining to excess return will be deducted and refunded to the concerned ECs. As a result, the net amount returned of P52,411,821.97 reduced the unexpended subsidy fund balance to P94,660,417.81.

18.9 On the other hand, of the subsidy deficit aggregating to P34,780,373.98, only the amount of P17,779,538.92 will be covered with the release of the remaining/retention balance, detailed as follows:

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

	EC Name	No. of Project	Subsidy Deficit	Remaining/ Retention Balance	** To be Covered with the Release of the Remaining/ Retention Balance
1.	BATELEC II	6	*1,094,650.08	7,918,007.62	950,246.62
2.	CENPELCO	3	*586,251.13	101,869.16	12,056.91

	EC Name	No. of Project	Subsidy Deficit	Remaining/ Retention Balance	** To be Covered with the Release of the Remaining/ Retention Balance
3.	ISELCO II	4	*955,538.83	5,510,182.45	947,759.52
4.	MORESCO I	19	24,795,701.72	34,215,701.66	14,115,604.08
5.	MORESCO II	10	*5,643,663.03	2,005,236.84	297,616.92
6.	PROSIELCO	2	529,702.19	1,097,769.85	529,702.19
7.	SOLECO	1	389,853.25	5,200,888.25	389,853.25
8.	SURSECO II	2	785,013.75	863,950.70	536,699.43
Total		**47**	**34,780,373.98**	**56,913,606.53**	**17,779,538.92**

** included project/s with 100% release*

*** For details of exact amount to be released, please refer to the ML per EC.*

18.10 The preceding table shows eight ECs which resulted in subsidy deficit totaling P34,780,373.98 due to .49–50 per cent unreleased remaining/retention balance from the approved project costs and/or projects that exceeded the 100 per cent allocated costs which should be charged to ECs' general fund. However, the amount to be covered with the release is only P17,779,538.92 or amount not exceeding the actual disbursements pursuant to Section 4 of the MOA.

Unreturned Unexpended Balance Totaling P105,246,924.40 for CYs 2017-2017

18.11 Twenty-three ECs audited in CYs 2014 - 2017 with unexpended balances aggregating to P105,246,924.40 remained unreturned as of audit date, detailed as follows:

	Name of EC	*Unexpended Balance (As of 1/1/18)*	*Returned to NEA in CY 2018-19*	*With Submitted Revised AF and/or *Approved Realignment (subject for validation)*	*Balance*
1	ANECO	2,400,834.84	0.00	2,400,834.84	2,400,834.84
2	ILECO II	10,775,333.79	0.00	10,775,333.79	10,775,333.79
3	NORECO I	11,597,756.85	0.00	11,597,756.85	11,597,756.85
4	ROMELCO	1,196,128.38	0.00	*1,196,128.38	1,196,128.38
5	BISELCO	1,860,990.89	0.00	*1,860,990.89	1,860,990.89
6	SOCOTECO 1	1,462,216.12	0.00	1,462,216.12	1,462,216.12
7	AKELCO	1,084,313.53	0.00	1,084,313.53	1,084,313.53
8	MASELCO	1,907,349.10	0.00	1,907,349.10	1,907,349.10
9	NEECO II A2	697,144.46	0.00	697,144.46	697,144.46
10	PANELCO I	199,211.66	0.00	199,211.66	199,211.66
11	SORECO I	4,136,595.29	0.00	0.00	4,136,595.29
12	FLECO	3,506,050.04	0.00	3,506,050.04	3,506,050.04
13	LEYECO III	3,631,185.60	0.00	3,631,185.60	3,631,185.60
14	DORELCO	2,954,274.05	0.00	0.00	2,954,274.05
15	LEYECO V	13,539,881.48	0.00	13,539,881.48	13,539,881.48
16	ZAMSURECO I	30,523,021.23	11,668,633.44	605,229.37	18,854,387.79
17	DASURECO	2,451,451.97	0.00	0.00	2,451,451.97
18	NOCECO	9,970,213.35	3,151,393.23	*6,818,820.12	6,818,820.12
19	BENECO	7,200,866.34	4,526,822.06	2,674,044.28	2,674,044.28
20	ILECO I	5,089,175.65	0.00	0.00	5,089,175.65
21	CENECO	1,955,458.44	1,883,402.38	0.00	72,056.06

	Name of EC	Unexpended Balance (As of 1/1/18)	Returned to NEA in CY 2018-19	With Submitted Revised AF and/or *Approved Realignment (subject for validation)	Balance
22	LUBELCO	8,337,722.45	0.00	0.00	8,337,722.45
23	BOHECO I	330,254.08	330,254.08	0.00	0.00
	Total	**126,807,429.59**	**21,560,505.19**	**63,956,490.51**	**105,246,924.40**

18.12 As can be gleaned from the preceding table, the unexpended balance of the 23 ECs as of January 1, 2018 audited in 2014-2017 totaled to P126,807,429.59 , of which P21,560,505.18 was returned to NEA in 2018-2019 and the amount of P63,956,490.51 was submitted with revised AFs and approved realignment. Hence, the unexpended balance was reduced to P105,246,924.40.

18.13 In addition, the total amount of P63,956,490.51 relating to revised AFs or approved realignment cannot be considered as an outright deduction to the unexpended balance as this would require prior validation/submission of supporting liquidation documents.

18.14 We also noted that the liquidated subsidies were not reversed and unexpended balances as a result of the audit were not recognized in NEA's books by the FSAD contrary to Section 112 of PD No. 1445.

18.15 The unreturned unexpended balance covering CYs 2014-2017 is a reiteration of our previous year's audit observation.

18.16 Management attention is invited to the provisions of Section 4.5.6 of COA Circular No. 2007-001 and Section 6 of the MOA as agreed upon by NEA and the ECs.

18.17 **We recommended that Management:**

a. **Require the 11 ECs audited in CY 2018 to return/remit the unexpended balances amounting to P94,660,417.81;**

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

c. **Inform the concerned EC's to submit required documents for the release of the remaining balances amounting to P17,779,538.92 but not to exceed the actual disbursements pursuant to Section 4 of the MOA, only after the unexpended balances have been settled, if any;**

d. **Refund to CENPELCO and ISELCO I the excess returns/remittances amounting to P300,204.84;**

e. **Require the EC's to submit the required documents to validate the charges made in the AFs together with the supporting schedule of the previous and the revised AFs, for verification and**

adjustment of the total unexpended balances, otherwise, return to NEA the total amount of P105,246,924.40 ; and

f. **Prepare the necessary accounting entries in NEA's books to reflect the correct amount of Due from NGOs/POs account and to be able to monitor the status/movement of the unexpended/unutilized subsidy balances pursuant to Section 112 of PD No. 1445. The following are the recommended adjusting entries:**

Particulars	Debit	Credit
<u>Issuance of AOM for unexpended funds to ECs if the project is already fully liquidated:</u>		
Due from NGOs/POs	**xxx**	
Financial Assistance to NGOs/POs		**xxx**
<u>Upon return of unexpended funds per COA Audit:</u>		
Cash – Collecting Officer	**xxx**	
Due from NGOs/POs		**xxx**

g. **Strictly enforce the provision of Section 7 of the MOA on the return/remittance of unutilized funds.**

18.18 Management commented on the following:

a. NEA in various letters requested the five ECs namely BATELEC II, ISELCO 1, MORESCO II, SOLECO and TISELCO to return/remit the unexpended balance and their compliances to other audit findings.

b. Starting 2018, for subsidy funded projects, the Compliance Officers are now verifying the expenses being charged/included in the AF.

c. NEA will inform the concerned ECs to request for the refund or apply for the excess payment as advance payment to their loan amortization.

d. NEA has agreed to comply with the other recommendations of the Audit Team.

18.19 As a rejoinder, the Management should strictly enforce the remaining six ECs to return/remit the unexpended balance and the compliance with the recommendations will be monitored to ensure its implementation.

19. **The Disbursements Acceleration Program (DAP) under 2011 OPAPP/TISP, OVLP/LGSF and 2012 Subsidy Funds allocated for rural electrification totalling P102.565 million remained unreleased as of December 31, 2018 and not returned to the Bureau of the Treasury (BTr) in violation of Section 83 of the General Provisions of General Appropriation Act of 2018.**

Likewise, the DAP funds released to Electric Cooperatives (ECs) totaling P31.767 million remained unliquidated as of December 31, 2018, in violation of Section 4.5.6 of COA Circular No. 2007-001 and Sections 3 and 4 of the MOA between NEA and ECs.

19.1 Section 83 of the General Provisions of General Appropriation Act of 2018 on Reversion of Unexpended Balances of Appropriation provides that:

> *"Notwithstanding any provision of law to the contrary, unexpended balances of appropriations authorized in this Act shall revert to the General Fund at the end of the validity of appropriations provided under Section 61 hereof and shall not thereafter be available for expenditure except by subsequent legislative enactment."*

19.2 The Disbursement Acceleration Program (DAP) is a special budget allocated to accelerate or hasten a government project without Congress or Senate's approval. However, on July 1, 2014, the Supreme Court declared the DAP as unconstitutional, thus:

> *"WHEREFORE, the Court PARTIALLY GRANTS the petitions for certiorari and prohibition; and DECLARES the following acts and practices under the Disbursement Acceleration Program, National Budget Circular No. 541 and related executive issuances UNCONSTITUTIONAL for being in violation of Section 25(5), Article VI of the 1987 Constitution and the doctrine of separation of powers"*

19.3 Out of the P2,064,000,000 DAP funds covered by three (3) Special Allotment Release Order (SARO) for Rural Electrification Program, the amount of P1,579,600,050 was received by NEA from the Bureau of Treasury (BTr). The utilization and the unreleased fund as of December 31, 2018 are summarized as follows:

Source Fund	Subsidy Received from BTr (a)	Evaluated Cost (b)	Disbursed to EC (c)	Returned to BTr (d)	Unreleased Fund e=(b-c)
1. 2011 DAP - OVLP /LGSF	115,600,050	89,132,466.69	84,253,432.43	26,467,583.31	4,879,034.26
2. 2011 DAP-TISP	200,000,000	189,658,092.36	179,547,203.93	10,341,907.64	10,110,888.43
3. 2012 DAP	1,264,000,000	1,244,811,463.24	1,157,236,548.26	19,188,536.76	87,574,914.98
TOTAL	**1,579,600,050**	**1,523,602,022.29**	**1,421,037,184.62**	**55,998,027.71**	**102,564,837.67**

19.4 The subsidy receipts totaling P1,579,600,050 was intended for rural electrification in ECs coverage areas under the Office of the Presidential Adviser on the Peace Process (OPAPP) –Transition Investment Support Plan (TISP) Fund in the autonomous region in Muslim Mindanao; the 2011 Other Various Local Projects (OVLP) and Local Government Support Fund (LGSF).

19.5 Of the total subsidy receipts of P1,579,600,050.00, NEA allocated the total amount of P1,523,602,022.29 to 102 ECs of which a total of P1,421,037,184.62 was disbursed as of December 31, 2018. However, the amount of P55,998,027.71 was returned to the BTr in compliance with the COA recommendations in CYs 2014 and 2016 pursuant to the Supreme Court Decision, leaving a balance of P102,564,837.67. The amount returned to the BTr are detailed as follows:

Source Fund	Amount	O.R. No.	Check No.
a. Unallocated/Unobligated DAP Funds			
2011 DAP - OVLP LGSF	22,339,507.60	8201148	368150
2011 DAP - TISP	9,499,052.32	8201148	368150
2012 DAP	1,503,503.73	8201148	368150
	561,365.08	2545285	47186438
	33,903,428.73		
b. Unreleased DAP funds			
2011 DAP - OVLP LGSF	4,128,075.71	2545335	47186551
2011 DAP - TISP	842,855.32	2545335	47186551
2012 DAP batch 2	17,123,667.95	2545335	47186551
	22,094,598.98		
Total Returned Funds to the BTr	**55,998,027.71**		

19.6 In response to the audit observations and recommendations in CY 2016, Management commented that the remaining unreleased amount for projects already implemented and liquidated totaling P82,055,991.67 was validated and verified by the Accelerated Total Electrification Office (ATEO) from the concerned ECs as to the need to release the retention amount or the unreleased balance. Thus, NEA returned only the amount of P22,094,598.98 to the BTr.

19.7 Examination of DAP funds disclosed that the total amount of P102,564,837.67 remained unreleased as of December 31, 2018. The unreleased fund balance ranges from 1 to 56 per cent of the evaluated cost. Ninety-four per cent of the unreleased balance pertained to projects that were already implemented and fully liquidated aggregating to P101,370,987.43.

19.8 The unreleased balance for the fully liquidated projects is an indication that the amount was already enough to cover the cost of the project/s. Thus, the evaluated cost was excessive. However, the unreleased amount remained in the possession of NEA and not returned to the BTr.

19.9 On the other hand, there are still nine ECs which subsidies are not yet fully liquidated, of which five ECs have unreleased balance aggregating to P3,411,078.42 or 7 per cent, detailed as follows:

EC Name	Fund Allocation [a]	Fund Released to ECs [b]	Unreleased Fund as of 12.31.18 [c=a-b]	Amount Liquidated as of 12.31.18 [d]	Unliquidated Balance as of 12.31.18 [e=b-d]	%
a. 2011 DAP - OVLP LGSF						
1. LUELCO	2,657,871.79	2,492,607.07	165,264.72	2,392,084.61	100,522.46	4
2. BILECO	2,000,000.00	1,400,000.00	600,000.00	0.00	1,400,000.00	100

EC Name	Fund Allocation [a]	Fund Released to ECs [b]	Unreleased Fund as of 12.31.18 [c=a-b]	Amount Liquidated as of 12.31.18 [d]	Unliquidated Balance as of 12.31.18 [e=b-d]	%
Sub total	**4,657,871.79**	**3,892,607.07**	**765,264.72**	**2,392,084.61**	**1,500,522.46**	
b. 2011 DAP - TISP						
3. CASELCO	25,112,408.01	25,112,408.01	0.00	0.00	25,112,408.01	100
Sub total	**25,112,408.01**	**25,112,408.01**	**0.00**	**0.00**	**25,112,408.01**	
c. 2012 DAP Subsidy						
4.ABRECO	10,248,127.34	10,248,127.34	0.00	10,237,126.40	11,000.94	11
5.QUIRELCO	10,104,870.75	10,104,870.75	0.00	9,094,383.68	1,010,487.07	10
6.TISELCO	1,455,489.67	1,455,489.67	0.00	1,294,391.05	161,098.62	11
7.CAMELCO	4,809,712.14	4,328,740.93	480,971.21	2,262,191.63	2,066,549.30	48
	14,451,725.38	13,006,552.85	1,445,172.53	11,763,100.06	1,243,452.79	10
8.NOCECO	11,092,111.20	10,372,441.24	719,669.96	9,982,900.08	389,541.16	4
9.SOCOTECO II	2,721,025.50	2,721,025.50	0.00	2,448,922.95	272,102.55	10
Sub total	**54,883,061.98**	**52,237,248.28**	**2,645,813.70**	**47,083,015.85**	**5,154,232.43**	
Total	**84,653,341.78**	**81,242,263.36**	**3,411,078.42**	**49,475,100.46**	**31,767,162.90**	

19.10 The preceding Table shows that the remaining unliquidated balance of P31,767,162.90 or 39 per cent were brought significantly by non-liquidation of three ECs namely: BILECO, CASELCO and CAMELCO which were already overdue for liquidation since its initial release in June 27, 2013 to August 13, 2015 or a delay of more than three years.

19.11 It is worthy to note that of the P81,242,263.36 released to ECs for project implementation, the amount of P31,767,162.90 or 39.10 per cent remained unliquidated. Said projects should have already been liquidated pursuant to Section 3 of the MOA which provides that: "the project(s) should be implemented and completed within six months after receipt of the subsidy appropriations by the Recipient from NEA or at a later date agreed upon between the two parties."

Likewise, Section 4 of the MOA listed down the documents that must be submitted by the Recipient to NEA within three months from completion of the project which will be the basis for liquidation. Also, the Recipient shall conduct close-out of the project within three months after NEA's final inspection and acceptance to facilitate the take-up of completed projects in the EC books.

19.12 The non-return of the DAP unreleased balance had been observed in CY 2016 and the practice of granting/releasing additional subsidy funds to ECs with unliquidated balance had always been emphasized in the yearly audit. However, audit recommendations have not been fully complied.

19.13 **We recommended that Management:**

a. **Immediately return to the Bureau of the Treasury the unreleased subsidy fund amounting to P102,564,837.67 in compliance with Section 83 of the General Provisions of General Appropriation Act of 2018 and the Supreme Court decision;**

b. **Stop the practice of granting subsidies to ECs without liquidating first the previous subsidy granted in compliance with the MOA and Section 4.5.6 of the COA Circular No. 2007-001;**

c. **Strictly require the concerned ECs to immediately liquidate subsidy funds received pursuant to Sections 3 and 4 of the MOA, with attached schedule or summary of documents to support the charged disbursements properly arranged and labeled to facilitate the closing of the books of both ECs and NEA; and**

d. **Direct the ECs to strictly comply with the agreed provisions specifically Sections 3 and 4 of the MOA.**

19.14 Management commented that in their coordination with Total Electrification Division (TED), the amount of P64,302,617.77 will no longer be released to the previous projects to which the DAP fund was originally allocated/obligated. Hence, this will be returned to the BTr.

On the other hand, the remaining unreleased balance in the amount of P38,262,219.90 will be validated and verified by TED from the concerned ECs as to the need to release the retention amount subject to the submission of final accounting of funds and other supporting documents.

Per NEA's record, the unliquidated balance of DAP as of December 31, 2018 is P28,765,957.74. Status as of March 22, 2019 shows that the only projects of CAMELCO and CASELCO remain unliquidated.

19.15 We commend NEA Management for the return of the unreleased DAP fund to BTr totaling P64,302,617.77 under O.R. No. 7059091 dated April 24, 2019 and recorded in NEA's booked under JEV No. 2019-04-002875 dated April 16, 2019.

However, verification of the remaining unreleased balance totaling P38,262,219.90 showed that seven ECs with nine projects had unexpended balance per AFs totaling P3,850,162.83 and five ECs with six projects had deficit balance per AFs aggregating to P13,010,476.51. Thus, unreleased balance with unexpended amount as per reported AFs for KAELCO (2 projects), MASELCO, BOHECO II, NORECO I, SOCOTECO I, SUKELCO and SIARELCO totaling P5,488,128.26 should be returned to BTr and furnish the COA Office, copy of the official receipt.

20. **Of the P574.043 million returned/remitted subsidy by 72 ECs in CYs 2017-2018, P121.297 million were booked under the NEA's General Fund accounts instead of the respective Subsidy Fund accounts which is contrary to Section 84 of Presidential Decree (PD) No. 1445.**

20.1 NEA received returned/remitted subsidy funds from 72 ECs from various sources in CYs 2017-2018 aggregating to P574,043,108.79 due to the following:

a. Unexpended balances resulting from COA disallowance;
b. excess subsidy fund for the project as reported in the Liquidation Accounting of Funds;
c. unimplemented projects;
d. return of unused House Wiring (HW) materials; and
e. interest earned from subsidy deposit.

20.2 NEA received subsidy funds returned/remitted in CYs 2017-2018 from ECs aggregating to P574,043,108.79 detailed as follows:

Summary of Returned Subsidy for CYs 2017-2018

Particulars	CY 2017	CY 2018	Total
A) NEA SEP/BLEP Fund Accounts			
1. DBP-NEA Barangay Electrification Fund	98,767.86	801,545.56	900,313.42
2. DBP-NEA YOLANDA	5,799.44	8,131.27	13,930.71
3. LBP-Barangay Electrification Fund	288,731,776.52	163,099,899.97	451,831,676.49
Total	**288,836,343.82**	**163,909,576.80**	**452,745,920.62**
NEA General Fund Accounts			
1. DBP-RE Construction Fund	30,941,140.02	14,176,338.15	45,117,478.17
2. LBP-Administrative Fund	46,397,011.00	28,401,063.84	74,798,074.84
3. LBP-Restricted Fund	384,890.11	165,789.89	550,680.00
4. LBP-SDSLP		830,955.16	830,955.16
Total	**77,723,041.13**	**43,574,147.04**	**121,297,188.17**
Grand Total	**366,559,384.95**	**207,483,723.84**	**574,043,108.79**

20.3 NEA maintains separate subsidiary accounts and bank deposits for the subsidy receipts from the National Government (NG) thru the Bureau of the Treasury (BTr) as follows:

Particulars	Subsidiary Ledger Account Code	Bank	Remarks
1. DBP –NEA Barangay Electrification Fund	111-0-05028-455-6	Development Bank of the Philippines (DBP)	SEP/BLEP
2. DBP-NEA YOLANDA	111-0455-034265-030	Development Bank of the Philippines (DBP)	YRRP
3. LBP -Barangay Electrification Fund	111-1872-1026-43	Land Bank of the Philippines (LBP)	SEP/BLEP

20.4 The accounts Development Bank of the Philippines (DBP) - NEA Barangay Electrification Fund and Land Bank of the Philippines (LBP) - Barangay Electrification Fund are the accounts used for Sitio Electrification Program/Barangay Line Enhancement Program (SEP/BLEP) related subsidy transactions, whereas the account DBP-NEA YOLANDA is used for Yolanda Rehabilitation and Restoration Project (YRRP) transactions.

20.5 Verification of NEA's subsidiary ledgers showed deviations in recording the returned/remitted subsidy funds in CYs 2017-2018 as shown in the preceding Table. The returned/remitted subsidy funds were booked to several accounts. However, only three of these accounts amounting to P452,745,920.62 were subsidy related accounts, namely: DBP-NEA Barangay Electrification Fund, DBP-NEA YOLANDA and LBP-Barangay Electrification Fund while refunds amounting to P121,297,188.17 were booked under NEA's General Fund account, namely: DBP-RE Construction Fund, LBP-Administrative Fund, LBP-Restricted Fund and LBP-SDSLP.

20.6 The account DBP-RE Construction Fund is used for EC loan transactions and the LBP-Administrative Fund, LBP-Restricted Fund and LBP-SDSLP accounts are used by NEA for its own operations. Hence, these accounts should not be used for any subsidy related transactions.

20.7 As a result, the three subsidy related accounts were understated by P121,297,188.17 and the four NEA General Fund accounts were overstated by the same amount. Though it does not affect the total cash balance, reclassification is necessary to monitor the utilization of subsidy fund for its intended purpose and for NEA's own operations in adherence with Section 84 (2) of the PD 1445.

20.8 **We recommended and Management agreed to immediately implement the following:**

a. **Stop the practice of recording returned/remitted unutilized subsidy receipts including interest earned to General Fund accounts and record any succeeding returns of subsidies from ECs to its respective Subsidy Fund accounts; and**

b. **Effect the following accounting entry to reclassify the recording of the returned/remitted unexpended subsidy from NEA's Corporate Fund to its respective Subsidy Fund accounts to reflect the correct balance of the accounts:**

Particulars	***Debit***	***Credit***
DBP-NEA Barangay Electrification Fund	*xxx*	
DBP-NEA YOLANDA	*xxx*	
LBP-Barangay Electrification Fund	*xxx*	
DBP-RE Construction Fund		*xxx*
LBP-Administrative Fund		*xxx*
LBP-Restricted Fund		*xxx*
LBP-SDSLP		*xxx*

20.9 For proper recording and monitoring, Management should provide the ECs with the corresponding bank account numbers in returning/remittance of subsidy related transactions and expedite the transfer of Subsidy funds from NEA's Administrative Fund Accounts to Subsidy related accounts for immediate adjustment in the books.

21. **Obligated/Allocated SEP and/or BLEP projects aged two to seven years totaling P70.135 million remained unreleased as of December 31, 2018 which is not in accordance with Section 2 of P.D. No. 1445, thus, deprived the intended beneficiaries of the unenergized sitios of much-needed funds for electrification.**

21.1 Section 2 of the Presidential Decree No. 1445 provides that:

"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."

21.2 Review of the Special Allotment Release Order (SARO) and its corresponding Notice of Cash Allocation (NCA) for CY 2011 – 2016 showed that 12 SEP/BLEP projects were obligated but remained unreleased as of December 31, 2018, detailed as follows:

	EC Name	Source Fund	NCA Date	Project Name	Date Obligated/ Allocated	Obligated/ Evaluated Cost	Unreleased Fund as of 12.31.18
1	QUIRELCO	2011 Batch 1	9.22.11	Additional funding	*8.27.15	901,740.64	901,740.64
2		2011 Batch 2	2.6.12/ 4.30.12	Additional funding	*8.27.15	1,012,825.72	1,012,825.72
3	CANORECO	2011 Batch 2	2.10.12	Projects of Gov. Tallado	*8.27.15	5,000,000.00	5,000,000.00
4	MARELCO	2013 BLEP	9.2.13 - 7.28.15	Construction of Submarine cable to Brgy. Polo, Sta. Cruz,Marinduque	1.30.17	6,100,000.00	6,100,000.00
6	NORECO I	2014 SEP	6.30.14 – 7.28.15	Freight and Handling	*8.27.15	3,700,000.00	3,700,000.00
7	LANECO	2014 BLEP	10.22.15/ 11.3.16	Line enhancement to three Barangays	*8.31.17	6,574,777.12	6,574,777.12
8	CASURECO II	2015 BLEP	11.3.16	Improvement of Tapping point to Matandang Siruma, Siruma	*6.30.16	831,014.71	831,014.71
9	ZAMSURECO II	2015 BLEP	11.3.16	Line improvement from San Jose, Imelda to Poblacion, Bayog	*6.30.16	3,430,879.38	3,430,879.38
10	ZAMSURECO II	2015 BLEP	11.3.16	Line enhancement to Barangay Matiag, Siocon	*6.30.16	3,778,614.42	3,778,614.42
11	ZAMCELCO	2015 BLEP	11.3.16	Line enhancement to Titabon Island, Zamboanga City	*6.30.16	1,953,065.43	1,953,065.43
12	MAGELCO	2015 BLEP	11.3.16	Line enhancement to three Barangays	*6.30.16	5,928,156.72	5,928,156.72
	Total					**39,211,074.14**	**39,211,074.14**

*Based on Report on Subsidy Receipts and Allocation from FPCD.

21.3 As of December 31, 2018, there were 12 projects under SEP/BLEP 2011 to 2015 totaling P39,211,074.14 which were obligated or allocated from August 27, 2015 to June 30, 2016. The above projects were included in the Notice of Cash Allocation (NCA) which were received within the period from September 2, 2011 to November 3, 2016.

21.4 The FPCD disclosed that the projects for the selected electric cooperatives (ECs) were obligated/allocated based on the verbal instruction only from the Accelerated Total Electrification Office (ATEO)/Total Electrification Division (TED).

21.5 Verification showed that no MOA were executed between NEA and the ECs for the above-obligated funds. The Accounts Services Division (ASD) informed that the three projects for LANECO, ZAMCELCO and MAGELCO costing P14,455,999.27 were cancelled without known reason.

21.6 Likewise, there was subsidy fund for SEP project obligated/allocated but not released as follows:

EC Name	Source Fund	Project Name	MOA Notarized Date	Obligated/ Evaluated Cost	Unreleased Fund as of 12.31.18	%	Unreleased Balance
ALECO	2014 Supplemental Appropriations Locally Funded Project	Installation of 10 Megavolt Ampere (MVA) Substation in Sto. Domingo, Albay	10.20.15	30,923,518.50	30,923,518.50	100	30,923,518.50
Total				**30,923,518.50**	**30,923,518.50**	**100**	**30,923,518.50**

21.7 NEA entered into MOA with ALECO for the installation of 10 Megavolt Ampere (MVA) Substation in Sto. Domingo, Albay with an approved evaluated and obligated project cost amounting to P30,923,518.50 under the 2014 Supplemental Appropriations locally funded project. This MOA was notarized on October 20, 2015.

21.8 Verification showed that on Sept. 25, 2015, a check was prepared and booked but this was not released to ALECO. As of January 4, 2016, the journal entry was reversed due to unclaimed check as of December 31, 2015. On April 5, 2016, the said check became stale.

21.9 Furthermore, the unreleased funds totaling P70,134,592.64 had been outstanding for two to seven years and were not part of the declared subsidy savings for CY 2011- 2016 source fund aggregating to P1,019,273,230.43 per NEA Board Resolution No. 193 dated October 24, 2018 as discussed in par.16.12.

21.10 The practice of obligating/allocating subsidy funds without releasing as of audit date is not in conformity with Section 2 of P.D. No. 1445, thus, deprived the intended beneficiaries of unenergized sitios of much-needed funds for electrification.

21.11 **We recommended that Management:**

a. **Submit explanation/justification on the non-release of obligated/allocated subsidy funds to 12 ECs for more than two to seven years and the unreleased subsidy funds for ALECO;**

b. **Re-evaluate thoroughly the ECs' requested subsidy funds, if any, and expedite the obligation/allocation and release of the said request to ECs specifically sitios that are in dire need of the energization; and**

c. **Return the funds if no longer needed.**

21.12 Management submitted the following justifications:

1. On the non-release of subsidy funds to 12 ECs

a. QUIRELCO, CANORECO & NORECO I

The subsidy funds allocated/obligated to the projects of the three ECs were cancelled as per TED's memo dated March 21, 2019 due to non-submission of required documents. The subsidy funds allocated/obligated to finance these projects were reverted to the unallocated balance to accommodate other SEP/BLEP projects that are yet to be identified by TED.

b. *MARELCO, LANECO, ZAMSURECO II, ZAMCELCO and MAGELCO*

Per TED's memo dated April 15, 2019, the subsidy funds allocated/obligated to the five ECs were cancelled. These ECs failed to submit the required documents to process their requests. The projects were replaced with new BLEP projects that were identified by TED.

c. CASURECO II

Based on TED's memo dated November 21, 2018, the total evaluated project cost was adjusted from P831,014.71 to P862,933.87 to finance the improvement of tapping point to Matandang Siruma, Siruma. The allocation in FPCD's report on subsidy fund allocation was correspondingly adjusted to reflect the new allocation when the BUR for initial release in the amount of P776,640.48 was processed on January 14, 2019. The check amounting to P761,412.24 was released to CASURECO II on March 28, 2019.

d. ALECO/APEC

After two failed biddings for the 10 MVA substation project of ALECO, the NEA organized a Special Bids and Awards Committee

(SBAC) and TWG comprised of members from NEA and APEC. On January 16, 2018, the project was awarded to a certain contractor and the construction of the project began in April 2018. As of today, the project is still on-going. As agreed upon by the contractor and NEA, the former wishes to have the funds released in full after the completion of the project. Hence, the subsidy fund remains with NEA as of today.

2. TED is closely coordinating with the ECs for the submission of the required documents to expedite the processing of the ECs' requests while FPCD is regularly/continuously coordinating with TED regarding subsidy fund allocation and releases. Subsidy utilization reports are regularly sent thru email to TED for monitoring. Also, the obligated funds are not monitored in the e-NGAS.

21.13 As a rejoinder submit immediately the latest report on the Status of 10MVA Substation Project Implementation of ALECO and allocate immediately the amount of P10.61 million to sitios that are in dire need of the energization specifically located in the far-flung areas.

NEA's compliance with the recommendations will be monitored to ensure its implementation.

22. **There is a variance amounting to P44.690 million between LEYECO II's YRRP Accounting of Fund (AF) and AF per audit due to NEA's non-verification of the liquidation documents before recording in its books contrary to Item No. 5.4 of COA Circular No. 2007-001 dated October 25, 2007. As a result, LEYECO II's unexpended balance was increased from P6.436 million per AF to P51.126 million per audit which must be returned to NEA due to lack/absence of supporting documents or not allowable disbursements as required in Sections 2 and 7 of the MOA and NEA Memorandum dated February 20, 2014.**

Also, the submitted documents attached to the EC's request for approval of charging the salaries of regular personnel against the YRRP fund amounting to P24.327 million appeared not verified by NEA prior to approval due to deficiencies noted, hence, not considered in audit.

22.1 Item No. 5.4 of COA Circular No. 2007-001 on Accounting and Reporting provides that:

> *"Within sixty (60) days after the completion of the project, the NGO/PO shall submit the final Fund Utilization Report certified by its Accountant and approved by its President/Chairman to the GO, together with the inspection report and certificate of project completion rendered/issued by the GO authorized representative, list of beneficiaries with their acceptance/acknowledgment of the project/funds/goods/services received. The validity of these documents shall be verified by the internal auditor or equivalent*

official of the GO and shall be the basis of the GO in recording the fund utilization in its books of accounts. These documents shall support the liquidation of funds granted to the NGO/PO".

22.2 Section 7 of the MOA provides that:

"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. 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 subsidy funds shall be considered only for balances amounting to P100,000 and above. Excess balances below P100,000 shall be returned to NEA one month after NEA final inspection and acceptance. ECs requesting for realignment are given three (3) months from NEA's final inspection and acceptance. Request for realignment shall no longer be accepted beyond this period."

22.3 NEA Memorandum dated February 20, 2014 provides the Guidelines on the Yolanda Recovery and Rehabilitation Plan (YRRP) Project Implementation and Release of Funds to the Electric Cooperatives (EC) as follows:

IV. IMPLEMENTING GUIDELINES

A. Coverage

1. *Total Rehabilitation/Restoration projects which cover replacement of the damaged electric distribution system including substation, poles, transformers, conductors, hardware, service drop wires, and kwh meters.*

2. *Repair/Rehabilitation of damaged substation, communication equipment, vehicles, and headquarters.*

3. *Replacement of damaged linemen tools.*

Xxx….

F. Project Audit

Xxxx…

2. *The NEA audit team shall conduct examination of liquidation documents as well as compliances to Memorandum of Agreement (MOA) provisions and conditionalities.*

22.4 LEYECO II received subsidy fund from the NG thru the NEA for the implementation of the YRRP Project totaling P481,385,792.67 (net) as of June 30, 2018, detailed as follows:

Project Description	Check No.	Date	OR No.	OR Date	Gross	Amount Received by LEYECO II (net of SC)
Calamity loan converted into subsidy/grant for Typhoon Yolanda on April 30, 2015 under NEA JV No. 2015-04-002756	19613	11/15/13	406404	11/15/13	50,000,000.00	50,000,000.00
To cover administration cost for the rehabilitation of lines damaged by Typhoon Yolanda.	45710303	02/19/14	408359	02/19/14	92,788,000.00	89,932,240.00
	45710313	03/07/14	407565	03/05/14	49,450,909.35	48,461,891.16
	45710329	04/02/14	409764	04/04/14	176,514,245.71	172,983,960.80
	45710351	07/14/14	414361	07/17/14	66,271,324.46	64,945,897.97
	45710361	12/01/14	062465	12/02/14	27,521,520.48	26,971,090.07
Sub-total					**462,546,000.00**	**453,295,080**
Additional release	45710392	10/03/14	0457423	10/06/16	28,663,992.52	28,090,712.67
Total					**491,209,992.52**	**481,385,792.67**

22.5 For the speedy rehabilitation of damaged distribution lines and the immediate resumption of power service in the affected areas of LEYECO II, NEA extended a calamity loan to the EC amounting to P50,000,000.00 on November 8, 2013, seven days or within the month after the Typhoon Yolanda and successive releases of subsidy fund with an accumulated amount of P481,385,792.67 (net of service charge).

22.6 The said calamity loan was eventually converted into subsidy per NEA Board Resolution Nos. 40 and 76 dated February 20, 2014 and April 14, 2014, respectively.

22.7 With the help of Task Force Kapatid from other electric cooperatives, the resumption of power service or restoration were immediately undertaken. Also, the rehabilitation and repair of damaged lines were implemented by administration and some labor by contract.

22.8 The implementation of the projects were completed, energized and inspected by NEA representatives on the following dates:

No. of Line Section	Date Completed and Energized	Date Inspected by NEA Representative	Date of Certificate of Final Inspection and Acceptance (CFIA)
175	Dec 23, 2013 to April 24, 2014	Feb. 29 to March 9, 2016	July 05, 2016
60	Jan. 4, 2014 – April 19, 2014	July 18 to 21, 2016	July 21, 2016

22.9 The subsidy funded project was liquidated in the NEA's books as follows:

JEV No.	Date	Amount
2016-07-005518	July 22, 2016	459,759,164.41
2016-09-007638	Sept 20, 2016	2,786,835.59
2017-02-001228	Feb. 22, 2017	28,663,992.52
Total		**491,209,992.52**

22.10 Examination of the liquidation documents and its supporting schedules disclosed unexpended/unutilized balance of the subsidy funds totaling P51,126,119.72 which must be returned to NEA pursuant to Sections 2 and 7 of the MOA. The details are as follows:

		Fund Utilization			Unexpended	
Project	**Amount Received by LEYECO II (net) (a)**	**Per EC (b)**	**Per Audit (c)**	**Variance d= (b-c)**	**Per EC e = (a-b)**	**Per Audit f=(a-c)**
YRRP	481,385,792.67	474,949,465.53	430,259,672.95	44,689,792.58	6,436,327.14	51,126,119.72
Total	**481,385,792.67**	**474,949,465.53**	**430,259,672.95**	**44,689,792.58**	**6,436,327.14**	**51,126,119.72**

22.11 As indicated in the MOA entered into by and between NEA and LEYECO II, the project costs P522,014,670.17 of which P491,209,992.52 or 94 per cent were already released to LEYECO II.

The AF and its supporting documents already reported unexpended balance totaling P6,436,327.14. However, review of the supporting documents revealed an increase of unexpended balance to P51,126,119.72 due to the discrepancies/variances aggregating to P44,689,792.58, detailed as follows:

Cost Category	Suspended	Not Allowed	Remarks
Materials		8,063,489.19	Discrepancy in the amount charged to AF against MCTs/MCRTs issued.
		3,813,000.00	Materials purchased before typhoon Yolanda.
Subtotal		**11,876,489.19**	
Labor	P 297 600		Payroll with no acknowledgment receipt.
		133,694.15	Discrepancy in the amount charged against actual cost incurred.
		3,945,656.23	Double charging of salaries
Subtotal	**297,600.00**	**4,079,350.38**	
Overhead		73,316.17	Excess of CA charged to AF
		150,000.00	Double charging due to duplication of documents
Subtotal		**223,316.17**	
Labor and Overhead		7,686,291.87	Cost not directly attributable to the project such as salaries of regular employees, lechon baboy, audio mixer, payment of security services, CCTV security system and other expenses incurred such as fixed glass and other room furniture.
	15,090,363.26		Lack of supporting documents such as payroll listing with acknowledgment receipt,

Cost Category	Suspended	Not Allowed	Remarks
			liquidation of the cash advance, official receipts, trip tickets, etc.
Subtotal	**15,090,363.26**	**7,686,291.87**	
	5,436,381.71		Labor and overhead charged to AF but not supported by documents.
Subtotal	**5,436,381.71**	**0**	
Total	**20,824,344.97**	**23,865,447.61**	
Grand Total		**44,689,792.58**	

22.12 NEA's failure to verify/examine first the liquidation documents before recording in the NEA books and forwarded to COA Office for audit which is not in adherence to the aforestated guidelines in the implementation of the YRRP fund, resulted in the increase of the unexpended balance from P6,436,327.14 as reported by the EC to P51,126,119.72.

22.13 On the other hand, it was recommended by the previous Audit Team under paragraph 19.3 of the Management Letter, that LEYECO II request authority from NEA on the charging of salaries and wages of its permanent employees amounting to P24,326,890.43 against the YRRP fund, otherwise refund the amount to NEA.

22.13.1 In compliance thereto, LEYECO II submitted Board Resolution No. 140-08-2017 amounting to P27,894,316 with attached request specifying in its letter the supporting documents as follows:

a. Affidavit of Loss of Logbook (in the absence of biometrics attendance system due to the absence of electricity) containing the attendance of the employees from December 2013 to September 2014;

b. Office Order dated November 14, 2013 regarding the temporary reassignment of cooperative employees in order to help the Electric Cooperative (EC) in its restoration activities; and

c. Photos showing the extent of damage of the EC and activities during Super Typhoon Yolanda Restoration and Rehabilitation.

22.13.2 Accordingly, the NEA approved the request only up to the amount of P24,326,890.43 for actual salaries and wages while the remaining balance of P3,567,425.57 is chargeable to LEYECO II's general fund. However, the submitted supporting documents appeared not verified by NEA prior to the approval due to some inconsistencies noted in the abovementioned request as follows:

- The logbook containing the attendance of the employees was not among those documents enumerated in the Affidavit that was lost and/or damaged during the onslaught of typhoon Yolanda where LEYECO II was one of those directly affected;

- The covered period of the lost logbook from December 2013 to September 2014 or a total of 10 months was way beyond the date when typhoon Yolanda struck the place sometime in November 2013;

- Within the period of 10 months, LEYECO II neither addressed to replace the lost logbook nor find other means to report employees' work man-hours properly; and

- Copies of the attached Affidavit of Loss and LEYECO II Office Order furnished to this Office were not the original copies.

Hence, the amount of P24,326,890.43 charged salaries and wages to YRRP fund of LEYECO II's permanent employees was not considered in audit, thus, this maybe charged to LEYECO II's general fund.

22.14 **We recommended that Management:**

a. **Ensure that all liquidated subsidies recorded in NEA's books are duly verified/examined first before submission to COA Office for audit and strictly enforce EC's compliance with Item No. 5.4 of the COA Circular No. 2007-001, MOA and NEA Memorandum dated February 20, 2014;**

b. **Conduct due diligence in verifying the validity of all supporting documents submitted on payments of salaries of regular personnel amounting to P24.327 million charged to subsidy fund prior to approval;**

c. **Direct/Require LEYECO II to:**

   i. **return/refund to NEA the unexpended/unutilized balance of the YRRP fund received amounting to P51,126,119.72 resulting from non-allowable charges and without supporting documents, and furnish immediately the COA Office a photocopy of the official receipt, for monitoring purposes;**

   ii. **submit immediately the lacking required documents as enumerated in paragraph 22.11 and other related documents with the supporting schedule/summary of the previous and the revised schedule, for comparison, verification and adjustment of the unexpended balance to establish proper utilization of subsidy funds pursuant to Sections 2 and 7 of MOA and NEA Memorandum dated February 20, 2014; and**

iii. **conduct a thorough review of the ECs AFs to ensure reconciliation with the supporting documents in order to have an accurate/correct reporting of AF.**

22.15 NEA responded to audit observations and recommendations by referring to the Audit Team a letter from LEYECO II dated March 18, 2019 which at the outset seems to request for extension of time to submit its reply but later on delved into an idea of availing reliefs and remedies under the COA Rules and Procedures.

22.16 As a rejoinder, while the Audit Team recognized the option of LEYECO II to avail procedural reliefs and remedies, the Audit Team is in a position that the same is prematurely raised considering that the Notice of Disallowance is not yet issued. Instead, the Audit Team suggested that NEA should respond accordingly in each audit recommendations sought for comment/ compliance.

22.17 During the exit conference, it was mentioned that NEA and LEYECO II will sit for another meeting on June 10, 2019 to determine the supporting documents that they will submit.

23. **The absence of standard price index for vehicle rentals resulted in excessive charging in the AFs for the YRRP/SEP/BLEP projects implemented by Bohol II Electric Cooperative, Inc. (BOHECO II), Leyte Electric Cooperative, Inc. and Leyte IV Electric Cooperative, Inc. (LEYECO IV) and SOLECO totaling P19.982 million. Thus, economy and efficiency were not ensured, which was inconsistent with Section 2 of P.D. No. 1445.**

23.1 The subsidy funds granted to electric cooperatives (EC) covered vehicle rentals as stipulated under the Memorandum of Agreement (MOA) entered into by the National Electrification Administration with the ECs. Section 3 of the MOA provides that:

> *"Whereas, there is a need for government to subsidize cost relative to the cost of fuel and minor repairs/maintenance and/or vehicle rentals directly used in the project, installation and construction of distribution facilities that will extend electric service to unenergized barangays or sitios, and rehabilitation of distribution lines and/or systems damaged by typhoons, earthquakes and other related calamities;"*

23.2 Copies of resolution/policy obtained from the three ECs disclosed the charges for the vehicle rental.

23.3 The costs of rental varies from P200.00 to P10,000.00, P1,000.00 to P9,000.00 and P4,000.00 to P8,000.00 among BOHECO II, LEYECO IV and SOLECO, respectively, depending upon the type of vehicle used. The vehicle rental expense totaling P19,981,811.48 were charged to subsidy fund covering twelve (12) projects implemented as follows:

Name of EC	No. of Project	Total Amount of Vehicle Rental Charged to Subsidy Fund
LEYECO IV	1	8,961.772.92
BOHECO II	4	2,306,664.43
SOLECO	7	8,713,374.13
Total	**12**	**19,981,811.48**

23.4 Moreover, it was noted that the vehicles rented for the subsidy funded projects are owned and operated by the abovementioned ECs

23.5 The amount charged to the subsidy fund appears to be excessive, hence, it is necessary that NEA provides the ECs a price cap relative to vehicle rental charges which are reasonable and economical in line with Section 2 of PD 1445.

23.6 **We recommended that NEA Management spell out in the MOA specific provisions on vehicle rental utilization and provide policy/standard price index/price cap that will serve as guide to ECs.**

23.7 On December 18, 2018, NEA commented that they will evaluate the recommendation in consultation with the Electric Cooperatives.

23.8 We maintain our recommendation for NEA to provide guidance in charging the said expenses to the subsidy funded projects.

24. **Quantity and capacity of distribution transformers installed in ZAMCELCO projects for SEP 2013 and 2014 with subsidy released totaling P24.21 million were deemed excessive, thus, casts doubt on the reliability of the approved evaluated cost of the project which may contribute to EC's system loss and the subsidy fund was not economically and efficiently utilized.**

24.1 The success of the SEP projects can be measured by the number of household connections it generates. Thus, the ECs request for funding for the construction of distribution lines of the SEP projects will not be granted/approved by NEA unless there is at least 30 minimum required potential households indicated that corresponds to the sitio/s request for funding.

24.2 Inquiry from some ECs engineers who directly supervised the SEP projects stated that:

Transformer Size (kVA)	Average No. of Household that can be Catered/Supplied
10	30
15	45
25	100
37.5	200

24.3 Initial connections in sitios/puroks are normally residential or household with minimal initial load. However, during the inspection of some SEP projects, the following were noted:

Name of Sitio/Purok	Date Completed	CFIA Date	No. of PHH Approved	No. of HH Beneficiaries as of 6.30.18	Required Transformer Size (kVA)	Transformer Installed (kVA)	Variance	Remarks
2013 SEP - Line Extension to six Sitios – Amount Received P4,444,845.12 (74.33% release)								
Sitio Sun View, Brgy. Cabatangan, Zamboanga City	8/5/14	10/17/14	30	10	10	37.5 (25)	27.5	Pulled out
Subtotal					**10**	**37.5**	**27.5**	
Purok 3, Pantano, Brgy. Malagutay, Zamboanga City	9/2/14	10/17/14	30	26	10	37.5	27.5	
Subtotal					**10**	**37.5**	**27.5**	
Sitio Tabukan Brgy. Tulungatung, Zamboanga City	9/16/14	10/17/14	30	30	10	25 25	40	
Subtotal					**10**	**50**	**40**	
Sitio Zone 7, Brgy. Tulungatung, Zamboanga City	8/26/14	10/17/14	30	8	10	25	15	
Subtotal					**10**	**25**	**15**	
2014 SEP - Line Extension to nine Sitios – Amount Received P 11,799,604.64 (77.86% release)								
Sitio Eligna, Brgy. Dulian-Bunguiao, Zamboanga City	9/19/15	2/24/16	60	60	25	25 25 (25)	25	Pulled out
Subtotal					**25**	**50**	**25**	
2014 SEP - Line Extension to six Sitios - Amount Received P 7,969,334.03 (81.94% release)								
Sitio Azcuna, Brgy. Mercedes, Zamboanga City	1/25/16	2/24/16	60	59	25	37.5 25 25 25 25 25	137.5	
Subtotal					**25**	**162.50**	**137.5**	
Grand Total			**240**	**193**				

24.4 As shown in the above Table, the 2013 and 2014 SEP projects were completed within the period from August 5, 2014 to January 25, 2016 with subsidy released ranging from 74 – 82 per cent. These projects were inspected and issued with CFIA by the ATEO on October 17, 2014 to February 24, 2016. The SEP 2013 and 2014 showed an approved 30 and 60 potential households (PHH) per project, respectively.

24.5 The transformers installed to the above listed SEP projects were more than the capacity needed by the household beneficiaries as compared to the required transformer and other implemented SEP projects. There were unusual high transformers to consumer ratio in terms of capacity and quantity. The total transformer capacity of 162.5 kVA for the 59 actual beneficiaries for line extension to six sitios under 2014 SEP creates total transformer kVA to consumer ratio at 2.75KW/household. The transformer to household/consumer ratio is also unusually high at one transformer for every three households/consumers. This under loaded transformers will result in high no-load losses which translate to high system loss.

24.6 This was also confirmed by some ECs when asked on the kilovolt-ampere (kVA) or transformer sizes and the average number of household connections that can be catered/supplied.

24.7 For the approved 30 PHH in Sitio Sun View, Brgy. Cabatangan, Zamboanga City, only 10 beneficiaries were connected as of June 30, 2018. The current demand and the actual connections count do not justify for 25 and 37.5kVA capacity transformers of large capacity. Furthermore, the distance of transformers is two poles apart.

24.8 Inquiry from the ZAMCELCO's Technical Services Department (TSD) Engineer revealed that the extra capacity of transformers installed in Sitio Azcuna, Barangay Mercedes, Zamboanga City was in anticipation for the future occupants in the area since it is a relocation site. The Audit Team informed that the main objective of the SEP project is to energize the present unenergized sitios and that all potential households benefitted the electrification program and not for future occupants.

24.9 ZAMCELCO Management commented that the installation of large capacity of distribution transformer is as follows:

a. Some of the existing beneficiaries were previously connected prior to the construction of distribution lines;
b. The Barangay Certification submitted which reflected the PHH are high but fewer beneficiaries applied due to financial constraints; and
c. Sitios are lengthy or with long spanning of line, the voltage quality in the area is greatly affected if no additional transformers will cater other beneficiaries.

ZAMCELCO further commented that the pulled-out transformer in Sitio Sun View, Brgy. Cabatangan was utilized at Canelar Moret, Brgy. Canelar which needs restoration of power due to a defective unit and the EC has no spare unit at that time. While in Sitio Eligna, Brgy. Dulian-Bunguiao, ZAMCELCO informed that the unit was found to be defective upon coordination with the Area Office concerned but was replaced and energized only on November 26, 2018.

Furthermore, inspection in Sitio Peralta drive, Brgy. Mampang under 2014 SEP revealed that the 25 kVA transformer was not also seen as compared with the As-Built Staking Sheet. ZAMCELCO replied that the unit was pulled out and utilized in other location within SEP that needs restoration of power due to defective unit and the EC does not have spare units.

24.10 The presence of extra transformer installed can be pulled-out anytime and used/installed to other projects since the remaining transformer is still more than enough for the households. The excessive quantity and capacity of distribution transformers installed casts doubt on the reliability of the approved evaluated cost of the SEP projects.

24.11 **We recommended that Management:**

a. **Re-evaluate the approved evaluated cost taking into consideration the transformer sizes based on the requested number of PHH and the inspection conducted on the unusual size of transformer and line spanning as shown in the As-Built Staking**

Sheets of the completed subsidy funded projects in ZAMCELCO 2013-2014 SEP;

b. **Evaluate ECs request for the release of fund with utmost care and thoroughly inspect completed subsidy funded projects to utilize economically and efficiently the subsidy provided by the National Government; and**

c. **Institute measures against the employee/s involved in the approval of the project cost and the CFIA issued, if determined negligent.**

24.12 Management submitted the following:

a. EC's 2013-2014 SEP projects is for re-evaluation. Any difference and/or excess between the actual project costs should be shouldered by the EC and excess of re-evaluation cost should be returned to NEA.

b. The transformer size will not depend on the number of households but it will depend on the actual load on the households and for potential future loads from additional beneficiaries.

c. Required transformer considered as-planned. Installed transformer considered from the actual loading of the transformer.

24.13 The primary goal of the SEP project is to energize the present unenergized sitios and that every potential households of the program ought to be benefitted and not for future inhabitants. Hence, NEA Management should check/inspect the unreasonable quantity and capacity of distribution transformer installed since these are under loaded transformers and will result in high no-load losses which translate to high system loss.

We maintain our position and reiterate our recommendation that NEA Management evaluate ECs request with utmost care and thoroughly inspect completed projects to utilize economically and efficiently the subsidy provided by the NG.

25. **NEA approved NOCECO's request for realignment on the variance of disbursements charged in the AFs due to unsupported documents covering the period October 16, 2009 to June 30, 2017 amounting to P6.8 million in spite of the filing beyond the prescriptive period, contrary to Section 7 of the MOA.**

Likewise, the approved request for realignment pertains to the amount of unsupported disbursements charged in the AF which is subject to submission of correct documentation instead of from the cost of unimplemented projects.

25.1 Section 4.5.3 (m) of COA Circular No. 2007-001 dated October 25, 2007 on the Revised Guidelines in the Granting, Utilization, Accounting and Auditing of the Funds Released to Non-Government Organizations/People's Organizations (NGOs/POs) provides:

> *"4.5.3 Xxx. The project shall be covered by a MOA which shall embody the terms of reference such as:*
>
> *Xxx*
>
> *m) The return by the NGO/PO to the granting GO of any amount not utilized to* complete the project, including interest, if any."

25.2 Accordingly, Section 7 of MOA entered into by and between NEA and NOCECO included terms which states that:

> *"It is agreed that all amount in excess of 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 project, **within one (1) month after Final Inspection of NEA."***

25.3 The foregoing provision was later amended under NEA Memorandum Circular No. 2013-022 dated September 30, 2013 which provides:

> *"Xxx…the request of ECs for written authority from NEA to use the savings/balances of 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 from NEA final inspection and acceptance**. Request for realignment shall no longer be accepted beyond this period."*

25.4 Audit of NEA Subsidy to NOCECO covering the period from October 16, 2009 to June 30, 2017 showed unutilized/unexpended subsidy fund amounting to P9,970,213.35, detailed as follows:

No. of Project	Subsidy Receipts (a)	Fund Utilization		Unutilized/Unexpended		Variance (f=b-c/d-e)
		Per EC (b)	Per Audit (c)	Per EC (d=a-b)	Per Audit (e=a-c)	
13	172,726,134.62	169,021,489.62	162,755,921.27	3,704,645.00	9,970,213.35	6,265,568.35

25.5 The Audit Team recommended for the return/remittance of the unexpended/unutilized subsidy amounting to P9,970,213.35 to NEA. However, NEA approved NOCECO's request for realignment under NEA Memorandum dated June 13, 2018 based on Board Resolution No. 95, Series of 2018.

25.6 Out of the P9,970,213.35 unexpended/unutilized subsidy requested for realignment, the amount of P24,847.73 which pertains to BLEP 2013 project for one barangay is below P100,000, thus, should be returned as per NEA Memorandum Circular No. 2013-022. Moreover, NEA approved the amount of P6,818,820.12 and the remaining balance of P3,151,393.23 was recommended for return to NEA. Accordingly, NOCECO returned to NEA the excess amount of P3,151,393.23 under Official Receipt No. 7898368 dated July 23, 2018.

25.7 Nonetheless, review of the approved realignment amounting to P6,818,820.12 disclosed that the amount pertains to the unsupported disbursements charged in the AF instead of the cost of unimplemented project. The amount that may be subject for realignment should be P3,704,645.00 only, representing the net unutilized/unexpended subsidy after deducting the variance found in audit amounting to P6,265,568.35, detailed as follows:

Particulars	Amount
Unutilized/unexpended amount per audit	9,970,213.35
Less: Variance/discrepancy due to unsupported documents charged to AF	6,265,568.35
Net unutilized/unexpended amount	**3,704,645.00**

25.8 The variance on fund utilization per audit as against EC amounting to P6,265,568.35 was due to lack of pertinent documents to support the liquidation of subsidy fund such as Material Charge Tickets, Check Vouchers, Travel Orders and Daily Time Records (DTRs), detailed as follows:

Description	Amount	Remarks
Materials	(5,840,466.54)	No attachments of supporting documents. Not included in the Check Voucher computation and not included in the ECs AF
Labor	9,958,179.26	No attachments of supporting documents. Not included in CV computation and not included in the ECs AF. No payroll allocation of the number of hours rendered and travel order with an itinerary of travel.
Overhead	2,035,730.63	No attachments of supporting documents
Housewiring	112,125.00	No attachments of supporting documents
Total	**6,265,568.35**	

25.9 The unsupported expenditures should not be included in the request for realignment of unutilized/unexpended subsidy fund, rather, NOCECO should comply with the proper documentation on the liquidation of subsidy fund. Otherwise, the same should be returned to NEA in accordance with Section 7 of the MOA.

25.10 Moreover, based on the documents submitted to COA Office, NOCECO Board Resolution No. 83b, approving the request for realignment of excess of subsidy fund on June 14, 2018 was beyond NEAs final inspection and acceptance. The details of inspected projects are provided as follows:

	Source Fund	Name of Project	Date of Inspection/ CFIA	Allowed Period for the Request of Realignment	No. of Months Lapsed
a.	2011 SEP	Line extension of distribution lines for six sitios	9/19/2013	9/20/13 - 12/19/13	53
b.	2012 SEP	Line extension to three sitios.	9/19/2013	9/20/13 - 12/19/13	53
c.	2012 SEP	Line extension to seven sitios	9/19/2013	9/20/13 - 12/19/13	53
d.	2013 SEP	Line extension to 10 sitios	9/19/2013	9/20/13 - 12/19/13	53
e.	2013 SEP	Line extension to 12 sitios	9/19/2013	9/20/13 - 12/19/13	53
f.	2013 SEP	Line extension to 7 sitios	7/14/2014	7/15/14 - 10/14/14	43
g.	2013 SEP	Line extension to 30 sitios	7/14/2014	7/15/14 - 10/14/14	43
h.	2013 SEP	Line extension to 43 sitios	7/14/2014	7/15/14 - 10/14/14	43
I	2013 SEP	Line extension to 4 sitios	7/14/2014	7/15/14 - 10/14/14	43
j.	2014 SEP	Line extension to 7 sitios	06/29/15	6/30/15 – 9/29/15	32
k.	2014 SEP	Line extension to 26 sitios	06/25/15	6/26/15 – 9/25/15	32
l.	2013 BLEP	Line enhancement to Brgy. Lumbia, Cauayan	07/14/14	7/15/14 - 10/14/14	43
m.	OPPAP	Line extension to So. Mabinay, Locotan, Kabankalan City	7/12/2017	7/13/17 -10/12/17	n/a

25.11 As shown in the preceding table, except for OPPAP funded project for the extension of distribution lines to Sitio Mabinay, Locotan, Kabankalan City which was inspected on July 12, 2017, all other projects requested for realignment on June 7, 2018 were 32 to 53 months beyond the period within which to file a request for realignment. Despite the expiration of the period of filing a request, the ATEO/TED evaluated the request and approved by Corporate Planning Office on June 14, 2019 contrary to the provision of Section 7 of the MOA.

25.12 In the evaluation of request for realignment of projects or utilization of excess subsidy, the variance found in audit which is caused by unsupported documents should be considered for the proper determination of the amount that will be endorsed for authorization. Also, the applicable period to accept a request for realignment provided under Section 7 of the MOA must be strictly enforced.

25.13 The inclusion of the items unsupported with liquidation documents amounting to P6,265,568.35 resulted in inaccurate amount of unutilized/unexpended subsidy that may be authorized for realignment. On the other hand, non-compliance with the period within which to file a request under Section 7 of the MOA should not be approved.

25.14 **We recommended that Management:**

a. **Require the NOCECO to:**

i. **return the amount of P24,847.73 representing unexpended balance below P100,000 in compliance with Section 7 of the MOA;**

ii. **submit the lacking documents properly labeled together with supporting schedules per project to support the**

disbursements/charges included in the AF amounting to P6,265,568.35, otherwise, compel NOCECO to return/remit the same to NEA in accordance with Section 7 of the MOA; and

b. **Strictly enforce the prescribed period of filing request for realignment in accordance with Section 7 of the MOA.**

25.15 Management commented the following:

a. Evaluation of the approved realignment showed that the amount of P24,847.73 was already included in the amount returned by the EC amounting to P3,151,393.20.

b. NEA issued the policy guidelines on Strategized Total Electrification Program (STEP) in January 2019. The guidelines provide the terms and conditions for the approval of request for realignments. The said enhanced provisions were also included in the MOA starting first quarter of 2019.

c. NEA sent letter to NOCECO dated March 29, 2019 requesting submission of lacking documents in compliance to COA audit findings on or before April 1, 2019. However, NOCECO's reply was sent to COA on April 3, 2019 and stated that it could no longer submit the lacking documents and that was the reason for the request for realignment which was approved by NEA. NOCECO pursued the construction of the approved realignment, thus could no longer return the P6,265,568.35 to NEA.

25.16 As a rejoinder:

a. Though the amount of P24,847.73 was included in the return made by NOCECO to NEA amounting to P3,151,393.23 in compliance with audit recommendation to return/remit the unexpended/ unutilized subsidy balance of P9,970,213.35, still, the unsettled/unremitted subsidy fund by NOCECO remains in the amount of P6,818,820.12.

b. NEA Memorandum No. 2019-001 dated January 9, 2019 provides for the period within which to secure NEA's approval of request for realignment by ECs. However, it does not addressed the proper evaluation of request that will be undertaken by the NEA officers. To reiterate on the evaluation of request for realignment of projects or utilization of excess subsidy, the variance found in audit which is caused by unsupported documents should be taken into account for proper determination of the amount that will be endorsed for authorization.

c. The Audit Team maintain its recommendation that in the absence of liquidation documents to support the disbursements/ charges made in the AF amounting to P6,265,568.35, the same should be returned/ remitted to NEA. It must be emphasized that the variance amounting to P6,265,568.35 pertains to the unsupported disbursements/ charges in the AF instead of the cost of unimplemented project which would be considered as savings/balance that may be realigned/utilized to other projects under Section 7 of the MOA as amended by NEA Memorandum Circular No. 2013-022 dated September 30, 2013.

25.17 During the exit conference, NEA stated that the approved realigned project was already implemented/completed and will request for inspection to liquidate the realigned fund.

25.18 NEA should inspect immediately the realigned implemented/completed sitios and upon issuance of CFIA, require LEYECO II to liquidate the realigned fund.

26. **Liquidation of subsidy funds of ISELCO I amounting to P23.564 million was not supported by Certificate of Completion/CFIA which is not in conformity with Section 5.4 of COA Circular No. 2007-001 dated October 25, 2007 and Section 4 of the Memorandum of Agreement (MOA). Moreover, ISELCO I received two subsidy funds for same project from DOE and NEA.**

Likewise, there were disbursements/charges included in the AFs of ISELCO I, PROSIELCO and ZAMCELCO totaling P3.447 million even though incurred prior to the receipt of the subsidy fund and start of the project and after the completion date/issuance of CFIA.

26.1 Section 5.4 of COA Circular No. 2007-001 dated October 25, 2007 on the Revised Guidelines in the Granting, Utilization, Accounting and Auditing of the Funds Released to Non-Governmental Organizations/People's Organizations (NGOs/POs) requires that Inspection Report and Certificate of Project Completion rendered/issued by the Government Organization authorized representative will form part of the supporting documents for the liquidation of funds granted to the NGO/PO.

26.2 The MOA entered into by and between NEA and ECs includes terms of reference under Sections 3 and 4 which states that the Inspection Report and Certificate of Project Completion are among the documents required to be submitted to support the liquidation of funds which serve as proof that the project was fully completed.

26.3 The per centage of subsidy fund releases to two ECs ranges from 90 to 100 per cent. Considering that only the 10 per cent subsidies withheld as retention money were unreleased, it may be concluded that the projects covered by subsidy releases to ISELCO I and PROSIELCO were already in its completion stage. However, the disbursements/charges amounting to P2,765,714.71 were incurred before the receipt of the fund and start of the project.

26.4 Moreover, the expenditures for Brgy. Mabbayad and Brgy. San Carlos, Echague under 2011 BLEP projects at ISELCO I were supported by MCTs dated back in CYs 2007 and 2008 totaling P2,090,171.39 which were ahead of the 1st to 3rd/final release of the subsidy fund in March to October 2012, which should not be included in the AF.

26.5 ISELCO I subsidy receipt from the Department of Energy (DOE) amounting to P2,331,261.58 through fund transfer under Check No. 406727 on November 28, 2006 covering the said two barangays was attached to the liquidation documents. This indicated that ISELCO I received two subsidy funds for the same project, one from DOE and the other one from NEA totaling P2,737,316.64.

26.6 Also, under the PROSIELCO 2013 SEP project for the extension of distribution lines to 23 sitios, four sitios were charged with salaries of contractual employees before the start of the project on August 3 to September 20, 2013, and should not also be included in the AF.

26.7 On the other hand, the ISELCO I, PROSIELCO and ZAMCELCO included in their AFs disbursements/charges which were beyond the project completion date/CFIA. ISELCO I, PROSIELCO and ZAMCELCO charged disbursements in the AFs the total amount of P858,437.81 which were incurred beyond the date of completion and the same as those charges prior to project started, these should not be included in the AF.

26.8 One of the identified reason for the attachment of erroneous supporting liquidation documents specifically transactions before the start of the project and beyond the completion date is the laxity of the NEA concerned personnel to verify the validity of the disbursements/charges in the AFs.

Compliance with the required supporting liquidation documents pursuant to Section 5.4 of COA Circular No. 2007-001 and MOA provision must be observed to avoid suspension or disallowance in audt.

26.9 The liquidation of subsidy funds of ISELCO I amounting to P23,564,280.52 was not supported by Certificate of Completion (COC)/CFIA. EC Management commented that they no longer requested NEA for inspection since the previous rehabilitation made was also affected by succeeding typhoons and repaired by subsequent typhoons. It is reiterated that in all completed projects, the ECs should immediately conduct an inspection and prepare Certificate of Completed Projects (CCP) for NEA to conduct final inspection and prepare CFIA for inclusion in the liquidation documents.

26.10 Furthermore, the Damaged Reports for Typhoon Juan, Pedring and Quiel in ISELCO I were submitted as additional documents to justify the absence of the CFIA in the liquidation of the calamity funds on September 26, 2017. These were not dated and submitted only to NEA thru e-mail addressed to Accounts Services Division (ASD) on August 24, 2017. Normally, these Damaged Reports should be submitted as a requirement for a request for subsidy funding. In the case of ISELCO I, these were calamity loans converted into subsidy on October 23, 2014 and January 30, 2015, but required only by NEA on August 2017 to support the liquidation.

26.11 **We recommended that Management:**

a. **Validate the AFs' correctness of the disbursements/charges duly/properly signed and dated by the concerned officers and employees as proof that the documents are reviewed; and**

b. **Direct the concerned ECs to submit the required CFIA/Inspection Report and Certificate of Project Completion to support the liquidation of subsidy funded projects as provided in Section 5.4 of COA Circular No. 2007-001 dated October 25, 2007 and Section 4 of the MOA.**

26.12 Management replied that the ASD concerned employees will sign as verified the AF before submitting the same to COA as discussed with IAQSMO. They also submitted the ISELCO I's documents on the Damaged Report of the Distribution Lines caused by Typhoons Juan, Pedring and Quiel which included its willingness to return the charges before the subsidy receipts and start of the projects.

26.13 As a rejoinder, NEA should ensure that in all completed projects, the EC should immediately conduct inspection and prepare Certificate of Completed Projects for NEA to conduct final inspection. Also, the Audit Team will monitor the return of P2,588,328.21 which pertained to the MCTs charged before the receipt of the fund and start of the project implementation.

26.14 During the exit conference, NEA mentioned that they will direct the ISELCO I for the return of the subsidy amounting to P2.588,328.21.

27. **The subsidy funded projects of eight ECs were completed beyond the prescribed period of six months after subsidy receipts or a delay ranging from one day to 43 months which is not compliant with Section 3 of the MOA, resulting in delayed attainment of the benefits derived from the project.**

Likewise, the conduct of inspection, liquidation of subsidy receipts and project close-out were also delayed which is not in accordance with the applicable period covered by Section 4.a of the MOA and NEA Memorandum No. 2013-023.

27.1 Section 3 of the MOA between the NEA and ECs provides the period within which the project/s funded by NEA subsidy shall be implemented and completed which is within six months after the receipt of subsidy by the ECs. Likewise, should the ECs foresee the possibility of failing to complete the projects within the six months period, they shall make a written request to NEA for extension within 30 days before its expiration.

27.2 Also, Section 4.a of the MOA requires that CFIA must be submitted by the ECs to NEA within three months from completion of the project which shall be the basis for liquidation.

27.3 Accordingly, documentary requirements supporting the liquidation of subsidy receipts enumerated in Section 4.a of the MOA and NEA Memorandum No. 2013-023 dated October 10, 2013 must be submitted within three/four months from the completion of the project or within six months after final inspection and acceptance of NEA, respectively.

Moreover, the ECs shall conduct close-out of the project within three months after the NEA's final inspection.

Delay in Project Implementation and Completion

27.4 Per ECs' issued Official Receipts, Project Implementation Report/Certificate of Completion or other equivalent documents and NEA issued Certificate of Final Inspection and Acceptance (CFIA), ECs incurred delay in the implementation and completion of projects, detailed as follows:

Table 1: Delay in Project Completion

EC Name		No. of Project	Date of Subsidy Receipt	Date should be Completed	Date Completed	No. of Months Delayed
1.	BATELEC II	3	08/01/12–06/23/15	02/01/13–12/23/15	08/20/14–01/04/16	less than 1 – 24
2.	CENPELCO	3	12/15/14–06/26/15	06/13/15–12/23/15	06/15/15–03/20/17	less than 1 – 22
3.	ISELCO II	4	01/30/14–12/22/14	07/29/14–06/20/15	10/10/14–12/03/16	1 – 18
4.	MORESCO I*	11	09/30/11–12/01/15	12/29/11–05/29/16	01/23/12–01/18/17	less than 1 –8
5.	MORESCO II	8	07/06/12–10/09/17	01/06/13–04/09/18	03/20/13–07/05/18	less than 1 –22
6.	PROSIELCO	4	07/03/13–04/07/15	01/03/14–10/07/15	01/11/14–12/31/15	less than 1 –3
7.	SOLECO*	7	10/04/11–01/30/15	01/02/12–07/29/15	05/08/12–09/06/15	less than 1 –10
8.	ZAMCELCO*	4	10/06/11–06/30/14	02/06/12–12/16/14	06/04/13–04/20/18	8 to 43
Total		**44**				

**90 days for CY 2011 and six months for CYs 2012 to 2014*

27.4.1 As shown in preceding Table, 44 projects implemented by eight ECs namely: BATELEC II, CENPELCO, ISELCO II, MORESCO I, MORESCO II, PROSIELCO, SOLECO and ZAMCELCO incurred delay in the completion of projects ranging from one day to 43 months or beyond six months after receipt of the subsidy funds by the ECs.

27.4.2 The ECs explained/justified that the delay in the project completion was due to the following:

a. Right-of-way problem;
b. the occurrence of the destructive typhoon;
c. peace and order situation;
d. shortage/unavailability of supplies/workforce because some ECs diverted their supplies/workforce to help in the restoration of electric facilities of other ECs affected by destructive calamities;
e. inaccessibility of some sitios due to the absence of access road;
f. inclement weather condition;
g. realignment of the project from one or more sitio/s to another;
h. increase in the cost of materials;
i. supplier's delay in the delivery of materials;

j. replacement of unmatched pole materials used in the project as compared to approved type and specifications;
k. lack of linemen to work on the line construction; and
l. other on-going projects of the ECs

27.4.3 Though the incidence of calamities and issue in peace and order situation may be considered as valid reasons in non-completion of the projects as scheduled, the ECs still have to comply with the MOA on prompt submission of a written request to NEA for extension and obtaining appropriate authorization from NEA after the proper evaluation was made. On the issues related to project implementation such as realignment, right-of-way and other matters already present and may be resolved before project implementation, it should have already been considered during the evaluation of project proposal of the ECs.

Delayed Inspection

27.5 Within three months after completion, a CFIA should be prepared which will serve as the basis for liquidation. However, delayed inspection of completed projects was noted in audit, for four EC's with 32 projects ranging from 1 month to 56 months as follows:

Table 2: Delay in Project Inspection

	EC Name	No. of Project	Date Completed	Date should be Inspected	Date Inspected by NEA	No. Months Delayed
1	CENPELCO	16	04/18/12-03/22/16	07/17/12-06/20/16	09/09/13-10/27/16	2- 14
2	ISELCO II	4	10/10/14-03/02/16	01/08/15-05/31/16	04/18/17- 05/05/17	2- 28
3	PROSIELCO	9	10/26/11-12/31/15	01/26/12-03/31/16	03/13/12-05/18/16	1 - 28
4	ZAMCELCO	3	06/04/13-06/06/13	09/04/13- 09/06/13	05/01/18-05/31/18	56
Total		**32**				

Delayed Liquidation

27.6 After the completion of the project or issuance of CFIA, it is necessary that subsidy receipts by the ECs which were utilized in the projects should be liquidated within the prescribed period provided in the MOA or NEA Memorandum. On the contrary, liquidation of three ECs was not made within the allowed timeframe or even remained unliquidated as of audit date, detailed as follows:

Table 3: Delay in Liquidation of Subsidy Receipts

	EC Name	No. of Project	Date Completed/CFIA	Date should be Liquidated	Date Liquidated	No. of Months Delayed
1	MORESCO II*	17	09/15/12-09/18/17	12/15/12-03/15/18	11/27/15-08/30/18	8.5 - 37.8
2	TISELCO**	3	03/20/15-07/31/17	09/13/15-01/27/18	06/30/18***	5 – 34
3	ZAMCELCO*	3	06/04/13-06/06/13	09/04/13-12/06/13	06/30/18***	56 - 57
Total		**23**				

** three/four months liquidation period provided in the MOA*
*** six months liquidation period under NEA Memorandum No. 2013-023*
****unliquidated as of audit date*

27.6.1 As shown in the preceding Table, three ECs with a total of 23 projects were delayed in liquidating subsidy funds ranging from five months to 57 months or beyond the period within which to liquidate subsidy receipts after completion of the project.

Delay in Project Close-out

27.7 MOA included other requirement for the ECs to conduct project close-out within three months after the NEA's final inspection. However, the ECs failed to comply with the prescribed close-out period, detailed as follows:

Table 4: Delay in Project Close-out

	EC Name	No. of Project	Date Inspected by NEA	Date should be Closed-out	Date Closed-out	No. of Months Delayed
1	CENPELCO	13	09/09/13-10/27/16	12/08/13-01/25/17	12/31/13-08/31/17	less than 1 – 32
2	ISELCO II	2	01/31/14-05/05/17	05/01/14-08/03/17	02/28/17-06/30/18	5 – 51
3	MORESCO II	14	11/17/12-01/20/16	02/17/13-04/20/16	12/31/13-08/01/16	2 – 12
Total		**29**				

27.7.1 The preceding Table showed that three ECs with a total of 29 projects were delayed in conducting project close-out for seven days to 1,521 days or three months beyond the project close-out period or approximately 90 days after the final inspection.

27.8 In the implementation of the projects awarded to ECs, proper observance of MOA's terms as regards to the period of completion should always be taken into priority for the immediate attainment of its primary purpose of providing electricity to much-needed residents in a far-reaching rural communities in the country. Delay due to circumstances beyond the control of ECs should be promptly reported to NEA for an appropriate extension of time. While delay due to ordinary circumstances present before the implementation of the project should be addressed early on as part of the evaluation procedure on the project proposal of ECs.

27.9 Necessarily, inspection of completed projects should be conducted within the prescribed period for the issuance of CFIA to facilitate timely liquidation of subsidy receipts and project close-out.

27.10 **We recommended that Management:**

a. **Take appropriate measures to ensure the completion of the projects within the prescribed period as required in Section 3 of the MOA by enhancing the procedures employed in evaluating the project proposal of the ECs which would address the ordinary issues encountered by concerned ECs during the implementation of the project;**

b. **Advise ECs on prompt reporting of any unexpected circumstances beyond their control that could impede the timely completion of a project supported by written request for extension of time for evaluation of concerned NEA official; and**

c. **Direct ECs for the adherence to the timeframe provided under the MOA for the timely conduct of inspection, liquidation of subsidy funds and project close-out; and**

d. **Strictly enforce sanctions provided in the MOA.**

27.11 Management submitted the following comments:

a. NEA issued Memorandum No. 2017-009 to all Electric Cooperatives with the subject "(1). Completion of Sitio Electrification Program (SEP) and Barangay Line Enhancement Program (BLEP) Projects; (2). Liquidation of Subsidy Fund Released within the Prescribed Timeline."

b. NEA issued the Policy Guidelines on the Implementation of Strategized Total Electrification Program (STEP).

c. Stipulated in the Memorandum of Agreement between NEA and EC, particularly No. 3, Sections a and b:

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

b. Should the RECIPIENT foresee the possibility of failing to complete the project(s) within the six-month period, 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 same 30-day period. Furthermore, any extension of the said six-month period shall, in no case, exceed three (3) months.

27.12 The Audit Team maintains the audit recommendations as it appears that there is no positive action that will be taken by NEA to improve the enforcement of the MOA and other NEA issuances in relation to timely project completion, inspection, liquidation and close-out.

28. **The Housewiring Program with project cost approved by NEA for Electric Cooperatives (ECs) was not effectively implemented by the ECs due to large number of potential households not connected resulting in non-attainment of the objective of the program.**

Likewise, some deficiencies were noted in the implementation of the program and not compliant with NEA Memorandum No. 2011-024 which deprived the privilege of the poorest segment in the rural areas from the extended government program that will help uplift their lives.

28.1 General Appropriations Act (GAA), FY 2018 - Special Provision No. 1 on Subsidy to the NEA provides:

"Release of funds for Sitio Electrification Projects shall be subject to the submission of a certification from the barangay chairperson on the population and number of houses per sitio, map of the municipality or city indicating the sitios and barangays to be energized and cost of energizing a sitio."

28.2 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)"*

28.3 As provided in the GAA, release of subsidy funds from the National Government (NG) for the Sitio Electrification Program (SEP) project is reliant on the submitted certification from the barangay chairman as stated above. Thus, it is necessary that the EC's request for the release of construction funds is supported with the barangay certification stating the unenergized sitios with the required number of potential households (PHH) to be served before the processing is made.

28.4 The Housewiring Program was established to help the poorest segment of the society and the households or marginalized consumers in the far-flung areas to defray the cost of house wiring materials and labor amounting to P2,500 per household and uplift the lives of the rural people.

28.5 In CY 2011, to be energized (on-grid), there should be at least 20 potential households to be served with a maximum number of 30 households per sitio, however, in CY 2013, it was enhanced to 60 consumers per sitio/purok or the actual number whichever is lower that is provided with the housewiring materials per NEA Memorandum No. 2013-008.

28.6 The indicated number of PHH in the ECs submitted for the RRCF or Budget request were either 20, 30 or 60 PHH per sitio depending on the year it was requested with the corresponding housewiring materials amounting to P2,500 per sitio as provided in NEA Memorandum No. 2011-024.

28.7 Audit of ECs Housewiring Program for Sitio Electrification Program (SEP) and Barangay Line Enhancement Program (BLEP) projects in CY 2018 revealed the following:

EC	Source Fund	No. of Brgy.	No. of Sitio	No. of Approved PHH (a)	List of Recipients as of June 30, 2018 (b)	Variance c= (a-b)	%
a. MORESCO I	SEP 2011-2015	-	579	13,163	9,503	3,660	72
b. CENPELCO	SEP 2011 - 2015	-	605	8,097	4,196	3,901	52
c. SOLECO	SEP 2012 - 2015	-	267	5,938	5,234	704	88

EC	Source Fund	No. of Brgy.	No. of Sitio	No. of Approved PHH (a)	List of Recipients as of June 30, 2018 (b)	Variance c= (a-b)	%
	BLEP 2013	2	-	60	76	(16)	100
d. ISELCO II	SEP 2012-2014	-	104	3,007	2,398	609	80
	BLEP 2012-2013	23	-	2,060	1,058	1,002	51
e. PROSIELCO	SEP 2011 - 2014	-	125	3,430	1,424	2,006	41
f. ZAMCELCO	SEP 2013 - 2014	-	21	1,060	448	612	42
Total		**25**	**1,701**	**36,815**	**24,337**	**12,478**	**66**

28.8 As of June 30, 2018, six audited ECs namely Misamis Oriental I Electric Cooperative, Inc. (MORESCO I), Central Pangasinan Electric Cooperative, Inc. (CENPELCO), Southern Leyte Electric Cooperative, Inc. (SOLECO), Isabela II Electric Cooperative, Inc. (ISELCO II), Province of Siquijor Electric Coopertive, Inc. (PROSIELCO) and Zamboanga City Electric Cooperative, Inc (ZAMCELCO) have a total 36,815 approved PHH under 2011 to 2015 SEP projects, however, only 24,337 or an average of 66.11 per cent were benefitted of the housewiring program.

28.9 Below are the identified reasons for the non-implementation of the approved PHH for Housewiring Program:

Name of EC	Reasons for Non-Implementation of PHH for Housewiring Program
1. MORESCO I 2. CENPELCO	PHH beneficiaries were only estimates provided by the Barangay Chairmen for possible qualification as beneficiaries in their constituent. Thus, the total potential housewiring beneficiaries stated in the RRCC to benefit from the program were overestimated.
3. ZAMCELCO	The submitted certification from the barangay was not the same as submitted for the number of PHH.
4. ISELCO II	The housewiring budget for the number of PHH beneficiaries was not fully implemented due to the absence of household in the SEP project after the construction of lines for security reason. The amount unutilized was deducted, however, in the accounting of funds/closed-out per liquidation of the account submitted to NEA.
5. PROSIELCO	Before and during the campaign period for the national and local elections, some candidates and/or political parties provided free electrical installations to some households and most of them grabbed the opportunity of free electricity and housewiring connection.
6. SOLECO	There were cases on the survey together with the barangay officials that the number of potential households in particular sitios was way below the NEA's minimum number of 20 HHs. During consultation with the concerned barangays, it was suggested to report the minimum of 20 since they were certain potential households and would transfer to the recipient-sitios once electric distribution lines were available in the area.

28.10 Inspection and interview conducted in selected sitios/barangays on housewiring program under 2011 – 2015 SEP/BLEP revealed the following:

Sitio	Results of Interview from the Household Beneficiary
a. ISELCO I	
Core Shelter Prk. Manuel, Sinamar Norte, San Mateo, Isabela	Of the nine household beneficiaries, five disclosed that only the KWh meter and one receptacle were given free. Since their houses were not completely installed with the free housewiring materials, the accredited electrician of Isabela Employees Multi-Purpose Cooperative (IEMPC) offered and contracted to finish the installation for a total cost of P10,000.00.
	Two household beneficiaries claimed that the housewiring materials were received except for the two bulbs.
Old Centro Proper, San Mateo, Isabela	Of the four household beneficiaries, three claimed that no bulb was given/installed and one household informed that only the kWh meter was given free.
Prk. 1 Brgy. Villa Beltran, Ramon, Isabela	Of the 11 household beneficiaries interviewed, one insisted that she did not receive any bulb. So she bought their bulbs.
Prk. 3 San Miguel, Ramon, Isabela	Of the six household beneficiaries, one claimed that only one bulb was installed in his house.
b. ZAMCELCO	
Sitio Peralta Drive, Mampang	There were no beneficiaries. According to the Institutional Services Department (ISD) staff who was present during the inspection, the work done was upgrading of distribution lines only. Thus, the allocated cost for the 60 potential household must be returned to NEA.

28.11 The Table above showed the ineffective implementation of the project, due to non-compliance with NEA Memorandum No. 2011-024 such as:

- Incomplete release of free electrical wires, bulbs and receptacles; and
- Payment of additional expenses within the free 30 meters service dropwires

28.12 In addition, the implementation of the Housewiring Program is also not effective because the PHH cannot avail electric service due to the following reasons:

- They are not the legal owners of the land;
- The land owners did not issue an authorization to their tenant to have power connections; and
- They cannot afford to pay the fees required by the Local Government Units (LGUs) such as building and fire permits and also the payment for the certificate from the barangay.

The “willingness to connect” of households remains an issue despite the presence of subsidies for housewiring and other initial household electrification expenses.

28.13 Moreover, the ZAMCELCO had no report readily available or no records of household beneficiaries either hardcopies or e-copies that could be updated from time to time. When the list of beneficiaries/names and its corresponding account number were requested, said report was not immediately provided and the personnel in charge had to prepare first the said report by extracting the names from the ZAMCELCO's computer system. To ensure the reliability of the submitted reports specifically for government stakeholders that require/need them, such should always be readily available.

28.14 The success of SEP/BLEP can be measured by the number of household connection of 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. Also, these deprived the privilege of the poorest segment in the rural areas from the extended government program that will help uplift their lives.

28.15 **We recommended that Management:**

a. **Device a system of implementation of the Housewiring Program to attain the objective of total electrification to help uplift the lives of the marginalized consumers ;**

b. **Direct the ECs to inspect all SEP projects with Housewiring Program and identify all beneficiaries who were not provided with the complete housewiring materials specifically the sitios mentioned above and provide them with the lacking materials;**

c. **Plan or design a mechanism to enhance the monitoring of the Housewiring program implementation;**

d. **Require the ECs to assist the households/beneficiaries in securing an affordable and hassle-free electricity connection ;**

e. **Encourage ECs to energize the potential households to ensure the effectiveness of the implementation of the electrification projects; and**

f. **Direct the ECs to strictly observe the housewiring policy in compliance with NEA Memorandum No. 2011-024.**

28.16 Management took note of the audit recommendations.

D. Gender and Development (GAD) Plan

29. **NEA has GAD Plan and Budget for CY 2018 but the allocated budget of P0.527 million for its programs, activities and projects was not compliant with the 5.0 per cent mandatory requirement of the General Appropriations Act (GAA) due to its non-capability of gender mainstreaming and some**

activities were not considered/approved by the PCW. Likewise, the utilization of GAD funds was not maximized.

29.1 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 per cent (5%) of their budgets."*

29.2 Likewise, Joint Circular No. 2012-01 of DBM, NEDA and PCW dated November 2013 provides that:

> *"2.2 GAD planning and budgeting shall be conducted annually as part of all programming and budgeting exercises of agencies. The PAPs in the GPB shall be included in the agency budget proposal and they shall be reflected in the Annual Work and Financial Plan (WFP) of the concerned offices or units within the agency or department.*
>
> *6.1 At least five per cent (5%) of the total agency budget appropriations authorized under annual GAA shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations."*

29.3 Verification of the GAD Plan and Budget for CY 2018 submitted to Philippine Commission on Women (PCW) on January 12, 2017 and endorsed on February 14, 2018 through the Gender Mainstreaming Monitoring System (GMMS) disclosed that NEA's budget allocation for GAD was below the 5.0 per cent minimum required of the total appropriation.

29.4 Only 0.018 per cent of the total appropriation was budgeted for GAD related activities, instead of at least 5.0 per cent or equivalent to P146,678,200.00.

29.5 Inquiry on the non-allocation of the 5.0 per cent 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 and some proposed GAD activities were not approved by the PCW.

29.6 Likewise, the implementation of NEA GAD Plan and Budget was not maximized due to unutilized fund amounting to P432,297.30. Out of the total budgeted GAD fund of P527,400.00, actual disbursements amounted only to P95,102.70 or 18.03 per cent of the total, thus resulting in unutilized balance amounting to P432,297.30.

29.7 Moreover, 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. These activities were identified as client-focused or those addressing gender mainstreaming in major programs and other GAD-focused activities of the agency clients.

29.8 **We recommended that Management:**

a. **Increase the budget to be allocated for GAD plan and programs to effectively carryout GAD projects and activities and achieve GAD's mandate in NEA as required by RA 10964 or GAA of 2018 and PCW-NEDA-DBM Joint Circular No. 2012-01;**

b. **Undertake measures and attend capacity building programs to achieve gender mainstreaming;**

c. **Include only GAD program, activities and projects that are gender-related in succeeding GAD Plan and Budget to be submitted to the PCW to avoid disapproval;**

d. **Provide additional activities which address gender issues and development to promote women empowerment and gender equality in the GAD Plan and Budget; and**

e. **Include possible client-focused activities in the Annual GAD Plan and Budget.**

29.9 NEA submitted the following comments:

a. For Calendar Year 2019, the Sitio Electrification Program (SEP) has been approved for attribution by the Philippine Commission on Women (PCW). PCW also commended NEA for a well-enhanced GPB for 2019, covering both the organization and client-focused activities.

b. NEA is still waiting for the results of the Harmonized Gender and Development Guidelines (HGDG) assessment for SEP. but as per initial review of the GAD Focal Point System, we have reached the score of 13.67 which means that the program is gender sensitive. With this, 50% of the SEP budget for the year may be attributed to GAD budget.

c. NEA also reconstituted its GAD Focal Point System, they will be provided with the required gender capacity, such as the application of gender analysis tools so they may be able to lead in mainstreaming gender in the Agency's programs, activities and projects.

d. NEA committed the compliance of recommendations and will be considered as bases to their next GAD plan and budget submissions.

29.10 NEA's commitment to comply with the Audit Team's recommendations until its succeeding planning years will be monitored to ensure its implementation

E. Compliance with Tax Laws and GSIS Law

For CY 2018, 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 2018 was remitted as follows:

a. BIR – the taxes withheld for the month of December 2018 amounting to P1.727 million was remitted to BIR on January 15, 2019.

b. GSIS – the GSIS Social Insurance Contributions premium for both the employees and NEA for the month of December 2018 amounting to P1.891 million and the payment of loan deducted from employees' salary were remitted to GSIS on January 10, 2019.

F. Status of Audit Suspensions, Disallowance and Charges

Based on the Notice of Disallowances issued, total audit disallowances as of December 31, 2018, after the effectivity of the Rules and Regulations of Settlement of Accounts (RRSA) amounted to P124.884 million. There was no Notice of Suspension and Notice of Charge issued as of December 31, 2018. 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, 2018

Date Issued	*ND. No.*	*Expense Disallowed and Reasons for Disallowance*	*Amount Disallowed*	*Status*
With Petition For Review				
August 29,2018	18-002-101-(17)	CY 2016 Salary Differential/ No Legal Basis	11,772,363.34	With appeal filed with CP
May 25, 2018	18-001-101-(17)	PRAISE Incentives/No Approved COB	4,498,000.00	

Date Issued	ND. No.	Expense Disallowed and Reasons for Disallowance	Amount Disallowed	Status
August 29, 2017	17-001-101(16)	Retirement Benefits/ No Legal Basis	P 2,180,000.00	With appeal filed with CP
August 29, 2017	17-002-101(16)	PRAISE Incentives/No Approved COB	21,503,131.10	
August 2, 2016	16-001-101(16)	Honorarium for OGCC Lawyers/ No Legal Basis	300,000.00	
August 2, 2016	16-002-101(15)	PRAISE Incentives/No Approved COB	43,913,293.87	
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	
July 2, 2014	14-001-101(12)	Comprehensive Health Services/ No Legal Basis	1,984,024.00	
July 2, 2014	14-002-101(13)		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			**P124,883,630.31**	

Prior to the effectivity of the Rules and Regulations on Settlement of Accounts (RRSA), COA records disclosed that several transactions totaling P692,077.56 have been disallowed in audit.