AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **Funds totaling P3.997 million released by NEA to the Department of Public Works and Highways (DPWH) Sorsogon Engineering District for the Rural Electrification Program of the 1st District of Sorsogon City remained unliquidated for over 14 years, contrary to Sections 4.6 and 5.4 of COA Circular No. 94-013 dated December 13, 1994 and Section 4.a of the Memorandum of Agreement (MOA) between NEA and DPWH Sorsogon Engineering District.**

1.1. Pertinent provisions of COA Circular No. 94-013 states that:

> *Section 4.6* *Within ten (10) days after the end of each month/end of the agreed period for the Project, the Implementing Agency (IA) shall submit the Report of Checks Issued (RCI) and the Report of Disbursement (RD) to report the utilization of the funds. Only actual project expenses shall be reported. The reports shall be approved by the Head of the IA.*
>
> *Section 5.4* *Require the IA to submit the reports and furnish the IA with a copy of the journal voucher taking up the expenditures.*

1.2. Section 4.a of the MOA states that:

> *The DPWH Sorsogon Engineering District shall* ***submit regular reports on the progress of the project implementation i****ncluding an accounting of subsidy fund and disbursements made to implement the project(s) on a per project basis, and such other data and information as may be required by the NEA from time to time. A final report on the project(s) to include Accounting of Funds, Accomplishment Reports/ Status report of the DPWH Sorsogon Engineering District's fund releases, photocopies of materials charge tickets for materials withdrawn from stock and bid documents for materials purchased, Construction Work Orders and Bill of Materials (as-built), photocopies of bank statements and/or passbook on subsidy funds, Certificate of Completion of Project, Certificate of Final Inspection and pictures of the project must be submitted by the DPWH Sorsogon Engineering District to the NEA within six (6) months from the completion of the project.*

1.3. The NEA and the DPWH Sorsogon Engineering District entered into two Memoranda of Agreement (MOA) dated December 13, 2008 and January 20, 2009. Under the MOA, NEA will release funds for the rural electrification of the 1st District of Sorsogon City to be implemented by the DPWH.

1.4. The first MOA provided that funds amounting to P1.300 million allocated for the rural electrification of two barangays in the 1st District of Sorsogon City, namely, Bulabog-Dapdap and Buhatan will be released by NEA to DPWH. The actual release of fund was on February 2, 2009. Under the second MOA, funds amounting to P2.697 million were released on January 28, 2009 for the rural electrification in several sitios in the same district, namely, Sitio Tinigib, Libiano, Pilar, Sitio Sagaysay, Abucay, Pilar, Sitio Colao-Colao, San Rafael, Pilar, Sitio Buaya, Migabod, Pilar, San Rafael Waterfalls, San Rafael, Donsol, and Sitio Gumian, Sevilla, Donsol.

1.5. Section 4.a of the MOAs requires the DPWH Sorsogon Engineering District to submit to NEA the Final Report on the projects, including liquidation documents within six months from project completion.

1.6. However, to date, the DPWH Sorsogon Engineering District has not yet submitted to NEA the required final report and liquidation documents for the fund released totaling P3.997 million.

1.7. The project implementation lacked rigorous monitoring, and the NEA did not demand the final report and funds liquidation from the DPWH Sorsogon Engineering District, as required by COA Circular and the MOA. This led to delays in liquidation of the fund. Furthermore, as of the audit date, the Management was unaware of the project's current status.

1.8. ***We recommended and Management agreed to direct the Accounts Management and Guarantee Department (AMGD) to immediately demand the submission of final report and liquidation of funds transferred to the DPWH Sorsogon Engineering District totaling P3.997 million.***

1.9. On May 17, 2023, the AMGD has formally requested the DPWH Sorsogon 1st Engineering District to submit the necessary liquidation documents and a Report of Disbursement. Furthermore, the NEA's Total Electrification and Renewable Energy Development Department (TEREDD) was asked to provide an update on the status of the NEA's inspection and acceptance of the said projects.

2. **Unserviceable PPE items and semi-expendable properties recorded under the Other Asset account, with carrying costs of P2.488 million and P1.904 million, respectively, remained undisposed contrary to Section 79 of Presidential Decree (PD) No. 1445 and National Budget Circular (NBC) No. 425 resulting in further deterioration of the properties and decrease in value.**

2.1. Section 79 of PD 1445 provides that unserviceable government properties must be inspected by the Agency's Head or an authorized representative. If these properties are deemed valuable, they can be sold through a public auction, supervised by the appropriate committee, with the highest bidder winning the auction.

2.2. NBC No. 425 or the Manual on the Disposal of Government Property, issued on January 28, 1992, emphasizes the importance of promptly initiating the disposal of government property to prevent further deterioration and decrease in value. Timely and organized disposal allows for higher appraisal values and frees up storage space for other purposes.

2.3. Section 4.3 of the COA Manual on Appraisal of Government Properties defines the *Scrap Condition* as property that is beyond economical repair or modification and is no longer usable. This applies to properties that are outdated technologically, operationally, commercially, or legally and have reached the end of their useful lives.

2.4. The COA Manual also states that the unserviceable property and waste materials that cannot be repaired or reconditioned should be appraised at scrap or junk value. The manual emphasizes that the determination of their unserviceability should be supported by the History Card/record and Checklist of Unserviceable Vehicles /Heavy Equipment. In the case of the computers and peripherals, their appraisal is based on their junk value due to obsolescence cause by rapid changes and advancements in the industry.

2.5. As of December 31, 2022, NEA has 409 unserviceable properties recognized under the *Other Asset* account, with a total cost of P24.174 million and a carrying cost of P4.392 million, broken down as follows:

Account Name	No. of items	Acquisition Cost	Accumulated Depreciation	Carrying Amount
PPE Items				
Office Equipment	8	1,108,354.90	840,712.43	267,642.47
Furniture and Fixtures	2	191,577.00	172,419.30	19,157.70
IT Equipment and Software	77	6,035,875.41	5,332,664.20	703,211.21
Communication Equipment	12	986,195.40	755,788.46	230,406.94
Motor Vehicle	9	5,185,940.26	3,918,047.31	1,267,892.95
Sub-total	**108**	**13,507,942.97**	**11,019,631.70**	**2,488,311.27**
Semi-Expendable				
Office Equipment	21	436,866.71	239,332.68	197,534.03
Furniture and Fixtures	16	329,632.00	277,318.80	52,313.20
IT Equipment and Software	193	7,589,495.41	6,294,757.25	1,294,738.16
Communication Equipment	91	2,310,402.20	1,951,048.55	359,353.65
Sub-total	**321**	**10,666,396.32**	**8,762,457.28**	**1,903,939.04**
Total	**409**	**24,174,339.29**	**19,782,088.98**	**4,392,250.31**

2.6. The unserviceable properties mentioned above were not disposed of as of December 31, 2022.

2.7. Records show that an Invitation to Bid for the sale of 136 unserviceable Information and Communication Technology (ICT) and Office Equipment worth P626,454.94 was posted on the NEA’s website, however, no bid was received. Review of the Inventory and Inspection Report of Unserviceable Property (IIRUP) of these ICT and Office Equipment as of December 31, 2021, revealed that the bid price of P0.626 million is equal to their carrying value.

2.8. The Management evaluated the unserviceable ICT and Office Equipment based on their carrying value, which exceeded 10 percent of the residual value of the items. However, due to their lack of usefulness, outdated technology, functionality, and economic viability, the appraised value of P0.626 million is considered unreasonable.

2.9. The General Services Division (GSD) is currently preparing the IIRUP for the other unserviceable properties. The IIRUP will then be forwarded to the

Appraisal Committee as basis for inspection and appraisal of the unserviceable items.

2.10. On March 14, 2023, the GSD submitted the lists of unserviceable steel filing cabinets and chairs to the Appraisal Committee for evaluation and appraisal. Management committed that once the Appraisal Report is received and the necessary IIRUP and other required documents are prepared and approved, the unserviceable items will be disposed of promptly.

2.11. ***We recommended and Management agreed to require:***

a. ***Property Unit to prepare Inventory and Inspection Report of Unserviceable Property for the other unserviceable and obsolete PPEs;***

b. ***Appraisal and Disposal Committee to:***

i. ***Inspect and appraise all unserviceable properties in accordance with the guidelines stated in the COA Manual on Appraisal of Government Properties;***

ii. ***Consider revising the appraised value of P0.626 million for the ICT and office equipment to reflect a more reasonable value as outlined in the mentioned COA Manual; and***

iii. ***Dispose all unserviceable properties to prevent further deterioration and decrease in value.***

2.12. Management commented that the GSD is currently awaiting for the revised appraisal report for the six unserviceable motor vehicles, which shall reflect their appraisal value based on a new formula.

2.13. The GSD has sent a Memorandum to the Appraisal Committee, requesting a revision of the appraised value for ICT and office equipment based on the COA recommendation. They have also requested the speedy submission of the appraisal reports to finalize the IIRUP and obtain the signature and approval of concerned officials.

Subsidy Funds

3. **Subsidy funds released to various Electric Cooperatives (ECs) totaling P1.009 billion, already due for liquidation, remained unliquidated as at December 31, 2022 due to NEA's inadequate and weak enforcement of the liquidation provisions on fund transfers outlined in paragraphs 3 and 4 of the Memorandum of Agreement (MOA) between NEA and the ECs.**

3.1. In previous years' Annual Audit Reports, the same issue on the significant unliquidated balances of subsidies to the ECs has been raised. Liquidations and adjustments amounting to P957.618 million were made in 2022, but a significant unliquidated balance remains.

3.2. Paragraph 3 and 4 of the MOA between ECs and NEA states that:

Paragraph 3 - ***Procurement of equipment and materials and/ or engagement of contractors for the project(s) shall be guided by RA 9184 and its Implementing Rules.*** *The supplies and materials purchased from subsidy funds must be kept separately from EC stocks to facilitate its physical inventory.*

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

Paragraph 4 - a. xxx A final report on the project(s) to include original copies of Accounting of Funds (based on the Approved Guidelines in the Preparation of Accounting of Funds (AOF) per Memorandum No. 2015-036 dated December 9, 2015 and 5 May 2016 and Memorandum No. 2019-042 dated August 11, 2019), Status Report of NEA subsidy fund releases and Certificate of Final Inspection and Acceptance and other documents provided in Schedule B shall 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. xxx

3.3. When NEA releases subsidy funds to ECs, the *Due from NGOs/POs* account is debited, and it is credited upon ECs' liquidation and return of unused subsidy funds.

3.4. As of December 31, 2022, the *Due from NGOs/POs* account has a balance of P3.077 billion, aged as follows:

Aged		Balance as of December 31, 2022
Current:		
Less than 1 year		P2,067,778,800.44
Past due for liquidation:		
More than 1 year	P506,106,576.72	
More than 2 years	323,697,935.49	
more than 3 years	178,953,985.63	1,008,758,497.84
		P3,076,537,298.28

3.5. Of the P3.077 billion balance, P1.009 billion (or 32.78%) has been outstanding for more than 12 months, exceeding the liquidation period specified in the MOA. The Status of Fund Transfer Report as of December 31, 2022 revealed the following reasons and/or explanations for the delay in the liquidation of the subsidy funds released to the ECs:

Reason for non-liquidation	No. of ECs	Amount
1. Lacking or incomplete liquidation documents such as a. Updated Accounting of Funds (AOF); b. Certificate of Final Acceptance (CFIA); c. Bidding Documents (RA no. 9184); and d. Other supporting documents related to the liquidation	19	P 423,656,097.80
2. Unutilized subsidy funds for more than 3 years not yet returned to NEA	2	56,622,708.44
3. Projects not yet completed	9	432,366,045.62
4. Projects awaiting Inspection by TEREDD	3	46,359,347.46
5. Liquidation documents awaiting evaluation by ASD	2	49,754,298.52
Total		**P1,008,758,497.84**

3.6. The non-liquidation of subsidy funds within the specified timeframe indicates that NEA did not effectively enforce the provisions of the MOA requiring the ECs to submit reports and documents for projects implemented using the subsidy funds received from the NEA.

3.7. Paragraphs 3 and 4 of the MOA between NEA and the ECs state that ECs are given six months to implement and complete each project after receiving subsidy funds from NEA, and another six months to liquidate the funds.

3.8. Inquiry with the NEA personnel disclosed that the delay in completing the projects worth P432.366 million is attributed to various factors, including but not limited to right of way (ROW) issues, peace and order and procurement process, which subsequently affected the submission of liquidation documents. Also, the reason for the unreturned unutilized amount of P56.623 million is the financial incapability of the Electric Cooperatives.

3.9. Additionally, the shortage/lack of personnel in ASD and TEREDD is a factor that contributed to the delay in inspecting and validating the submitted liquidation documents by Electric Cooperatives, amounting to P96.114 million.

3.10. Moreover, the provision in the MOA stating that procurement of equipment and materials and/or engagement of contractors for the project(s) using subsidy funds shall be guided by RA 9184 and its Implementing Rules was not fully enforced. Audit of the projects implemented by three ECs using the subsidy funds revealed non-compliance with relevant procurement provisions outlined in RA 9184, such as:

i. Observers from organized private groups and NGOs were not invited;

ii. The bidding documents are incomplete and lack essential information;

iii. Bid Securities posted by EC's bidders-contractors were less than the required percentage of bid securities;

iv. Purchase Orders (PO) were issued instead of Contracts;

v. Payment of mobilization exceeded the allowable 15%;

vi. Failure to declare "failure of bidding" when bid proposals exceed the Approved Project Cost (APC) and awarding a contract to a higher-cost bidder;

vii. Contracts were not awarded to the bidders with Lowest Calculated Bid; and

viii. EC's contracts with contractors included provisions referenced under Presidential Decree (PD) No. 1594, instead of RA 9184.

3.11. The requirements of NEA for the liquidation of subsidy funds include documents as proof that procurement out of the subsidy funds were guided by RA 9184 and its Revised Implementing Rules and Regulations (RIRR). Due to the non-compliance of ECs with RA 9184 in their procurement of materials and infrastructure using subsidy funds, they were not able to submit required liquidation documents, leading to the accumulation of unliquidated fund transfers.

3.12. Another factor contributing to the delay in liquidating subsidy funds is the procedure implemented by NEA's ASD. They only check the completeness of the documents against a checklist in the NEA Memorandum, without verifying the validity of the submitted documents prior to the recording of fund utilization in NEA's books and issuance of a memorandum to the FSD recommending JEV preparation for liquidation.

3.13. The above procedure is inconsistent with paragraph 5.4 of COA Circular No. 2007-001 which requires that the *validity of documents to support the liquidation of funds shall be verified and shall be the basis of recording the fund utilization in the books of accounts.*

3.14. Due to the absence of review on the validity of documents submitted for liquidation, the charging of non-allowable disbursements from the subsidy fund was not determined. The non-allowable disbursements added to the accumulation of unliquidated funds by the ECs.

3.15. The lack of proper enforcement of the MOA's provisions on liquidation resulted in the accumulation of unliquidated balances.

3.16. **We *recommended that Management:***

a. Instruct Accounts Servicing Division (ASD) to require the concerned Electric Cooperatives (ECs) to immediately liquidate the P423.656 million overdue subsidy funds and submit all the required documents, such as Accounting of Fund, Certificate of Final Inspection and Acceptance (CFIA), Bidding Documents (RA No. 9184), along with other supporting documents;

b. Direct ASD to compel the concerned ECs to return the unutilized subsidy funds totaling P56.623 million;

c. Direct Total Electrification and Renewable Energy Development Department (TEREDD) to closely monitor the implementation of the projects totaling P432.366 million which were not completed within the target date of completion and require the responsible ECs to expedite the liquidation;

d. Instruct TEREDD and ASD to inspect and evaluate completed projects and liquidation documents to expedite the liquidation of the subsidy funds totaling P96.114 million; and

e. Direct ASD to validate the expenses charged against the subsidy funds to prevent fund misuse and revisit Accounts Management and Guarantee Department's procedure manual to incorporate the validation of liquidation documents in line with COA Circular No. 2007-001.

3.17. Management has sent letters to ECs requesting their response regarding audit findings related to the implementation of RA No. 9184 and its RIRR. Technical Advisory No. 4 dated April 11, 2023 was issued urging all ECs to strictly follow the procurement procedures specified in the RA 9184 and its RIRR as stated in the Memorandum of Agreement. Furthermore, ASD and TERRED have developed an action plan for NEA to monitor unliquidated balances and oversee the implementation of projects.

4. **The unexpended balance of subsidies amounting to P1.005 billion released to 42 Electric Cooperatives (ECs) from CYs 2013 to 2022 remained not returned/ remitted to NEA contrary to paragraph 7 of the MOA between NEA and the ECs. Also, disbursements totaling P25.642 million with lacking supporting documents and non-allowable charges of P33.094 million were charged against the subsidy fund contrary to NEA Memoranda No. 2013-023 and 2015-036 dated December 9, 2015, as amended by NEA Memorandum No. 2019-042 dated August 1, 2019, and paragraph 2 of MOA, respectively.**

4.1. The MOA between NEA and ECs includes the following provisions:

Paragraph 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.*

Paragraph 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.*

4.2. NEA Memorandum No. 2013-023 dated October 10, 2013 addressed to all ECs requires the submission of original documents to support the liquidation of subsidy funds released to ECs. Additionally, NEA Memorandum No. 2015-036 dated December 9, 2015, amended by 2019-042, provides guidelines in the preparation of Accounting of Funds and identification of allowable charges against contingency funds or overhead for subsidy funded projects, as follows:

a. Publication fee for all biddings;

b. Rental of private or EC vehicles used in the project (supported by contract/authorization and trip tickets);

c. Transportation and meal allowance of regular and project-based employees assigned in the project;

d. Fuel and oil consumption for the project for non-rented coop vehicles;

e. Salaries and wages including overtime pay of employees for the duration of actual services rendered in project monitoring, supervision and inspection (supported by approved office order/travel order, Daily Time Record); and

f. Hauling/freight and handling expenses"

4.3. Review of the updated Accounting of Funds, approved realignment requests, schedules, and other related liquidation documents revealed unexpended balance of P1.064 billion as of December 31, 2022 from funds released to ECs.

Unexpended balance from 4 ECs amounting to P27.210 million -

4.3.1. The four ECs, namely Pampanga Electric Cooperative III (PELCO III), Pangasinan Electric Cooperative III (PANELCO III), Tarlac Electric Cooperative I (TARELCO I), and Mountain Province Electric Cooperative, Inc. (MOPRECO) audited in CY 2022 received subsidy funds totaling P575.631 million (net of service fees) from the National Government (NG) through the NEA. These funds were allocated for the implementation of 63 projects under the Sitio Electrification Program (SEP), Barangay Line Enhancement Program (BLEP), and various Calamity Grants for various periods beginning on February 9, 2012 to June 30, 2022.

4.3.2. Out of the P575.631 million subsidies received by the ECs, P585.324 million was reflected in their audited Accounting of Funds as the total fund utilization. However, only P550.782 million falls under the allowable disbursement from the subsidy under the MOA.

4.3.3. Further review of the Accounting of Funds for projects implemented by the four ECs revealed that there were disbursements totaling P34.541

million which comprised of P24.091 million non-allowable expenses and P10.450 million unsupported disbursements. These disbursements are not consistent with the allowable disbursements to be charged from the subsidy fund outlined under Paragraph 2 of the MOA and NEA Memoranda Nos. 2013-023 and 2015-036. As a result, the amount of P34.541 million is also considered an unexpended balance to be returned to NEA. The details are as follows:

Particulars	Non-allowable Disbursements	Lack of supporting documents
a. Charges in excess of the MOA amount or APC;	1,122,671.47	
b. Unused Materials Charged in AF;	8,911,554.73	
c. Input VAT Charged to AF-by Admin;	8,252,924.90	
d. Materials and expenses issued/incurred after implementation of the project/completion date for Typhoon Ompong;	3,756,368.78	
e. Costs not directly attributed to the projects such as meals/snacks, subsistence allowance during BAC meetings, tarpaulin for the energization of sitios, hotel accommodation of NEA personnel, salaries of casual employees and 13th-month pay;	1,141,538.67	
f. Double charging of salaries;	24,146.00	
g. Expenditures erroneously charged in the AF;	618,621.32	
h. Difference in the cost of materials, labor, and overhead charged against the supporting documents attached to the disbursement vouchers; and	220,729.80	
i. Costs of unserved housewiring materials for 15 household beneficiaries and the difference in the number of potential households approved by NEA and the actual number of beneficiaries installed with housewiring materials.	42,677.52	
j. Lack of supporting documents such as Check Vouchers (CV), Materials Charge Tickets (MCTs), Daily Time Records (DTRs), Overtime Authorization, Contract and Bid Documents (if the project was implemented by contract), Beneficiaries' Acknowledgement of Receipt, Official Receipts (ORs), and Liquidation Reports		10,450,139.72
Total	**24,091,233.19**	**10,450,139.72**

4.3.4. Of the total unexpended balance of P34.541 million, an amount of P5.130 million was returned to NEA, leaving a balance from the 4 ECs of P27.210 million as of December 31, 2022, broken down as follows:

Name of EC	Amount
1. PELCO III	429,819.29
2. PANELCO III	6,188,132.19
3. TARELCO I	12,893,455.92
4. MOPRECO	7,698,682.14
Total	**27,210,089.54**

Unexpended balance of subsidy for projects implemented by 38 ECs amounting to P983.112 million -

4.3.5. Further review disclosed that out of the 44 ECs audited in CYs 2013 to 2020, with an unexpended balance of P1.107 billion as of January 1, 2022, only P34.363 million was returned by 18 ECs to NEA during CY 2022. Among these 18 ECs, eight have fully refunded their balances.

4.3.6. In CY 2022, review of the liquidation documents submitted by nine ECs, revealed that an amount of P111.553 million was deducted from the unexpended balance due to the charges identified and considered during the audit.

4.3.7. Furthermore, in six ECs audited in CY 2019, there was an unutilized balance of P22.223 million for the unserved beneficiaries of housewiring program that was not remitted to NEA due to non-enforcement of paragraph 7 of the MOA *which requires that all amount in excess of total disbursements and cost of unimplemented project including interest earned thereon shall be returned/remitted to NEA*.

4.3.8. As a result, the unexpended subsidy balance that has not yet been returned by 38 ECs as of December 31, 2022 amounted to P983.112 million, details shown below:

No.	Name of EC	AMOUNT	No.	Name of EC	AMOUNT
CY 2020			**CY 2017**		
1	MAGELCO	169,888,983.72	20	BOHECO II	1,489,181.75
2	BASELCO	24,505,881.65	21	BENECO	2,674,044.28
3	LASURECO	119,733,238.76	22	ILECO I	5,089,175.65
4	SULECO	23,773,158.86	23	LUBELCO	257,059.21
5	TAWELCO	39,858,385.59		**Sub Total-2017**	**9,509,460.89**
6	SIASELCO	8,005,442.19	**CY 2016**		
	Sub Total- 2020	**385,765,090.77**	24	LEYECO III-SEP/BLEP	4,239,922.16
CY 2019				LEYECO III-YRRP	77,851,469.50
7	CASURECO I	40,978,869.51	25	DORELCO-YRRP	194,866,284.98
8	CASURECO II	1,287,969.56		**Sub Total- 2016**	**276,957,676.64**
9	CASURECO III	6,548,473.26	**CY 2015**		
	CASURECO III- Unutilized HW	105,000.00	26	ANECO	1,815,841.74
10	CANORECO-SEP/BLEP	5,817,787.04	27	ILECO II	10,775,333.79
	CANORECO- Calamity Grants	4,042,203.54	28	NONECO	1,400,156.70
	CANORECO- Unutilized HW	6,645,000.00	29	NORECO I	10,142,742.27
11	SORECO II	42,560,906.79	30	ROMELCO	446,934.90
12	SAMELCO II	51,722,065.08	31	SOCOTECO I	1,036,345.63
13	DORECO	31,782,018.09		**Sub Total-2015**	**25,617,355.03**
	DORECO- Unutilized HW	6,772,500.00	**CY 2014**		
14	IFELCO	8,472,500.00	32	MASELCO	8,658,836.84
15	PELCO I	223,901.08	33	PANELCO I	199,211.50
	PELCO I-Unutilized HW	77,500.00	34	SURSECO I	2,707,283.71

No.	Name of EC	AMOUNT	No.	Name of EC	AMOUNT
16	QUEZELCO II	150,000.00	35	FLECO	3,506,047.04
	Sub Total- 2019	**207,186,693.95**		**Sub Total-2014**	**15,071,379.09**
CY 2018			**CY 2013**		
17	ISELCO I	19,067,327.90	36	AURELCO	480,101.69
18	SOLECO	8,047,980.70	37	KAELCO	3,438,329.70
19	TISELCO-SEP/BLEP	4,703,834.35	38	TARELCO I	27,097,557.03
	TISELCO-YRRP	169,147.29		**Sub Total-2013**	**31,015,988.42**
	Sub Total-2018	**31,988,290.24**			
Total					**983,111,935.03**

CAMELCO's Unexpended balance amounting to 53.598 million -

4.3.9. In the Management Letter (ML) covering the period from June 16, 2009 to June 30, 2014, issued on March 31, 2015 to CAMELCO, it was reported that as of November 28, 2014, the EC received a total subsidy of P130.948 million (net of SCs) for 13 projects. Out of this amount, P80.538 million was utilized, resulting in an unexpended subsidy/materials savings or the cost of unused materials on hand after finishing the project of P50.410 million. However, it was also found that CAMELCO has completed only the projects funded by the SEP in 2011 and 2012, with subsidy release of P30.677 million and unexpended balance of P365,727.52.

4.3.10. CAMELCO submitted a request to NEA for the approval of excess funds realignment under several EC Board Resolutions, summarized as follows:

i. Board Resolution No. 101, dated 09/05/2014: Realignment of beneficiaries of HW connections for 43-line sitios under SEP Batch 2 of 2012;

ii. Board Resolution No. 076, dated 09/1/2015: Authorization for the General Manager to release the HW materials intended for the SEP applicants to be used in sitios outside the approved SEP areas within CAMELCO's coverage;

iii. Board Resolution No. 043, dated 05/26/2016: Realignment of all SEP recipients to sitios not mentioned in the approved SEP within CAMELCO's coverage area; and

iv. Board Resolution No. 01, dated 11/26/2016: Requesting assistance from the Department of Energy (DOE) to involve NEA in extending the free electrification project to potential applicants or consumers residing outside the NEA-approved areas.

4.3.11. On September 8, 2017, NEA approved the requests for realignment of funds through NEA Board Resolution No. 94, but no specific amount for realignment was mentioned in the resolution. The Technical Electrification Division (TED) assessed CAMELCO's submitted Accounting of Funds and expenditures to determine the appropriate amount.

4.3.12. Various Memoranda dated December 2017 to January 2018 disclosed that TED recommended CAMELCO to return the unexpended balance for construction of distribution lines on nine projects amounting to P9.130 million and carry out the immediate realignment of 14,317 household connections with a corresponding amount totaling P71.065 million. AMGD issued a letter of instruction on January 25, 2018 instructing the General Manager of CAMELCO to return immediately the unexpended balance of P9.130 million to NEA.

4.3.13. During the CY 2022 audit, it was disclosed that CAMELCO received a total of P191.512 million, net of service charge, from the NG through NEA for electrification projects under the Disbursement Acceleration Program (DAP) and Sitio Electrification Administration (SEP) from June 16, 2009 to December 31, 2022.

a. Review of CAMELCO's Accounting of Funds disclosed that the total disbursements for 16 projects amounted to P150.861 million. However, only P126.666 million falls under the allowable disbursements in the NEA guidelines, hence, a total unexpended balance of P 64.846 million.

b. The difference between EC's Accounting of Funds and disbursements allowed in the audit is P24.195 million, which consists of P9.003 million non-allowable and P15.191 million unsupported disbursements, details as follows:

Charges to Subsidy Fund	Non-allowable Disbursement	Lack of supporting Documents
a. Excess of Bill of Materials (BOM)/Approved Project Cost (APC);	4,251,292.35	
b. Salaries/wages of regular employees and hired personnel for tagging meters and allowance of BOD members;	3,847,769.68	
c. Costs not directly attributed to the project such as accommodation and meals/snacks of visitors, purchase of desktop and office supplies, materials and salaries of personnel hired for tagging meters, duplicate beneficiaries, and discrepancy of costs charged in the AF against its supporting documents;	904,103.97	
d. Unpaid labor charged in the AF;		1,429,421.76
e. Materials Charged Tickets (MCTs) liquidated and charged in the AF even without CFIA; and		985,830.41
f. Disbursements which lack supporting documents such as MCTs, MCRTs, HW materials estimate, acknowledgment receipt of beneficiaries, ORs, CVs, trip tickets, gas slips, DTRs, billing statements, contract, payroll listing, breakdown of expenses and other related documents.		12,776,182.83
Total	**9,003,166.00**	**15,191,435.00**
Grand Total		**24,194,601.00**

4.3.14. Of the balance of P 64.846 million, CAMELCO returned P11.248 million from August 20, 2019 to December 31, 2022. Thus, the unexpended balance not yet returned to NEA as of December 31, 2022 amounted to P53.598 million.

4.4. In view of the forgoing, it is evident that the ECs failed to comply with the provisions of the MOA to return/remit to NEA all unexpended balances of subsidies. As a result, the amount of P1.064 billion which pertain to the (a) P27.210 million from the unexpended balance of four ECs audited in CY 2022, (b) P983.112 million from the 38 ECs audited in CYs 2013 to 2020, and (c) P53.598 million from CAMELCO, remained not returned to NEA as at December 31, 2022.

4.5. Paragraph 6 of the NEA-EC MOA also states that if ECs fail to comply with the provisions of the MOA, NEA has the authority to take appropriate actions, including suspending the release of subsidy funds. However, NEA does not suspend the release of subsidy funds when the ECs have not returned the unexpended balance of subsidy.

4.6. ***We recommended and Management agreed to direct ASD to:***

a. Require the 42 Electric Cooperatives to immediately return the unexpended balance of subsidies of P1.005 billion to NEA;

b. Require the 5 ECs audited in CY 2022 to return the amount of P33.094 **million** ***representing non-allowable charges from the subsidy fund;***

c. Require the five ECs audited in CY 2022 to submit the lacking documents to support the disbursements amounting to P25.642 million which were charged against the subsidy fund received, otherwise require the return of the amount disbursed not supported with documents; and

d. Institute appropriate action/s or suspend the release of subsidy fund to ECs who have failed to comply strictly with the provisions of the MOA.

4.7. An updated status report of the unexpended balance of 42 ECs was submitted by the Management on May 31, 2023, with the following information: a) 20 ECs returned a total of P43.029 million from their unexpended balance; b) five ECs provided postdated checks amounting to P17.962 million; c) 15 ECs submitted documents for reconsideration; and d) NEA-AMGD sent compliance letters to six ECs.

4.8. The team validated and considered the return of funds or remittances from 19 ECs totaling P43.106 million as of May 31, 2023. Out of the 19 ECs, three ECs returned the entire remaining unexpended balance of P2.581 million. Therefore, as of May 31, 2023, a total unexpended balance of P1.021 billion is yet to be returned by 39 ECs.

Input Value Added Tax (VAT) in the Accounting of Funds

5. **Inclusion of Input Value Added Tax (VAT) totaling P277.390 million in the total project cost funded by the NG's subsidy for projects liquidated and audited in 2016, 2017 and 2022, pursuant to NEA Memorandum No. 2015-036 is improper, given that it cannot be used to reduce the output VAT Payable of the ECs. Thus, resulted in excess subsidy funds given to the ECs.**

This is a reiteration of audit observation embodied in the previous year's Annual Audit Report of the NEA.

5.1. The value-added tax (VAT) is defined by Sections 105, 106, and 110 of the National Internal Revenue Code (NIRC) of 1997. Sections 105 and 106 were amended by the Republic Act (RA) No. 10963 or Tax Reform for Acceleration and Inclusion (TRAIN) Law.

5.2. Section 105 explains that VAT is an **indirect tax** passed on to the buyers, transferees, or lessees of goods, properties, or services.

5.3. Section 106 states that sellers or transferors should collect a VAT equivalent to twelve percent of the gross selling price or gross value of goods or properties sold, bartered, or exchanged shall be collected from the seller or transferor.

5.4. Section 110 of the NIRC allows the offsetting of input tax with valid VAT invoice or official receipt, carrying over any excess to the next quarter or requiring payment if the output VAT is greater.

5.5. NEA Memorandum No. 2015-036 outlines the General Guidelines for preparing Accounting of Funds and determining allowable charges against Contingency Funds for Subsidy Funded Projects. Item 4 of the guidelines states that for *projects carried out through contracts*, no additional input tax is added since the contractor's bidding already includes VAT. However, for *projects undertaken through force account or administration*, input tax is added to the materials, while the labor cost does not include input tax.

5.6. NEA, responsible for distributing funds to ECs for rural electrification program and facility rehabilitation damaged by fortuitous events, requires ECs to submit final report on the project(s), including the Accounting of Funds (AF), Status Report of NEA subsidy fund releases, and Certificate of Final Inspection and Acceptance (CFIA) and other related documents, to comply with the MOA and liquidation requirements stated in NEA Memorandum Nos. 2013-023 and 2015-036.

5.7. Review of the Accounting of Funds, liquidation documents, Journal Entry Vouchers (JEVs) and other related documentations, it was found that a total of P277.390 million was charged as input taxes against the subsidy funds for projects implemented and liquidated in 2016, 2017 and 2022.

5.8. During the review of the Accounting of Funds for the liquidation of subsidy funds released to three ECs, it was observed that the ECs paid P30.622 million Input

VAT for the materials and progress billings to suppliers and contractors. These expenses were charged against the subsidy funds given to them.

5.9. In 2022, review was conducted on JEVs and corresponding Accounting of Funds for completed and liquidated projects. It was observed that 22 ECs completed 57 projects from different sources, with a total disbursement of P584.642 million. This amount includes the Input VAT of P56.418 million charged against the subsidy fund.

5.10. The inclusion of Input Tax in the Accounting of Fund has been previously raised in NEA's Annual Audit Report for CYs 2016 and 2017 and the audit team recommended that NEA revise its Memorandum No. 2015-036 to exclude Input VAT from the Accounting of Funds. The reports indicated that 83 implemented projects with a total project cost of P2.404 billion, included an Input Tax of P190.350 million. This information is summarized as follows:

Ref	Particulars	No. of ECs	No. of Projects	Project Cost Per AF	Input VAT	Project Cost (Net of VAT)
2016 AAR	a. Based on projects implemented by ECs *with ML issued*	5	41	P1,200,669,157.07	P91,063,598.04	P1,109,605,559.04
	b. Additional sample population on liquidated projects per JEV	9	12	710,632,634.27	54,624,168.76	656,008,465.51
	Sub-total	**14**	**53**	**1,911,301,791.34**	**145,687,766.81**	**1,765,614,024.55**
2017 AAR	c. Based on projects implemented by ECs *with ML issued*	2	17	276,739,596.12	27,622,167.43	251,007,428.69
	d. Additional sample population on liquidated projects per JEV	6	13	216,023,075.61	17,039,573.11	198,983,502.50
	Sub-total	**8**	**30**	**492,762,671.73**	**44,661,740.54**	**449,990,931.19**
	T o t a l	**22**	**83**	**P2,404,064,463.07**	**P190,349,507.35**	**P2,215,604,955.74**

5.11. Items *b* and *d* in the above table include liquidated projects from 2016, 2017, and 2022. It was noted that the Input Taxes were presented separately in the Accounting of Funds.

5.12. In response to our Audit Query Memorandum regarding the "Charging of Input Tax on Materials Used in NEA-Subsidized Projects", the three ECs explained that they subtract Input VAT paid on goods and services from Output VAT to determine their VAT liability to the BIR.

5.13. The ECs followed NEA Memorandum No. 2015-036 by including Input VAT in their Accounting of Funds and charging it to subsidy funds. However, this practice is inappropriate because the ECs have already claimed the input tax subsidy as a credit or deduction from their output VAT, effectively recovering the associated cash outflows. As a result, ECs receive a double benefit while depriving NEA of funds for other electrification projects.

5.14. Section 110 of the NIRC stipulates that input VAT can only be offset against output VAT obligations with valid VAT invoices or official receipts. Section 112 of the same Tax Code specifies instances when the refund or tax credit of input

VAT is allowed, i.e., a) when it is attributable to zero-rated or effectively zero-rated sales and b) cancellation of VAT Registration due to retirement or cessation of business.

5.15. Section 14 of Presidential Decree No. 269 provides that NEA is exempted from paying any taxes, duties, fees, imposts, and charges imposed by the government and its instrumentalities, which includes VAT. Besides, NEA cannot issue a VAT invoice or Official Receipt that can be used to offset Output VAT or claimed as a tax credit or refund from the BIR. Therefore, the ECs should return immediately to NEA the input VAT and exclude it from their Accounting of Funds, as they have already benefited from the deduction of the input VAT from their Output VAT.

5.16. During the exit conference with one EC, it was confirmed that they still have the input VAT received from subsidy which will be returned to NEA upon instruction. A partial amount has already been returned by the said EC to NEA.

5.17. On May 24, 2018, NEA requested clarification on this matter from the BIR but has not received a response to date. The inclusion of input VAT in the Accounting of Funds results in an increase in the subsidy provided to the ECs, which consequently deprives other projects of funding.

5.18. ***We recommended and Management agreed to direct ASD to:***

a. Instruct the concerned ECs to promptly return to NEA the Input VAT amounting to P277.390 million that was charged in the Accounting of Funds; and

b. Revisit NEA Memorandum No. 2015-36 and consider removing the provision that includes input tax as part of the materials for projects undertaken through force account or administration.

5.19. NEA has sent letters to the concerned ECs requesting the immediate return of input VAT charged in the Accounting of Funds. NEA is collaborating with the ECs to review their Memorandum No. 2015-36 regarding VAT treatment and will issue an advisory to all ECs on the appropriate treatment of Input VAT in the Accounting of Funds.

5.20. One EC returned the entire input VAT amounting to P8.253 million on March 17, 2023 and May 24, 2023, with Official Receipt No. 7909428 and 7910171, respectively. Therefore, the total input VAT not yet returned by the 46 ECs to NEA amounts to P269.137 million.

Gender and Development (GAD)

6. **The NEA GAD Plan and Budget (GPB) includes P898.070 million "Attributed Programs" that have not undergone the proper Harmonized Gender and Development Guidelines (HGDG) test, violating Section 1.2.2.2.1 of the Philippine Commission on Women (PCW) Memorandum Circular (MC) No. 2021-04 dated August 24, 2021.**

6.1. According to Section 1.2.2.2.1 of the PCW MC No. 2021-04, agencies can attribute a portion or the entire budget of their major programs or projects to the GAD budget using the HGDG tool. This assessment helps identify areas for improvement to enhance the gender-responsiveness of the program/project. The results of the HGDG assessment should be reflected in the GBP under the section titled "Attributed Programs". Direct GAD activities are exempt from the HGDG assessment.

6.2. Section 1.2.2.2.2 of the same PCW MC states the percentage score obtained from HGDG corresponds to the portion of the agency's budget, both existing and proposed, that can be attributed to the GAD budget. However, programs/projects with the HGDG scores below 4.0 shall not be eligible for budget attribution.

6.3. Also, Section 1.2.2.2.3 of the same PCW MC emphasizes that the agency's submission should include PDF copies of the HGDG assessment results, along with relevant supporting documents or means of verification such as project design, concept notes, or attendance sheets of stakeholder consultations.

6.4. NEA has allocated a total of P898.383 million for various GAD activities in its CY 2022 GPB submitted to PCW, details as follows:

GAD ACTIVITY	Budget	
	Source	Amount
Client Focused Activities		
1. Issue memorandum encouragement to ECs to increase their intake of female engineers and technical workers	GAA	0.00
2. Provide training on Renewable Energy program for female employees of EC	GAA	13,500.00
3. Data banking/Update masterlist and/or EC's data on Board of Director and General Managers	GAA	0.00
4. GAD Orientation and Gender Sensitivity Training (GST) for concerned EC personnel	Corporate Funds	150,000.00
Total Client Focused Activities		**163,500.00**
Organization Focused Activities		
1. Maintenance of GAD page at NEA website, creation of GAD tarpaulin released and primers depicting GAD concepts, issues and concerns disseminated	Corporate Funds	500.00
2. Attendance to GAD Capacity Building	Corporate Funds	50,000.00
3. Basic GAD and MCW orientation and GST of new employees	GAA	50,000.00
4. Capacity development of concerned NEA employees on data capture, storage, retrieval and analysis	GAA	50,000.00
5. Institutionalization of Gender Mainstreaming	Corporate Funds	0.00
6. Encourage hiring of female engineers	Corporate Funds	0.00
Total Organization Focused Activities		**150,500.00**
ATTRIBUTED PROGRAM		
GAD Activity	**Source**	**Amount**
Sitio Electrification Program (SEP)	GAA	813,750,000.00
I-PURE Mindanao Project	EU-ASEP	84,319,031.00
Total Attributed Program		**898,069,031.00**
Grand Total : GAD Activities		**898,383,031.00**

6.5. NEA has attributed two programs to the GAD budget in 2022. These programs are the (a) *Sitio* Electrification *Program (SEP)* with a budget of P813.750 million and (b) *EU-ASEP* project with a budget of P84.319 million. These two programs aimed to *Integrate Productive Uses of Renewable Energy for Sustainable and Inclusive Energization in Mindanao (I-PURE Mindanao) project*. These two projects account for 99.97 percent of the total budget of P898.383 million allocated for GAD Activities. However, attribution of the budget of the two projects to the GAD Budget was made without HGDG assessment.

6.6. The Management admitted that the attribution of these projects was done without conducting first the HGDG assessment because the newly reconstituted GFPS was unaware of the budget attribution requirements. This violates Section 1.2.2.2.1 of the PCW MC No. 2021-04 dated August 24, 2021.

6.7. Due to the lack of HGDG assessment for the attributed projects prior to budget allocation, the actual amount that can be attributed from NEA's programs was not determined.

6.8. ***We recommended and Management agreed to:***

a. Require the GAD Focal Point System (GFPS) to attend the capacity building seminar on the use of the HGDG tool to properly attribute NEA's programs in the GPB; and

b. Require the GFPS to ensure that the Projects, Activities, and Programs (PAPs) attributed in the Gender Plan and Budget (GPB) undergo a thorough assessment using the HGDG checklist as required by Philippine Commission on Women (PCW) MC No. 2021-04.

7. **The NEA was unable to allocate the required minimum of five percent (5%) of its Corporate Operating Budget (COB) for GAD PAPs contrary to Section 34 of the FY 2022 GAA, Section 6.1 of PCW-NEDA-DBM JC No. 2012-01.**

7.1. Section 34 of the GAA mandates that all government agencies must develop a *Gender and Development (GAD) Plan to address gender issues within their sectors or mandate. This plan should be integrated into their regular activities and should account for at least five percent of their budgets. Activities already carried out by agencies related to GAD or those contributing to poverty alleviation, economic empowerment especially of marginalized women, women's rights, and gender-responsive governance can be considered as compliance. Evaluation of GAD utilization should be based on the agency's identified GAD performance indicators. Guidelines issued by the concerned agencies should be followed for the preparation and submission of annual GAD Plans and Accomplishment Reports.*

7.2. Section 6.1 of the PCW-NEDA-DBM JC No. 2012-01 emphasizes that a minimum of ***five percent (5%) of the agency's total budget appropriations under the annual GAA should be allocated for GAD plans and programs.*** *The GAD budget should be sourced from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personnel services (PS).*

It is important to note that the GAD budget does not constitute an additional budget but is part of the agency's total budget appropriations.

7.3. In addition, Section III, Item 4.a of COA Circular No. 2014-01 dated March 18, 2014, requires *compliance with existing laws and regulations regarding GAD, particularly the allocation of at least five percent (5%) of the total budget appropriation to cover the implementation of GAD plans, submission of reports, and other related activities.*

7.4. The NEA's CY *2022* Corporate Operating Budget (COB) of P3.925 billion approved by DBM, has been appropriated/allocated as follows**:**

Particulars	Amount
Personnel Services (PS)	P 394,975,000.00
Maintenance and Other Operating Expenses (MOOE)*	2,240,224,000.00
Capital Outlay (CO)	1,289,416,000.00
Total	**P 3,924,615,000.00**

** Inclusive of non-cash expense, i.e., depreciation expense of 27.648 million*

7.5. Following the aforementioned provisions, NEA is required to allocate a minimum of five percent or P196.231 million of its approved P3.925 billion COB for its GPB for GAD PAPs.

7.6. However, records show that after eliminating the improperly attributed projects from the GBP, NEA allocated only P314,000 for its GAD-related activities, to wit:

GAD Budgeted Activities per GPB for CY 2022	Amount
Client Focused Activities	P 163,500.00
Organization Focused Activities	150,500.00
Attributed Programs	0.00
Total	**P 314,000.00**

7.7. The NEA's GPB's allocation for CY 2022 is only P314,000.00, which is equivalent to 0.008 percent of its COB inconsistent with Section 34 of the GAA, Section 6.1 of the PCW-NEDA-DBM JC No. 2012-01 and Section 36(a) RA 9710.

7.8. ***We recommended and Management agreed to allocate at least five percent of its total Corporate Operating Budget (COB) to support GAD plans and programs in line with Section 34 of the GAA and Section 6.1 of the PCW-NEDA-DBM JC No. 2012-01.***

8. **The GBP was not endorsed by the PCW contrary to Sections 1.2.5.1 and 1.2.5.2 of PCW MC No. 2021-04.**

8.1. Section 1.1 of PCW MC No. 2021-004 dated August 24, 2021 requires all NGAs and instrumentalities to prepare and submit their FY 2022 GPB to the PCW for endorsement.

8.2. Also, Sections 1.2.5.1 and 1.2.5.2 of the same MC outline the conditions for PCW's endorsement of the fiscal year GPB and the course of action if the GPB is not endorsed. The conditions for the PCW's endorsement are: (a) meeting the minimum of five percent GAD Budget requirement, and (b) ensuring compliance with the MCW provisions on GAD Planning and Budgeting.

8.3. If the GPB fails to receive PCW's endorsement due to partial or non-compliance with the conditions stated in Section 1.2.5.1, the agency has the option to request reconsideration and resubmit the GPB for review up to two times. If deficiencies still persist after two rounds of review, the GPB will finally be deemed unendorsed.

8.4. Section 4.0 of the PCW MC specifies the deadline for submitting the GPB through the Gender Mainstreaming and Monitoring System (GMMS) as follows:

Due Date	***Particulars***
25 October 2021	*Deadline of SUCs for the encoding and submission of FY 2022 GPBs through the GMMS, for review of CHED*
03 November 2021	*Deadline of encoding and submission to PCW of FY 2022 GPBs of the following through GMMS:* *a. Constitutional bodies* *b. Legislative and judicial bodies* *c. Office of the President* *d. Office of the Vice-President* *e. Other Executive Offices (OEOs)*
08 November 2021	*Deadline of encoding and submission to PCW of FY 2022 GPBs of executive departments and their attached agencies through GMMS*
15 November 2021	***Deadline of encoding and submission to PCW of FY 2022 GPBs of GOCCs through the GMMS***
22 November 2021	*Deadline for CHED to submit to PCW the reviewed FY 2022 GPBs of SUCs through the GMMS*

8.5. Our audit revealed that the NEA's FY 2022 GPB was not submitted through the GMMS on time, resulting in non-review and non-endorsement by the PCW, which violates Sections 1.2.5.1 and 1.2.5.2 of PCW MC No. 2021-04.

8.6. The Management explained that the delay in submitting the FY 2022 GPB was due to changes in the GAD Focal Point System's (GFPS's) administration. However, the audit team observed that the delay in the submission of GPB to PCW since FY 2020.

8.7. Despite the missed deadline, PCW stated in an email response to NEA dated July 25, 2022, that they would reopen the GMMS for the purpose of encoding reports for record-keeping and reference only, without review. PCW also reminded NEA to begin preparing the FY 2023 GPB to meet the required submission for the following year.

8.8. ***We recommended and Management agreed to:***

a. ***Require the GAD Focal Point System (GFPS) to submit and encode the GPB in the Gender Mainstreaming and Monitoring System (GMMS) within the deadline set by PCW every year; and***

b. ***Establish procedures to ensure a smooth transition between outgoing and incoming officers in the department, preventing disruption in GAD reporting due to administrative changes, considering that GAD reporting is an annual activity with*** **predetermined** ***deadlines.***

8.9. Management provided the following comments:

- GFPS will review the HGDG tool and use the appropriate assigned "Box" for the attributed programs.
- Two Seminar-Trainings were conducted on February 2023 to capacitate GFPS members.
- An amount equal to at least 5% of total COB will be allocated for GAD activities by attributing it to the agency's PAPs, with the identification of responsibility assigned to the GAD Technical Working Group.
- Additional focal person will be assigned by the GFPS to ensure timely submission of the GPB.
- The reconstitution of GFPS members is currently in progress.

Compliance with Tax Laws

9. In CY 2022, taxes withheld and payable to the Bureau of Internal Revenue (BIR) for CY 2022 totaling P49.771 million were recorded and remitted within the prescribed period. The taxes withheld in December 2022 amounting to P7.703 million were remitted in January 2023.

Compliance with Mandatory Government Deductions

10. **The amount withheld for the GSIS, Pag-IBIG and PhilHealth contributions totaling P2.129 million, P61,984.13, and P291,230.92, respectively, remained unremitted as of year-end, contrary to Section 6 of Republic Act (RA) No. 8291, Section 23 (a) of RA No. 9676 and Section 18(d) of the Revised Implementing Rules and Regulations of the National Health Insurance Act of 2013 (RA No. 7875 as amended by RA No. 9241 and 10606).**

10.1. Section 6 *of* RA No. 8291 or the Revised Government Service Insurance Act of 1997 provides that t*he employer is responsible for reporting employee information and deducting monthly contributions from their salaries. These contributions should be remitted to the GSIS within the first ten days of the* *following month. Remittance of contributions takes priority over other obligations.*

10.2. According to Section 23(a) of RA No. 9676 or the Home Development Mutual Fund Law of 2009, all employers, whether public or private, have the responsibility to allocate and remit the required contributions as determined by the HDMF law of 2009.

10.3. Furthermore, Section 18(d) of the RIRR of the National Health Insurance Act of 2013 (RA No. 7875 as amended by RA No. 9241 and 10606) states that the employers who fail to remit the required contributions and submit the necessary remittance list will be held accountable for reimbursing proper claims made by employees or dependents who utilize program benefits. Other penalties may also be imposed as outlined in the rules.

10.4. Ideally, the balances of the *Due to GSIS, Due to Pag-IBIG* and *Due to PhilHealth* accounts should be zero after remitting the deducted amounts from the employees' salaries within ten calendar days of the following month, as prescribed in the respective IRR of GSIS, Pag-IBIG and PhilHealth.

***Due to GSIS* –**

10.5. As of the end of the year, the *Due to GSIS* account has a balance of P5.105 million. On January 5, 2023, NEA remitted P2.967million which corresponds to the amount withheld from the December 2022 salaries of its employees, hence, an unremitted amount of P2.138 million from the balance at year-end.

10.6. Adjustments were made in January and February 2023 to correct posting errors in the *Due to GSIS* account. The adjustments amounted to P80,692.67, P2,500.00 and P433.34, which were posted to Salary, Policy and HD Loan, respectively. As a result, the ending balance of the *Due to GSIS* account as of December 31, 2022 decreased to P2.054 million.

10.7. The balance represents the amounts withheld from NEA employees in previous and current year, which were not remitted to GSIS, refunded to employees, or adjusted accordingly. Details of the unremitted deductions per individual subsidiary ledgers are presented below:

a. Salary adjustment/differential for CY 2022 and the withheld amount from the last salary of 22 employees who were separated from service in CY 2022, totalling P24,763.75 and P67,455.67, respectively.

b. Excess amount of P248,308.72 deducted from the employee's salaries;

c. Life and Retirement contributions, withheld from the salary of a Deputy Administrator since October 2017, totalling P0.600 million;

d. Loans withheld from NEA employees' salaries in CY 2022 totalling P21,674.58;

e. Refund for educational and salary loan amounting to P216.67 and P2,836.35; and

f. Prior year balances, totaling P1.511 million.

Due to Pag-IBIG -

10.8. The ending balance of the *Due to Pag-IBIG* account as of December 31, 2022, is P329,362.86. The amount withheld from the December 2022 salaries of NEA's employees totaling P361,009.25, was remitted in January 2023.

10.9. In January 2023, an adjustment was made to rectify a posting error, resulting in a refund of P6,399.64 to the *Multipurpose Loan (MPL)* account and an adjustment of P87,994.95 to the *For Adjustment* account.

10.10. After considering the above adjustments, the adjusted ending balance of the *Due to Pag-IBIG* account is P49,948.92.

10.11. Out of the adjusted balance of P49,948.92, P35,087.54 (net) pertains to amounts from previous years, while P14,861.38 (net) is related to deductions from the current year's salaries that have not yet been reconciled or adjusted in the books.

10.12. In the previous year's audit, Management committed to continue reconciling the *Due to GSIS* and *Due to Pag-IBIG* accounts, making necessary adjustments to ensure accurate balances. They also expressed their intention to refund any excessive monthly loan deductions from the salaries of the NEA employees.

Due to PHILHEALTH -

10.13. The *Due to PhilHealth* account has an ending balance of P550,428.74 as of December 31, 2022. A *total* of P267,030.46 was withheld from NEA employees' salaries in December 2022 and remitted to PhilHealth on January 9, 2023, leaving a balance of P283,398.28.

10.14. *The* adjusted ending balance of P283,398.28 includes prior years' balance of P87,822.31 and the amount of P106,708.23 withheld from NEA employees' salaries for CY 2022, along with CPCS differential and salary adjustments.

10.15. The non-remittance of the deductions from the employees' salaries to the GSIS, Pag-IBIG and PhilHealth violates Section 6 of RA No. 8291, Section 23(a) of RA No. 9676, and Section 18(d) of the RIRR of the National Health Insurance Act of 2013, respectively.

10.16. ***We recommended and Management agreed to require the Human Resources and Administrations Department (HRAD) to:***

a. Remit all the amounts due to the GSIS, Pag-IBIG, and PhilHealth, or refund any over deducted payments or contributions to employees; and

b. ***Remit immediately the amount of P0.600 million withheld from the Deputy Administrator's salary.***

10.17. The Management commented that they are currently reconciling the accounts for the *Due to GSIS, Pag-IBIG,* and *PhilHealth* accounts. Once the reconciliation is completed, they will remit the appropriate amounts to these government agencies, including any excess premiums or loans deducted from the employees' salaries.

10.18. Furthermore, the necessary requirements for remitting the withheld amount from the Deputy Administrator have already been submitted to the GSIS on May 11, 2023.

Status of Audit Suspensions, Disallowances, and Charges

11. As of December 31, 2022, there were no outstanding Notice of Suspension and Notice of Charge, however, there were audit disallowances totaling P133.728 million that remained unsettled. Details are shown below:

Audit Action	**Beginning Balance January 1, 2022**	**Issued**	**Settled**	**Ending Balance December 31, 2022**
Suspensions	0	0	0	0
Disallowances	125,567,630	8,424,000	264,000	133,727,630
Charges	0	0	0	0
Total	125,567,630	8,424,000	264,000	133,727,630

Prior to the effectivity of the Rules and Regulation on Settlement of Accounts on October 28, 2009, COA records disclosed that there were disallowed transactions totaling P0.692 million.