



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

ANNUAL AUDIT REPORT

on the

**NATIONAL IRRIGATION ADMINISTRATION
(General Fund – F101, 102, 161 and 171)**

For the Year Ended December 31, 2012

**NATIONAL IRRIGATION ADMINISTRATION
GENERAL FUND
ANNUAL AUDIT REPORT FOR CY 2012**

EXECUTIVE SUMMARY

INTRODUCTION

The National Irrigation Administration (NIA) was formally created as a government corporation in 1963 with capitalization of P10 billion to be subscribed and paid for entirely by the Philippine Government.

The NIA was originally attached to both the Department of Public Works and Highways (DPWH) and the Department of Agriculture (DA), was later transferred to the Office of the President, and subsequently attached to DA under Administrative Order No. 17 dated October 14, 1992.

The principal function of NIA was initially to develop, maintain, operate, improve and rehabilitate irrigation systems including communal and pump irrigation projects. However, with the reorganization of the government that occurred after its creation, NIA also assumed the irrigation activities of other government agencies, including those of the Irrigation Service Unit of the Presidential Assistance on Community Development. Thereafter, with the passage of Republic Act (RA) No. 6978, otherwise known as "An Act to Promote Rural Development by Providing for an Accelerated Program within a Ten-Year Period of the Construction of Irrigation Projects," the activities of NIA were significantly increased to cover the remaining 1.5 million un-irrigated but irrigable hectares of land nationwide.

NIA is composed of the Central Office, 17 Regional Irrigation Offices (RIOs) including the Upper Pampanga River Integrated Irrigation System (UPRIIS) and the Magat River Integrated Irrigation System (MRIIS), 44 Irrigation Management Offices (IMOs) inclusive of two interim IMOs, and 16 Project Management Offices (PMOs). These are the offices existing as a result of the implementation of the Rationalization Plan. NIA now manages 217 National Irrigation Systems nationwide with a total service area of 793,638 hectares. The total irrigated area is 569,622 hectares during the dry season (November to April) and 574,383 hectares during the wet season (May to October) and 121,556 hectares for the third crop (Quick-Turn Around program and Ratooning).

NIA is the implementing arm of DA for the Irrigation Development Program. One of the sources of funds utilized for the operations of NIA is the General Fund, the collective name for Funds 101, 102, 161 and 171. These funds which are provided yearly by the National Government, foreign lending institutions and foreign organizations extending grants are used to construct, repair/rehabilitate irrigation facilities nationwide. The following are the descriptions of the composition of the funds:

a. Fund 101 – *Locally-Funded Projects*

This is provided by the National Government which is included in the national budget under the allocation of the DA purposely for repair, rehabilitation and

restoration of existing irrigation systems. Releases of the fund to NIA are made through the Department of Budget and Management (DBM).

b. Fund 102 - *Foreign-Assisted Projects (loan, grants and government portion)*

This is in the form of loans by the National Government with foreign banks like Japan Bank for International Cooperation (JBIC), Asian Development Bank (ADB), World Bank - International Bank for Reconstruction and Development (WB-IBRD), and with foreign governments, like the People's Republic of China, used to finance the construction of irrigation facilities. The National Treasury releases the funds also through the DBM.

c. Fund 161 - *Trust Fund from the National Government for the Mindanao Rural Development Project*

This is a trust fund from the National Government specifically intended for the Mindanao Rural Development Project.

d. Fund 171- *Grants from the World Bank for the Participatory Irrigation Development Project*

This represents grants from the World Bank which the National Government negotiated specifically for the Participatory Irrigation Development Project.

SCOPE OF AUDIT

Our audit covered the operations of the NIA-General Fund for Calendar Year (CY) 2012. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depended on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. A special audit was conducted on the projects under the Help for Catubig Agricultural Advancement Project (HCAAP) in Catarman, Northern Samar, funded under Japan Bank for International Cooperation (JBIC) Loan-PH 221 and implemented by NIA Central Office.

FINANCIAL HIGHLIGHTS

I. Allotment and Obligations CYs 2011- 2012 (In million pesos)

Particulars	2012	2011
Annual Appropriations-GAA (RA No. 10155)		
Allotments-Capital Outlay	23,405.622	15,636.404
Unobligated CY 2011 – Capital Outlay	4,396.403	-
Total Allotments Available	27,802.025	15,636.404
Obligations – Capital Outlay	24,218.282	11,806.000

II. Sources of Funds CYs 2011-2012 (In million pesos)

Particulars	2012	2011
Subsidy Income from National Government	20,594.229	10,623.960
Subsidy Income from National Government- Loan Proceeds	1,639.251	2,279.058
Subsidy from Department of Agriculture	0.991	8.860
Total	22,234.471	12,911.878

III. Uses of Funds CYs 2011-2012 (In million pesos)

Particulars	2012	2011
Capital Outlay	17,038.875	11,086.000
Maintenance and Other Operating Expenses	99.156	
Total	17,138.031	11,086.000

IV. Comparative Financial Condition CYs 2011-2012 (In million pesos)

	2012	2011	Increase/ (Decrease)
Assets	106,272.116	87,830.580	18,441.536
Liabilities	4,969.362	4,712.699	256.663
Equity	101,302.754	83,117.881	18,184.873

V. Results of Operations CYs 2011 to 2012 (In million pesos)

	2012	2011	Increase/ (Decrease)
Income	22,234.471	13,438.302	8,796.169
Expenses (includes depreciation and loss on foreign exchange)	327.548	70.997	256.551
Net Income	21,906.923	13,367.305	8,539.618

Status of Implementation of NIA Projects

NIA reported the following physical accomplishments of Irrigation Projects in CY 2012 funded under the General Fund, expressed in terms of hectares irrigated:

A. Foreign-Assisted Projects

Service Areas	Target Area (hectares)		Actual Area (in hectares)		Percentage of Accomplishment
	CY 2012	Carry over	CY 2012	Carry over	
Generation-New Area	8,270	965	7,220	406	82.58
Restoration	8,347	4,428	171	-	1.34
Rehabilitation	-	-	4,031	3,472	-
Total	16,617	5,393	11,422	3,878	69.52

B. Locally-Funded Projects

Service Areas	Target Area (in hectares)	Actual Area (in hectares)			Percentage of Accomplishment
		CY 2012	Carry-over Program	Total	
Generation-New Area	77,569	35,339	3,438	38,777	49.99
Restored Area	47,448	35,094	1,132	36,226	76.35
Rehabilitated Area	90,144	87,305	2,950	90,255	100.12
Total	215,161	157,738	7,520	165,258	76.81

C. Carry Over Projects–Locally Funded

Service Areas	Accomplishment for the year Actual Area (in hectares)	Actual Area to Date (in hectares)
Generation-New Area	6,277	13,050
Restored Area	16,578	28,056
Rehabilitated Area	7,983	90,108
Total	30,838	131,214

AUDITOR'S OPINION

We rendered a disclaimer of opinion on the fairness of presentation of the financial statements of the NIA-General Fund for CY 2012 due to serious deficiencies in the accounting and property management such as inadequate accounting records to substantiate the balance of Property, Plant and Equipment (PPE) account representing 87.33 per cent of the total assets, incomplete inventory-taking, and non-adjustment of long completed irrigation projects to the appropriate asset account, among others.

Moreover, accounting deficiencies such as unreconciled general and subsidiary ledgers balances, unadjusted reconciling items, abnormal/dormant bank balance, non-preparation/delayed preparation of bank reconciliation statements diminished the reliance on management's assertions on the correctness, completeness and validity of the transactions under the Cash in Bank account.

Additionally, the accuracy and fair presentation of the Statement of Changes in Government Equity as of December 31, 2012 was doubtful due to insufficiency of records to support the adjustments amounting to P7,398.116 million made to PPE-Public Infrastructure account.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

For the above-mentioned observations which caused the issuance of a disclaimer of opinion, we recommended that Management:

1. Require the Accounting Division or the Inventory Team as the case may be to:
 - a. Exhaust all efforts to reconcile the discrepancy between property and accounting records;

- b. Properly maintain updated Subsidiary Ledgers (SLs) for Construction-In-Progress (CIP), ledger cards for PPE and schedule for Land accounts;
 - c. Provide depreciation for all the assets capitalized;
 - d. Continue the analysis of the accounts to complete the SLs for CIP;
 - e. Identify the projects composing the lump sum accounts in order to take appropriate action to transfer the cost of completed projects to assets accounts;
 - f. Facilitate the recording of identified completed project to proper asset account or Registry of Public Infrastructure;
 - g. Conduct complete physical inventory of all property and reconcile result with the accounting record to determine the existence of the recorded assets; and
 - h. Conduct periodic reconciliation of accounting and property records.
2. Require the Finance/Accounting Section to:
- a. Coordinate with the Irrigation Management Offices (IMOs) to analyze/verify in detail the unreconciled balances; determine the nature of disparities noted among the reciprocal cash records and reports and adjust records accordingly;
 - b. Exert all efforts to reconcile the difference between the SL and general ledger (GL); update the SLs of bank accounts and reconcile balances with the GL balance;
 - c. Remit to the National Treasury the dormant bank balance of P340,380 in compliance with COA Circular No. 97-001 which requires the remittance of all dormant cash balances on hand and in other banks to the National Treasury; and
 - d. Perform periodic reconciliation of GLs, SLs, Bank Reconciliation Statements (BRS) and cash books; regularly prepare BRS based on the updated and reconciled SL balances of bank accounts; trace the cause/s of abnormal balances in SLs and BRSs identified; and take up in the books the reconciling items with valid documents.
3. Formulate/devise guidelines to ensure consistency in the recording of transfer of CIP to Government Equity-PPE Public Infrastructure account; and ensure compliance with Philippine Accounting Standard No. 8 in presenting correction of prior period errors.

The other significant audit observations and recommendations are as follows:

- 4. Despite previous year's recommendation, NIA continued the practice of transferring the unutilized cash under the Modified Disbursement Scheme (MDS) to Local Currency Current Account (LCCA) of NIA field offices due to delayed

implementation of projects; thus, the balance of Cash in Bank-LCCA account increased from P5,181.110 million in 2011 to P11,318.026 million in 2012.

4.1 We reiterated our previous year's audit recommendation that NIA ensure strict compliance with law, rules and regulations pertaining to the MDS and refrain from keeping government funds unused for a long period of time, depriving the government of much needed resources for its operation.

4.2 We further recommended that NIA realistically plan/program its targets/project implementation activities that are attainable, taking into consideration factors affecting project implementation especially NIA's existing manpower complement.

5. Despite previous years' audit recommendation, Management has not taken action to recover the unexpended portion of the advances to the contractor amounting to approximately P36.477 million for the suspended project "Libmanan-Cabusao Diversion Dam and Appurtenant Structure." Moreover, Management has no concern for the potential loss that may be derived from its inaction to prevent further corrosion of the unused steel sheet piles and the reinforced bars in the total reported amount of P31.070 million and P20.658 million, respectively, due to the exposure of these assets to the elements for more than two years.

5.1 We reiterated our previous year's recommendations that Management:

- a. Take appropriate action to recover the unexpended portion of the advances to contractor;
- b. Conduct physical inventory of the supplies and materials to be witnessed by COA representatives to determine the actual existence and present condition of the inventory;
- c. Submit the duly signed, reviewed and approved reports of the actual accomplishment and supplies inventory to COA for validation such as:
 - c.1 Physical Accomplishment as of December 31, 2009; and
 - c.2 Revised computation of unexpended portion of advances to contractors taking into considerations the valid items and the possible liquidated damages for the delay in the installation of steel sheets and steel gates assembly;
- d. Investigate why the reinforcing steel bars and steel sheets were still accepted after the contract was already suspended and submit corresponding report of the investigation; and
- e. Take appropriate action to prevent further corrosion of the steel pipes and steel bars on the site.

5.2 We further recommended that if circumstances warrant, initiate administrative and/or appropriate action against officials/employees who may be found negligent in safeguarding the subject materials against wastage or improper disposition.

6. The current level of NIA's irrigation development is relatively low at 53.60 per cent as 1,450,601 hectares or 46.40 per cent remain to be developed out of the estimated total irrigable area of 3,126,340 hectares as of December 31, 2012. The minimal increase in irrigable areas developed may be attributed to the rehabilitation and restoration of existing irrigation systems being given precedence over the generation of new areas for development. Likewise, while NIA rehabilitated 206,897 hectares and restored 45,950 hectares in existing irrigation systems, constituting 184 per cent and 67 per cent of the respective targets as of December 31, 2012, it generated 55,500 hectares of new areas only or 55 per cent of the targeted area of 100,994 hectares. Total available allotment for these projects amounted to P27.803 billion with total cash and non-cash support amounting to P19.915 billion as of December 31, 2012 while obligations incurred amounted to P24.218 billion.

NIA attained an average cropping intensity of 157 per cent for the last four cropping years.

6.1 We recommended that Management exert effort to achieve its target in the generation of new areas for irrigation development to increase agricultural production and productivity among beneficiary farmers in irrigated areas.

7. The non-compliance with the provisions of the loan agreement, consulting services contract, infrastructure contracts and laws, rules and regulations in the implementation of the Help for Catubig Agricultural Advancement Project (HCAAP) resulted in the following:

a. Questionable validity of the disbursements for consulting services in the total amount of P169.359 million and Y541.935 million for Filipino and Foreign components, respectively, due to:

a.1 Non-submission of complete documents to support:

i. Evaluation made by the Project Coordinating Office and acceptance of the consulting services rendered;

ii. Approval of the major modifications in the Terms of Reference of the contract specifically the non-conduct of investigation in the amount of P16.866 million which was realigned to remuneration of local and foreign experts.

a.2 Incomplete and unsatisfactory accomplishment of the consulting services rendered, such as: incomplete construction supervision and erroneous horizontal alignments in the Good for Construction Drawings which resulted in the incurrance of obligation in the amount of P4.033 million representing claim of Hanjin for idle equipment and indirect cost;

- b. Increase in cost of the implementation of the HCAAP in the amount of P159.432 million without attaining the reason for the partial take-over of the civil work contract HCAAPCI-1;
- c. Increase in cost of implementation of the HCAAP in the amount of P390.191 million due to repackaging of the unfinished scope of work covered by the terminated contract found to be without legal basis;
- d. Significant delay in the implementation of HCAAP due to additional days incurred in the procurement of repackaged contracts brought about by the partial take over and the contract's termination; and non-procurement of the remaining two contract packages;
- e. Non-collection of liquidated damages for the delay in the prosecution of the contract in the amount of P112.464 million from Contractor of HCAAPI-C-1 due to contract's termination;
- f. Payment of overrun/increase in quantity of work in the amount of P168.774 million without investigation conducted to explicitly conclude its necessity;
- g. Questionable validity of the disbursements for payment of accomplishments of civil works covered by Contract Nos. HCAAPD-C-1 and HCAAPD-C-2 in the total amount of P59.868 million due to non-submission of plans and drawings;
- h. Excess payment of civil work accomplishments covered by Contract Nos. HCAAPD-C-1 and HCAAPD-C-2 in the total amount of P18.702 million;
- i. Non-deduction from progress billings paid to the new Contractors of the cost of construction materials and supplies valued at P3.289 million; and the undetermined amount of laboratory supplies, apparatus, 10 generator sets and one unit base radio withdrawn by them from the inventories left by the original Contractor Hanjin; and
- j. Unaccounted construction materials left on site by Hanjin in view of the termination of Contract HCAAPI-C-1 valued at P34.676 million.

7.1 We recommended that Management:

- a. Ensure compliance with the provisions of the Loan Agreement, consulting services contracts, infrastructure contracts, and laws, rules and regulations;
- b. Submit immediately the lacking documents, plans and drawings to support the payments, otherwise these will be suspended in audit;
- c. File a claim against the Sanyu Consultants, Inc. relative to the CIAC decision on the payment of cost of idle equipment and indirect cost brought about by erroneous horizontal alignment in the amount of P P4.033 million;

- d. Require Sanyu Consultants, Inc. to complete the construction supervision without additional cost;
- e. Take appropriate action to collect liquidated damages amounting to P112.464 million from Hanjin;
- f. Take appropriate action to collect the P168.774 million paid by NIA to Hanjin representing the amount of overrun paid;
- g. Require the contractors to refund the excess payment amounting to P14.166 million and P4.536 million paid by NIA relative to HCAAPD-C-1 and HCAAPD-C-2, respectively;
- h. Immediately collect from the concerned contractors the cost of construction materials withdrawn in the total amount of P3.289 million;
- i. Determine the cost of the laboratory supplies and apparatus, one unit base radio, and 10 generator sets withdrawn from NIA and require the contractors concerned to pay the amount immediately;
- j. Ensure that all progress billings are duly reviewed and evaluated such that only actual accomplishments are paid;
- k. Complete the inventory taking and fully account for the construction materials delivered by Hanjin for Contract No. HCAAPI-C-1 that were left on the site and furnish the COA the results of the inventory taking made; and
- l. File appropriate charges, if warranted, against all officials responsible in the following:
 - l.1 evaluation, verification and approval of the partial take-over of the Contract Works covered by Contract HCAAPI-C-1;
 - l.2 evaluation, verification and approval of the termination of the Contract Works covered by Contract HCAAPI-C-1;
 - l.3 misrepresentation by reporting incorrect accomplishments, reviewing, recommending approval and approval of the payments; and
 - l.4 evaluation, verification and approval of payments of the overruns.

SUMMARY OF TOTAL AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As of December 31, 2012, audit suspensions, disallowances and charges amounted to P1,423.800 million, P110.334 million and P0.218 million, respectively for all funds of NIA.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 60 audit recommendations embodied in the previous years' Annual Audit Report, 12 were fully implemented, 30 were partially implemented and 18 were not implemented. Details are presented in Part II.B of the Report.

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PART I – AUDITED FINANCIAL STATEMENTS

**PART II – A. OBSERVATIONS AND
RECOMMENDATIONS**

**B. STATUS OF IMPLEMENTATION
OF PRIOR YEARS' AUDIT
RECOMMENDATIONS**



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

THE BOARD OF DIRECTORS

National Irrigation Administration
EDSA, Quezon City

We were mandated to audit the accompanying financial statements of the **National Irrigation Administration General Fund (Funds 101, 102, 161 and 171)**, which comprise the balance sheet as of December 31, 2012, and the statement of income and expenses, statement of changes in government equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

As discussed in Part II.A – Observations and Recommendations of our audit report the following were considered in forming our audit opinion:

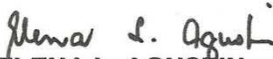
1. The existence, valuation and accuracy of the balance of Property, Plant and Equipment (PPE) account stated at P92,806.448 million representing 87.33 per cent of total assets, could not be ascertained because of inadequacies and deficiencies in accounting and property management.
2. The validity and accuracy of Cash in bank account balance of P11,425.841 million could not be substantiated due to accounting deficiencies.
3. The accuracy and fair presentation of the Statement of Changes in Government Equity was doubtful due to the absence of complete accounting records to support the adjustments in PPE-Public Infrastructure amounting to P7,398.116 million.

The available accounting and property records did not permit the application of sufficient alternative audit procedures to ascertain the fairness of presentation of the Property, Plant and Equipment and Cash accounts in the financial statements.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

COMMISSION ON AUDIT


ELENA L. AGUSTIN
Supervising Auditor
Audit Group B- Irrigation Group
Cluster 5, Corporate Government Sector

June 28, 2013

NATIONAL IRRIGATION ADMINISTRATION
(GENERAL FUND - F101, 102, 161 AND 171)
BALANCE SHEET
December 31, 2012
(In Philippine Peso)

	Note	2012	2011
ASSETS			
Current Assets			
Cash	3.3 & 4	11,434,249,744	5,875,884,278
Receivables	5	782,920,733	556,920,221
Inventories	3.4 & 6	5,397,119	5,903,310
Prepayments	7	1,222,212,352	880,253,179
Other Current Assets		2,272,080	2,272,082
Total Current Assets		13,447,052,028	7,321,233,070
Non-current Assets			
Property, Plant and Equipment-Net	3.5, 3.6 & 8	92,806,448,359	80,491,921,781
Other Assets		18,615,637	17,425,633
Total Non-Current Assets		92,825,063,996	80,509,347,414
TOTAL ASSETS		106,272,116,024	87,830,580,484
LIABILITIES AND EQUITY			
Current Liabilities			
Payables	3.7 & 9	3,785,866,366	3,756,234,451
Inter-agency Payables	10	440,324,477	431,291,402
Intra-agency Payables	11	18,892,959	15,347,842
Other Liabilities	12	724,114,273	509,661,596
Total Current Liabilities		4,969,198,075	4,712,535,291
Non-current Liabilities			
Other Deferred Credits		164,172	164,172
Equity			
Government Equity	13	101,302,753,777	83,117,881,021
TOTAL LIABILITIES AND EQUITY		106,272,116,024	87,830,580,484

The Notes on pages 7 to 20 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
(GENERAL FUND - F101, 102, 161 AND 171)
STATEMENT OF INCOME AND EXPENSES
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011
INCOME			
	3.8 &15		
Subsidy Income from National Government		22,453,589,448	13,862,189,727
Less: Reversion of Unused Notice of Cash Allocation (NCA)		(219,118,280)	(423,887,173)
		22,234,471,168	13,438,302,554
EXPENSES			
	3.8 &16		
		311,269,366	63,462,641
		21,923,201,802	13,374,839,913
OTHER INCOME/(CHARGES)			
Loss on Foreign Exchange		(16,279,087)	(7,534,525)
PROFIT		21,906,922,715	13,367,305,388

The Notes on pages 7 to 20 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
(GENERAL FUND - F101, 102, 161 AND 171)
STATEMENT OF CHANGES IN GOVERNMENT EQUITY
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	Government Equity	Property, Plant and Equipment-Public Infrastructures	Total
Balances, January 1, 2011		74,642,033,620		74,642,033,620
Profit		13,367,305,388		13,367,305,388
Adjustment		4,986,466,123		4,986,466,123
Reversion from Property, Plant and Equipment to Registry of Public Infrastructures			(9,877,924,110)	(9,877,924,110)
Balances, December 31, 2011		92,995,805,131	(9,877,924,110)	83,117,881,021
Profit		21,906,922,715		21,906,922,715
Correction of Prior Period Errors		24,839,966	7,398,115,903	7,422,955,869
Reversion from Property, Plant and Equipment to Registry of Public Infrastructures			(11,145,005,828)	(11,145,005,828)
Balances, December 31, 2012	13	114,927,567,812	(13,624,814,035)	101,302,753,777

The Notes on pages 7 to 20 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
(GENERAL FUND - F101, 102, 161 AND 171)
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2012
(In Philippine Peso)

	Note	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES:			
Receipt of Subsidy from the National Government		22,452,598,448	13,862,089,727
Receipt of Notice of Transfer Allocation- DA		991,000	100,000
Receipt of Intra-agency Fund Transfer		107,922,323	158,635,424
Receipt of Refund of Deposits		9,063,231	31,386,907
Refund of Accounts Payable		10,647	16,404,468
Receipt of Inter-agency Fund Transfer		21,777,507	19,597,950
Recoupment of Advances to Contractor		102,195,441	125,503,730
Receipt of excess fund transfers to LGUs		6,606,655	35,965,121
Receipt of Refund of Cash Advances		12,428,753	4,931,923
Disbursement for the implementation of the project -CIP		(14,374,729,842)	(2,819,276,933)
Payment of Capital Expenditures		-	(7,240,766,989)
Purchase of Office Equipment/Furniture and Fixtures		(54,668,473)	(7,541,302)
Payment of Current Operating Expenses		(99,156,118)	(61,803,668)
Payment of Accounts Payable		(725,670,299)	(396,545,038)
Fund Transfers to Other Funds		(61,995,784)	(157,079,179)
Cash Advance to Officers and Employees		(59,071,286)	(37,436,549)
Cash Advances to NGA/LGU		(386,086,825)	(140,228,157)
Remittance to the National Treasury		(4,652,453)	(2,690,711)
Payment of Advances to Contractors		(1,008,608,350)	(243,184,410)
Refund of Guarantee Deposits to Contractors		(88,985,206)	(69,117,346)
Payment to BIR		(4,978,545)	(3,668,825)
Payment to GSIS/Pag-Ibig/Philhealth		(50,310,002)	(43,272,416)
Reversion of Unused NCA		(219,118,280)	(423,887,173)
Prior Year's Adjustments		-	(12,788,994)
Net Cash Provided by Investing Activities		5,575,562,542	2,595,327,560
EFFECTS OF EXCHANGE RATE CHANGES ON CASH		(17,197,076)	(7,534,525)
CASH, BEGINNING OF YEAR		5,875,884,278	3,288,091,243
CASH, END OF YEAR	4	11,434,249,744	5,875,884,278

The Notes on pages 7 to 20 form part of these financial statements.

NATIONAL IRRIGATION ADMINISTRATION
 (GENERAL FUND – F101, 102, 161 AND 171)
NOTES TO FINANCIAL STATEMENTS
 (All amounts in Philippine Peso unless otherwise stated)

1. AGENCY BACKGROUND

The National Irrigation Administration (NIA) was formally created as a government corporation under Republic Act (RA) No. 3601 on June 22, 1963 with an authorized capital of P300 million. In 1974, under Presidential Decree (PD) No. 552, its capitalization was increased to P2 billion and later on, under PD No. 1702 dated July 17, 1980, it was further increased to P10 billion. The capital was to be subscribed and paid for entirely by the Philippine Government. Section 2, paragraph (b) of PD No. 552 provides NIA's sources of operating capital.

The Agency was originally attached to both the Department of Public Works and Highways (DPWH) and the Department of Agriculture (DA), was later transferred to the Office of the President, and subsequently attached to DA under Administrative Order No. 17 dated October 14, 1992.

The principal function of NIA was initially to develop, maintain, operate, improve and rehabilitate irrigation systems including communal and pump irrigation projects. However, with the reorganization of the government that occurred after its creation, NIA also assumed the irrigation activities of other government agencies, including those of the Irrigation Service Unit of the Presidential Assistance on Community Development. Thereafter, with the passage of RA No. 6978, otherwise known as "An Act to Promote Rural Development by Providing for an Accelerated Program within a Ten-Year Period of the Construction of Irrigation Projects," the activities of NIA were significantly increased to cover the remaining 1.5 million unirrigated but irrigable hectares of land nationwide.

1.A Personnel Profile and Organizational Structure

NIA is headed by an Administrator, assisted by a Senior Deputy Administrator and supported by Deputy Administrator for Administrative and Finance and Deputy Administrator for Engineering and Operations.

The Agency has 5,280 and 5,852 personnel in 2012 and 2011, respectively. The breakdown is as follows:

Particulars	2012	2011
Monthly Paid -Rationalized		
Permanent – COB Charged Filled	3,289	3,126
Permanent – COB Charged CTI	429	607
Permanent – COB Charged for Placement	19	42
Monthly Project Charged – Co Terminus		261
Daily Paid		
COB Charged	311	216
Project Charged	1,232	1,600
Total	5,280	5,852

The Agency is composed of the Central Office, 17 Regional Irrigation Offices (RIOs) including the Upper Pampanga River Integrated Irrigation System (UPRIIS) and the Magat River Integrated Irrigation System (MRIIS), 44 Irrigation Management Offices (IMOs) inclusive of two interim IMOs, and 16 Project Management Offices (PMOs). These are the offices that are existing as a result of implementation of the Rationalization Plan. The Agency manages 217 National Irrigation Systems nationwide with a total service area of 793,638 hectares. The total irrigated area is 569,622 hectares during the dry season (November to April) and 574,383 hectares during the wet season (May to October) and 121,556 hectares for the third crop (Quick turn-around and ratooning).

1.B Financial Operations

One of the sources of funds utilized for the operations of NIA is the General Fund, the collective name for funds 101, 102, 161 and 171. As NIA is the implementing arm of DA for Irrigation Development Program, these funds, which are provided yearly by the National Government, foreign lending institutions and foreign organizations extending grants, are used to construct, repair/rehabilitate irrigation facilities nationwide. The following are the descriptions of the composition of the funds:

- Fund 101 - This is provided by the National Government which is included in the national budget under the allocation of the DA purposely for repair, rehabilitation and restoration of existing irrigation systems. Releases of the fund to NIA are made through the Department of Budget and Management (DBM).
- Fund 102 - This is in the form of loans by the National Government with foreign banks like Japan Bank for International Cooperation (JBIC), Asian Development Bank (ADB), World Bank - International Bank for Reconstruction and Development (WB-IBRD), and with foreign governments, like the People's Republic of China, used to finance the construction of irrigation facilities. The National Treasury releases the funds also through the DBM.
- Fund 161 - This is a trust fund from the National Government specifically intended for the Mindanao Rural Development Project.
- Fund 171- This represents grants from the World Bank which the National Government negotiated for Irrigation Development Project.

1.B.1 Allotments/Cash Allocations

For 2012, the National Government appropriated P24.454 billion, through the General Appropriations Act (GAA) of 2012, RA No.10155 for NIA which comprised of P20.329 billion for locally funded projects (Fund 101) and P4.125 billion for foreign assisted projects (Fund 102). Aside from current year GAA, the fund requirement of NIA was sourced also from: 2011 carry over funds (locally and foreign funded projects) – P3.663 billion.

Of the total appropriation, the DBM released, through DA, an allotment aggregating P23.406 billion, of which P19.365 billion was for locally funded projects, P3.443 billion was for foreign assisted project and P0.598 billion from other sources. Out of the total allotment, P23.830 billion was obligated, of which P18.140 billion was incurred for Fund 101 and P3.900 billion for Fund 102 and P1.790 billion for other sources.

During the year, NIA received from the National Government cash/funding support in the form of Notice of Cash Allocation (NCA) to cover the allotment released aggregating P21.483 billion broken down into P18.665 billion for locally-funded projects, P2.817 billion for foreign-assisted projects, P0.991 million from DA for Maintenance and Other Operating Expenses (MOOE) in the implementation of Philippine Climate Change Adaptation Project Phase 1.

The NCAs received by NIA Central Office are allocated and distributed to its regional offices in the form of Notices of Transfer Allocation for payment of their operational expenses and progress billings.

1.C Projects and Operational Profile

A total of 122 irrigation projects are presently undertaken by the Agency. Of these projects, 15 are foreign-assisted, 105 are locally-funded (including 15 carry over projects), and two are inter-agency. These are listed as follows:

1.C.1 Foreign Assisted Projects (FAPs)

The agency continued the implementation of 15 on-going foreign assisted projects as follows:

1. JBIC - Help for Catubig Agricultural Advancement Project in Northern Samar
2. WB-IBRD - Participatory Irrigation Development Project Phase I
3. China National Constructional and Agricultural Machinery Import and Export Corporation - Agno River Irrigation Project
4. JBIC National Irrigation Sector Rehabilitation and Improvement Project

FAPs without Loan proceeds yet:

5. Malitubog-Maridagao Irrigation Project Stage II
6. Irrigation Systems Operations Efficiency Improvement Project, Visayas and Mindanao
7. Casecnan MIPIC, Phase II
8. Jalaur River Multipurpose Project, Stage II
9. Saug River Multi-Purpose Project, Phase I
10. Kabulnan II Multi-Purpose Irrigation and Power Project
11. Chico River Pump Irrigation Project
12. Tumauani Reservoir Project
13. Ilaguen Multipurpose Project
14. Pasa Small Reservoir Irrigation Project, Isabela
15. Kulaman Small Reservoir Irrigation Project, Bukidnon

For CY 2012 Program, physical targets for these projects were the generation of 16,617 hectares irrigated land, of which 11,422 hectares were actually irrigated. Details are presented in Table 1:

Table 1 - Physical Accomplishment for Foreign-Assisted Projects

Service Areas	Target		Actual		% of Accomplishment
	CY 2012	Carry-over Program	CY 2012	Carry-over Program	
Generation-New Area	8,270	965	7,220	406	82.58
Restoration	8,347	4,428	171	-	1.34
Rehabilitation	-	-	4,031	3,472	-
Total	16,617	5,393	11,422	3,878	69.52

1.C.2 Locally-Funded Projects

In CY 2012, NIA is implementing 90 locally-funded irrigation projects nationwide, as follows:

1. Tangub Small Reservoir Irrigation Project, Misamis Occidental 2005-2012
2. Hibulangan Small Reservoir Irrigation Project, Northern Leyte 2005 to 2014
3. Kitcharao Small Reservoir Irrigation Project, Agusan del Norte
4. Asbang Small Reservoir Irrigation Project, Davao del Sur
5. Marimay Small Reservoir Irrigation Project, Apayao
6. Barotac Viejo Small Reservoir Irrigation Project
7. Barbar Small Reservoir Irrigation Project, Ilocos Sur
8. Sta. Rita Small Reservoir Irrigation Project
9. Mabini-Cayacay Small Reservoir Irrigation Project, Bohol
10. Ibato-Iraan Small Reservoir Irrigation Project, Palawan
11. Upper Tabuating Reservoir Irrigation Project, Nueva Ecija
12. Talakag Irrigation Project, Bukidnon
13. Malaig River Irrigation Project, Lanao del Sur – 2008 to 2010
14. Samar Island Irrigation Development Project
15. Modification of Malinao Dam, Bohol – 2010 to 2013
16. Bugko Irrigation Project, Northern Samar – 2010 to 2011
17. Colocol Integrated Irrigation Project, Nueva Vizcaya
18. Buayan-Tinagakan RIS Improvement Project, General Santos City
19. Irrigated Rice Enhancement Project, Regions 6, 8 and 10
20. Casecnan Irrigation Project, Phase II, Nueva Ecija, Bulacan and Pampanga
21. Payment for Right-of-way and unpaid claims and damages of completed projects
22. Small Irrigation Project, nationwide
23. Feasibility Study and Detailed Engineering of Various Projects, Central Office and 14 Regions
24. Repair/Establishment of Groundwater/Pump Irrigation Project, Regions I, II, III, IV, VI, VII, VIII, IX, XII
25. Irrigation Management Transfer Support Services, nationwide
26. Baggao IS Improvement and Extension Project Taboan, Cagayan
27. Bantayan Irrigation Project, Northern Samar
28. Quipot Irrigation Project, Quezon
29. Bongabong River Irrigation Project, Oriental Mindoro

30. Calbiga Irrigation Project, Western Samar
31. Umayam River Irrigation Project, Agusan del Sur
32. Sulvec Small Reservoir Irrigation Project, Ilocos Norte
33. Upper Butigue Small Reservoir Irrigation Project, Mountain Province
34. Talibon Small Reservoir Irrigation System Extension Project, Bohol
35. Bayongan-Capayas Integrated Systems Improvement Project, Bohol
36. Dibuluan Irrigation Project, Isabela
37. Itbayat Integrated SSIS Extension Project, Batanes
38. Magapit Pump Irrigation System Extension Project, Cagayan
39. Dabubu Irrigation Project, Isabela
40. Hilabangan River Irrigation Project, Negros Occidental
41. Salug River Irrigation System Extension Project, Zamboanga del Sur
42. Nala Irrigation Project, Bukidnon
43. Libungan River Irrigation System Extension Project, Cotabato
44. Baobo Irrigation System Improvement Project, Agusan del Sur
45. Gibong Right and Left Banks Irrigation System Improvement Project, Agusan del Sur
46. Cantilan Irrigation System Improvement Project, Surigao del Sur
47. Rugnan Irrigation System Improvement Project, Lanao del Sur
48. Restoration/Rehabilitation of Existing Irrigation System, (RREIS) nationwide
49. Magballo-Balicotoc-Canlamay Integrated System Extension Project, Negros Occidental
50. Dauin Irrigation System Extension Project, Negros Oriental
51. Malinao Irrigation System Improvement Project, Bohol
52. Repair, Operation and Maintenance of National Irrigation System-Pump Irrigation Systems, Regions I, II, III, V, XIII
53. Alfonso Lista Pump Irrigation Project, Ifugao
54. West Apayao Abulog System Extension Project, Apayao
55. Titay Small Reservoir Irrigation Project, Zamboanga del Sur
56. Upper Chico River Irrigation System Extension Project, Kalinga Apayao
57. Gaco Irrigation Project, Ilocos Sur
58. Bacnotan Irrigation Project, La Union
59. Ambayoan River Irrigation System Extension Project, Pangasinan
60. Dipalo River Irrigation System Extension Project, Pangasinan
61. Lower Agno River Irrigation System Improvement Project, Pangasinan
62. Dinapigue SSIP, Isabela
63. Sibagat Small Reservoir Irrigation Project, Camarines Sur
64. Ibingan Small Reservoir Irrigation Irrigation Project, Sorsogon
65. Sindangan Irrigation System Extension Project, Zamboanga Sibugay
66. Lower Sibuguey I River Irrigation System Extension Project, Zamboanga Sibugay
67. Lower Sibuguey II River Irrigation System Extension Project, Zamboanga Sibugay
68. Upper Sibuguey River Irrigation System Extension Project, Zamboanga Sibugay
69. Tandubas Irrigation Project (mainland), Tawi-Tawi
70. Parangan Irrigation Project, Tawi-Tawi
71. Dagumbaan Irrigation Project, Bukidnon
72. Baliangao Irrigation Project, Misamis Occidental
73. Karigongan Irrigation Project, Lanao del Sur
74. ALA River Irrigation System/Surallah Extension Project, South Cotabato

75. Lake Mainit IADP (Mainit), Surigao del Norte
76. Lower Agusan Irrigation System Improvement Project, Agusan del Norte
77. MAP Irrigation Project, Agusan del Norte
78. Cabadbaran River Irrigation System Improvement Project, Agusan del Norte
79. Tago River Irrigation System Improvement Project, Surigao del Sur
80. Bislig City Integrated Development project-Irrigation Component, Surigao del Sur
81. National/Communal Irrigation System Extension Projects (NIS/CIS Extension), nationwide
82. Ditsaan – Ragain River irrigation Project, Lanao del Sur
83. Madongan RIS Rehabilitation Project, Ilocos Norte
84. Mabini Agricultural Development Project, Pangasinan
85. Bacolor Irrigation Project, Pampanga
86. Balbalungao Small Reservoir Irrigation Project, Nueva Ecija
87. Lambayong RIS Restoration Project, Sultan Kudarat
88. Improvement of TEOBACU – IA Irrigation Canal Facilities, Pampanga
89. Improvement of SIPPAMA Pump Irrigation Project, Pampanga
90. Oras Irrigation Project, Eastern Samar

Physical accomplishments for the locally-funded projects under Fund 101 are presented in the following table.

Table 2 - Physical Accomplishment for Locally-Funded Projects

Service Areas	Target Area (in hectares)	Actual Area (in hectares)			Percentage of Accomplishment
		CY 2012	Carry-over Program	Total	
Generation-New Area	77,569	35,339	3,438	38,777	49.99
Restored Area	47,448	35,094	1,132	36,226	76.35
Rehabilitated Area	90,144	87,305	2,950	90,255	100.12
Total	215,161	157,738	7,520	165,258	76.81

1.C.3 Carry Over Projects – Locally Funded

There are 13 carry over projects locally funded in CY 2012. As of December 31, 2012, the following are the status of the project:

Table 3 – Physical Accomplishment of Carry-Over Projects Locally Funded

Projects	Percentage of Accomplishment
Masidem SRIP	88.68
Balog-Balog MP Phase I,	99.95
Maayon IP	36.40
Catarman-Bobon IP	100.00
Balingasag IP	97.25
Rehabilitation of Maridagao RIS and Completion of Malitubog RIS	45.87
Buayan-Tinagakan River ISIP	95.00
Simulao RIS Improvement and Extension Project	100.00
Sta. Josefa PIP	74.08
Construction/Repair/Rehabilitation of New Existing NIA Assisted	

Projects	Percentage of Accomplishment
Irrigation Systems	99.32
Repair/Rehabilitation of Existing NIA Assisted Irrigation System (P6.524 billion CY 2010 Allocation)	100.00
Balikatan Sagip Patubig Program (Nationwide)	97.67
Basey Irrigation Project Western Samar	100.00

The actual accomplishment for the carry over projects-locally funded, are as follows:

Table 4 - Physical Accomplishment for Carry Over Projects–Locally Funded

Service Areas	Accomplishment for the year Actual Area (in hectares)	Actual Area to Date (hectares)
Generation-New Area	6,277	13,050
Restored Area	16,578	28,056
Rehabilitated Area	7,983	90,108
Total	30,838	131,214

1.C.4 Other Sources – Calamity Fund (Typhoon Juan) and CRRNENIAAIS

Table 5 - Physical Accomplishment for Inter-Agency Projects

Service Areas	Target (hectares)	Actual Area to Date (hectares)	Overall Project Status (%)
Rehabilitated Area	3,387	1,777	Calamity Fund –
Restored Area	1,985	1,570	91.03
Rehabilitated Area	8,701	90,907	CRRNENIAAIS-
Total	14,073	94,254	47.10

1.C.5 Inter-Agency Projects

There are government agencies whose project components covered not only civil works, environment, health, etc. but also irrigation. NIA implemented Department of Agrarian Reform Projects as follows:

1. Comprehensive Agrarian Reform Projects (CARP) - Irrigation Component II
2. Agrarian Reform Infrastructure Support Projects III

As of December 31, 2012, the physical accomplishments are shown below.

Table 6 - Physical Accomplishment for Inter-Agency Projects

	Target (hectares)	Actual (hectares)	Percentage of Accomplishment
Generation-New Area	2,550	1,043	40.90
Rehabilitated Area	2,571	1,654	64.33
Total	5,121	2,697	52.67

2. BASIS FOR REPORTING

The financial statements have been prepared in accordance with state accounting principles.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 The Agency has adopted the New Government Accounting System (NGAS) prescribed under COA Circular No. 2001-004 dated October 30, 2001. It subscribes and adopts the policies, methods and assumptions provided in this Circular. It has re-classified its accounts to conform with the New Government Chart of Accounts.

3.2 Modified Obligation System is used to record allotment received and obligation incurred. Separate registries are maintained to control allotment and obligation.

3.3 Imprest Fund System is adopted for petty cash fund.

3.4 Supplies and materials purchased are recorded as inventory using the perpetual inventory costing. Capital assets procured by the Agency are recorded using the asset method of accounting.

3.5 The Construction Period Theory is applied in the costing of assets that are under construction. Related expenses incurred during the construction period are capitalized, while those incurred after the construction of the project form part of the operating cost.

3.6 Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method at rates ranging from two per cent to 10 per cent. Major repairs are capitalized, while minor repairs are charged to operation as incurred.

3.7 Payable accounts are recognized and recorded in the books of accounts only upon delivery of the goods/inventory/other assets and rendition of services to the Agency.

3.8 Accrual method of accounting is adopted wherein income and expenses are recognized when earned or incurred regardless of when collected or paid.

3.9 Transactions in foreign currencies are recorded in Philippine Peso based on the Bangko Sentral ng Pilipinas (BSP) rate of exchange prevailing at the date of transactions. At the end of the year, these are revalued using the rate of exchange at balance sheet date. Foreign currency denominated monetary assets and liabilities at balance sheet date are restated based on BSP exchange rate at that date.

3.10 Errors in prior years are corrected by using the Prior Year's Adjustments account. Errors affecting current year's operation are charged to the relevant current year's accounts.

4. CASH

This account consists of:

Particulars	2012	2011
Cash in Bank – Local Currency, Current Account	11,319,606,040	5,820,824,048
Cash in Bank – Foreign Currency, Savings Account	91,483,955	27,929,920
Cash in Bank – Local Currency, Savings Account	14,374,998	14,374,998
Payroll Fund	7,660,050	9,598,530
Petty Cash Fund	384,101	621,168
Cash in Bank – Foreign Currency, Time Deposit	375,660	639,278
Cash – Collecting Officers	364,940	1,896,336
Total	11,434,249,744	5,875,884,278

The Cash in Bank-Local Currency, Current Account includes the amount of cash deposited in current account by different regional and project offices nationwide with authorized government depository banks.

Cash in Bank–Foreign Currency, Savings Account represents amount deposited with authorized government depository banks denominated in US dollars. These constitute monies from foreign lending banks for the implementation of irrigation projects.

5. RECEIVABLES

This account consists of:

Particulars	2012	2011
Due from Local Government Units (LGUs)	458,180,849	353,443,582
Due from National Government Agencies (NGAs)	146,406,788	51,714,569
Due from Other Funds	122,545,603	110,162,301
Advances to Officers and Employees	22,405,207	15,184,926
Due from Government Owned and Controlled Corporations (GOCCs)	14,552,614	14,489,606
Other Receivables	11,446,464	4,083,110
Due from Officers and Employees	3,846,984	3,872,597
Receivable - Disallowances/Charges	1,723,213	2,156,519
Loans Receivable – Others	1,580,223	1,580,223
Accounts Receivable	161,578	161,578
Due from National Treasury	71,210	71,210
Total	782,920,733	556,920,221

The account “Due from NGAs” represents the amount of advances extended to the Department of Environment and Natural Resources and the Department of Health as partners in the implementation of the irrigation component under Environment and Health per Loan Package for SPISP extended by ADB.

The account "Due from LGUs" represents advances made as a result of Memoranda of Agreement between NIA and LGUs to implement repair and rehabilitation of irrigation facilities subject to liquidation after implementation of the projects.

The account "Due from Other Funds" pertains to advances or borrowings from the general fund to the corporate fund with repayment condition as soon as funds are available.

6. INVENTORIES

This account consists of:

Particulars	2012	2011
Gasoline, Oil and Lubricants Inventory	4,681,731	4,319,168
Office Supplies Inventory	543,221	840,855
Spare Parts Inventory	111,955	678,075
Construction Materials Inventory	30,497	30,497
Other Supplies Inventory	29,715	29,715
Accountable Forms Inventory	-	5,000
Total	5,397,119	5,903,310

7. PREPAYMENTS

This account includes:

Particulars	2012	2011
Advances to Contractors	1,218,068,430	876,427,357
Other Prepaid Expenses	3,315,281	3,309,881
Guarantee Deposits	704,793	392,093
Deferred Charges	123,848	123,848
Total	1,222,212,352	880,253,179

8. PROPERTY, PLANT AND EQUIPMENT

This account consists of:

	Land and Land Improvement	Building and Improvements	Machineries, Equipment, Furniture and Fixtures	Construction in Progress	Total
Cost					
January 1, 2012	17,688,496,348	151,194,253	1,198,199,250	61,562,705,181	80,600,595,032
Additions	3,347,702	5,447,454	37,954,404	12,377,435,171	12,424,184,731
Liquidation of fund transferred to LGU	-	-	-	653,182,945	653,182,945
CIP transferred to PPE	162,770,856	4,342,376	5,573,799	(172,687,031)	-
CIP Projects turned over to LGUs	-	-	-	(21,739,373)	(21,739,373)

	Land and Land Improvement	Building and Improvements	Machineries, Equipment, Furniture and Fixtures	Construction in Progress	Total
Derecognition in the books due to donation/sale	-	-	(13,507)	-	(13,507)
Adjustments	(449,103,806)		(26,820,097)	(22,606,624)	(498,530,527)
Cost					
December 31, 2012	17,405,511,100	160,984,083	1,214,893,849	74,376,290,269	93,157,679,301
Less: Accumulated Depreciation					
January 1, 2002	52,822,862	1,355,490	54,494,899	-	108,673,251
Depreciation Charges	240,384,300		2,173,391	-	242,557,691
Accumulated Depreciation					
December 31, 2012	293,207,162	1,355,490	56,668,290	-	351,230,942
Net December 31, 2012	17,112,303,938	159,628,593	1,158,225,559	74,376,290,269	92,806,448,359
Net December 31, 2011	17,635,673,786	149,838,763	1,143,704,351	61,562,705,181	80,491,921,781

Land and Land Improvements refer to the cost of completed irrigation projects such as canals, laterals, dams, and other irrigation facilities funded by foreign borrowings and by the National Government.

Machineries and Equipment and Construction Equipment are assets used by the Agency in the construction, rehabilitation, repair and restoration of irrigation facilities. These equipment were originally part of the loan package and used in the implementation of projects; however, they were turned over to the Agency after completion of the projects to be utilized for repair and maintenance of the irrigation facilities.

Agricultural, Fishery and Forestry Equipment pertains to the cost of equipment, such as water pumps and other irrigation equipment, utilized in the implementation of the Tarlac Groundwater Irrigation System Reactivation Project, which was temporarily booked up under this account.

Construction in Progress pertains to the cost of ongoing irrigation projects, such as irrigation canals and laterals, artesian wells and reservoirs, and other public infrastructures funded by foreign borrowings and by the National Government. This account is composed of the direct labor, direct materials, overhead, land, project contracts cost, equipment and consultancy cost in the implementation of various projects. Various completed projects were still included in this account balance pending the completion of the documentary requirements for the transfer of the cost of CIP to the proper PPE accounts.

9. PAYABLES

This account consists of:

Particulars	2012	2011
Accounts Payable	3,777,041,707	3,747,557,899
Due to Officers and Employees	8,824,659	8,676,552
Total	3,785,866,366	3,756,234,451

Accounts Payable pertains mostly to claims of creditors, who are either foreign or local contractor, on their project accomplishments, and of suppliers for the delivery of goods.

Due to Officers and Employees are substantially claims for salaries and other benefits that are outstanding as of year-end.

10. INTER-AGENCY PAYABLES

This account includes:

Particulars	2012	2011
Due to Bureau of Internal Revenue	182,958,897	119,766,093
Due to NGAs	169,644,484	258,409,227
Due to LGUs	59,743,396	19,051,207
Due to National Treasury	10,760,257	14,354,743
Due to GOCCs	7,652,523	9,255,348
Due to Government Service Insurance System	6,197,627	7,093,807
Due to PHILHEALTH	1,760,145	1,757,635
Due to Pag-IBIG Fund	1,607,148	1,603,342
Total	440,324,477	431,291,402

11. INTRA-AGENCY PAYABLES

This pertains to funds received for the account of other funds, like corporate and special funds of the Agency. Borrowings among funds are resorted to with repayment conditions as soon as funds are available.

12. OTHER LIABILITIES

This account consists of:

Particulars	2012	2011
Guaranty Deposits Payable	372,636,679	341,114,134
Other Payables	349,187,990	166,616,395
Performance/Bidders/Bail Bond Payable	2,289,604	1,931,067
Total	724,114,273	509,661,596

Other Payables pertain to the accrual of terminal leaves of project personnel, equity of LGUs, Irrigators Associations and NIA Employees' Union contributions, retention fees on contracts covering other projects/regional offices, and other payables not properly identified in other liability accounts.

13. GOVERNMENT EQUITY

This pertains to the equity or capital invested by the National Government for various irrigation systems/projects implemented and maintained by the Agency. Under the NGAS, the balance of retained operating surplus, which represents the excess of income over expenses, is closed to this account. In addition, this account is also being used to transfer/close Public Infrastructure Account.

14. CORRECTION OF PRIOR PERIOD ERRORS

This account represents adjustments in the books of accounts of field offices, as follows:

Particulars	2012	2011
Restoration of Completed Projects	(38,896,177)	-
Adjustment of:		
Cash in Bank	(1,200,000)	344,583
Due to GSIS	-	5,731
Due to Philhealth	-	450
Due to BIR	-	167,835
TRA	(3,870,367)	(4,573,793)
BTr Remittance	-	33,199,464
Due to CO	-	(1,690,000)
Registry of Infra	-	(13,997)
Disbursement	360,757	(87,431)
Depreciation	13,896,633	-
Subsidy Income	5,702,174	-
Payment of Terminal Leave and add-on incentive	(2,132,264)	-
Overstatement of liquidation of contractor	-	93,651,186
Liquidation of Non cash transactions	-	(8,087,033)
Cash Support	-	(1,281,542)
Bank Charges	-	4,940
Disallowance	-	58,967
Fund Transfer	-	(952,014)
Gain/Loss Foreign Exchange Conversion	-	1,125,398
Interest Income	-	(16,151)
Loss of Assets	-	(1,178,533)
PPE Adjustments	(7,396,816,625)	453,554
Receipt of NCA's	-	(464,750)
Refund of Excess Cash Advance	-	(2,337)
Unrecorded TRA	-	(6,186,336)
Total	7,422,955,869	104,478,191

15. SUBSIDY INCOME FROM NATIONAL GOVERNMENT

This pertains to funds released by the National Government through the DBM, purposely for the construction, repairs and rehabilitation of irrigation facilities, which

comprises cash under the Modified Disbursement Scheme and non-cash representing Tax Remittance Advice (TRA).

16. EXPENSES

This account consists of:

Particulars	2012	2011
Depreciation-Land Improvements	212,113,248	-
Electricity Expense	94,526,995	56,345,305
Repairs and Maintenance –Machineries and Equipment	1,894,310	-
Repairs & Maintenance – Pumping Stations and Conduits	1,785,740	3,326,099
Rental Expense	800,000	-
Traveling Expense	53,476	-
Representation Expense	51,534	-
Office Supplies Expense	33,416	-
Water Expense	10,647	-
Incentive	-	1,117,703
Terminal Leave Benefits	-	1,014,561
Depreciation-IT Equipment and Software	-	951,983
Depreciation-Office Equipment	-	274,477
Depreciation-Other Machinery and Equipment	-	215,129
Depreciation-Motor Vehicles	-	53,085
Depreciation-Furniture and Fixtures	-	100,399
Depreciation-Technical and Scientific Equipment	-	41,436
Depreciation-Communication Equipment	-	14,271
Depreciation-Military and Office Equipment	-	7,383
Depreciation-Agricultural, Fishery and Forest Equipment	-	810
Total	311,269,366	63,462,641

Expenses in the total amount of P149,343 pertains to the utilization of funds received from Department of Agriculture representing grant from the World Bank for the implementation of Philippine Climate Change Adaptation Project covered by Memorandum of Agreement between the Department of Agriculture, Department of Environment and Natural Resources, and the Department of Science and Technology.

A. OBSERVATIONS AND RECOMMENDATIONS

1. The existence, valuation and accuracy of the year-end balance of Property, Plant and Equipment (PPE) account amounting to P92,806.448 million representing 87.33 per cent of the total assets could not be ascertained due to inadequacies and deficiencies in accounting and property management, thereby impairing the fair presentation of the PPE account in the financial statements.

1.1 Section 111 of Presidential Decree No. 1445 provides that the accounts of an agency shall be kept in such detail as necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.

1.2 Likewise, the Manual on the New Government Accounting System (MNGAS), Volume I sets the rules and regulations to be followed in the accounting of PPE, to wit:

“Sec. 4 (l) Maintenance of Supplies and Property, Plant and Equipment Ledger Cards. For appropriate check and balance, the Accounting Units of agencies, as well as the Property Offices, shall maintain Supplies Ledger Cards/Stock Cards by stock number and Property, Plant and Equipment Ledger Cards/Property Cards by category of property, plant and equipment, respectively.”

“Sec. 43. Perpetual Inventory Method. x x x The Accounting Unit shall maintain perpetual inventory records, such as the Supplies Ledger Cards for each inventory stock, Property, Plant and Equipment Ledger Cards for each category of plant, property and equipment including work and other animals, livestock, etc. The subsidiary ledger cards shall contain the details of the General Ledger accounts.

For check and balance, the Property and Supply Office/Unit shall maintain Property Cards (PC) for property, plant and equipment, and Stock Cards (SC) for inventories. The balance in quantity per PC and SC should always reconcile with the ledger cards of the Accounting Unit.”

1.3 More so, COA Circular No. 80-124 provides that, “Physical Inventory of Fixed Assets shall be made at least once a year as of December 31 in accordance with the guidelines enumerated”.

1.4 Relative to this, the NIA, in its Memorandum Circular (MC) No. 70 dated December 11, 2003 required the Inventory Committee to undertake a physical count of all NIA properties to be grouped according to fund, project and classification and to prepare the annual Inventory Report as of December 31, 2003, and every year thereafter.

1.5 Furthermore, Section 41 of the MNGAS, Volume I states that:

“x x x During construction period, property, plant and equipment shall be classified and recorded as Construction in Progress with the appropriate

asset classification. As soon as these are completed, the Construction in Progress account shall be transferred to the appropriate asset accounts. Accounts Public Infrastructures and Reforestation Projects are closed to Government Equity account and the asset is recorded in the Registry of Public Infrastructure/Reforestation Projects at the end of the year.”

1.6 In the review of the PPE account, the following lapses and deficiencies were noted in audit, the same issues raised in previous years’ Annual Audit Reports:

Table 1- Deficiencies in PPE Accounts

Central/Regional Office	Amount (In Million Pesos)	Deficiency	
Central Office	41.882	There is an unreconciled difference between the general ledger/trial balance and total per Physical Count of Plant, Property and Equipment	
I	2,535.795		
III	758.900		
Upper Pampanga River Integrated Irrigation System (UPRIIS)	1,708.292		
Magat River Integrated Irrigation System (MARIIS)	85.904		
Casecnan Multipurpose Irrigation Power Project (CMIPP)	12.173		
XII	2,826.858		
Central Office	10,147.432		Completed irrigation projects in prior years booked-up under the Construction-in-Progress (CIP) account and other PPE items were not adjusted to the proper fund/asset accounts and were not also reported in the Agency’s Physical Count of Property, Plant and Equipment.
I	Amount not indicated		
UPRIIS	34.209		
VII	Amount not indicated		
XII	Amount not indicated	Accounting and property records to support GL balances were not adequately maintained/ updated.	
Central Office	32,536.322		
I	Amount not indicated		
III	1,750.498		
V	961.858		
VI	2,310.748		The CIP was not supported with a CIP Ledger Card (CIPLC) for each ongoing infrastructure project, thus information or details and cost of construction of each project as well as its existence could not be validated.
VII	Amount not indicated		
XII	Amount not indicated		
XIII	3,267.018		

Central/Regional Office	Amount (In Million Pesos)	Deficiency
Central Office I III CMIPP VII IX	Amount not indicated 669.967 787.583 10.196 455.935 2,918.428	Depreciation was not provided/computed on depreciable property and equipment.
Central Office VI IX XIII	4,411.138 Amount not indicated 2,918.428 Amount not indicated	Physical inventory of property was not undertaken/completely conducted to determine existence and condition of PPE. The Report on Physical Count of Property, Plant and Equipment was not submitted to the Office of the Auditor, for verification.
II	12.236	Completed PIDP irrigation projects classified as System Core B were not recorded/transferred to the Public Infrastructure account.

1.7 The following were cited as the causes of the above deficiencies, among others:

- a. Absence of subsidiary ledgers and insufficiency of documents from which to trace project locations for physical inspection and inclusion in the Inventory Report;
- b. Difficulty in obtaining the turn-over documents of the various projects from the Provincial Irrigation Management Offices (PIMOs) and Engineering and Operations Division (EOD), which would have been the basis for making the necessary journal entries;
- c. No periodic reconciliation between accounting and property records so that any adjustments or disposals made from either of these two records were not taken up;
- d. No PPE Ledger cards which contain data to be used in the computation of depreciation; and
- e. Lack of proper coordination between the Accounting Section and the Property Supply Section.

1.8 In the Central Office, the Accounting Division-Bookkeeping Section only maintains detailed subsidiary ledgers for CIP accounts for transactions recorded from 2004 to present. The analysis and construction of subsidiary records for transactions recorded in 2003 and prior years are still on going.

1.9 In Regional Office No. XIII, Property Cards were maintained by the Property Section for acquisitions made from CYs 2010 to 2012 while preparation of the property cards from the year 2009 below is still on going. However, Property Ledger Cards were still not maintained by the Accounting Section for each category of PPE. The available subsidiary ledgers from the Accounting Section only show breakdown of PPE per Irrigation Management Office (IMO) for the years 2010 to 2012.

1.10 Previously, NIA transactions were recorded per fund although consolidated financial statements were prepared. The completed projects were transferred to asset account and depreciation is provided and the corresponding expense was included in the Maintenance and Other Operating Expenses (MOOE) to match the income generated from the use of the irrigation systems. However, in later years, separate financial statements were prepared for each fund, which resulted to confusion in financial reporting. Management is reluctant to provide depreciation on the assets recorded in the general fund because there is no operating income to match the expenses.

1.11 The deficiencies and inadequacies enumerated above cast doubt on the existence, ownership and valuation of the PPE thereby adversely affecting the fair presentation of the said account in the financial statements.

1.12 We reiterated our previous year's recommendations that Management require the Accounting Division and Property Supply Division, as the case may be to:

- a. Exhaust all efforts to reconcile the discrepancy between property and accounting records;**
- b. Properly maintain updated SLs for CIP, ledger cards for PPE and schedule for Land accounts;**
- c. Provide depreciation for all the assets capitalized;**
- d. Continue the analysis of the accounts to complete the SLs for CIP;**
- e. Identify the projects composing the lump sum accounts in order to take appropriate action to transfer the cost of completed projects to assets accounts;**
- f. Facilitate the recording of identified completed project to proper asset account or Registry of Public Infrastructure;**
- g. Conduct complete physical inventory of all property and reconcile result with the accounting record to determine the existence of the recorded assets; and**
- h. Conduct periodic reconciliation of accounting and property records.**

1.13 Management gave the following comments:

a. In the NIA-Central Office (CO), the Bookkeeping Section of the Accounting Division is in the process of updating PPE ledger Cards. PPELC from CY 2002 to CY 2011 has been prepared. The CIP Ledger Cards for the eventual closure of the books of long completed projects are being updated. Coordination has been done with the steering committee on project completion regarding the listing of completed projects approved by the Board per MC # 43 and 44 s. 2007.

b. In NIA Regional Office (RO) No. I, for CY 2012, property cards are being maintained for newly purchased equipment and CIP account is continuously analyzed for proper disposal. Effort is being exhausted to reconcile noted discrepancies.

c. In NIA RO No. II, the Participatory Irrigation Development Project (PIDP) is a long term project which just started late of CY 2009 and is expected to be finished in CY 2015. As of to date, Management cannot act on the audit recommendation to transfer partially the completed projects to Public Infrastructure account. As per agreement with the NIA-CO Top Management, PIDP-Project Management Office (PMO) and Financial Analyst (Consultant) of the World Bank, completed projects can only be transferred from Construction in Progress to Public Infrastructure upon the completion/termination of the whole Project nationwide.

d. In UPRIIS, the offices concerned are continuously working on the reconciliation of PPE records. Effective 2013, proper classification of PPEs shall be made based on the Inspection and Acceptance Report. In addition, the Engineering Section shall timely provide the Accounting and Property Sections with the Certificate of Completion of infrastructure projects, as basis in reclassifying the CIP account. All property officers were instructed to coordinate with the Accounting Section, Office of Management Staff (OMS), for the synchronized reclassification and reconciliation of PPE items.

e. In CMIPP, the variances between the Accounting and Property records are due to the following:

e1. The Property Section may not have recorded all PPE accounts;

e2. The cost of motor vehicles purchased in NIA-CO through letter of credit using the loan proceeds under CMIPP-Phase I was not reflected in the books; and

e3. The newly acquired properties booked in the CIP account were reported in the schedule of PPE but were not itemized in the trial balance.

On un-booked depreciation, Management had received instruction from NIA CO to make the necessary adjusting entry in the books for assets already transferred to UPRIIS and other offices, and that the computation of the corresponding depreciation expense will be done by the receiving

offices. NIA-CMIPP hence will request NIA-CO to advise all receiving offices for the booking up of the depreciation cost of the transferred items.

f. In NIA RO No. VI, reconciliation of PPE Ledger Cards per project with General Ledger for 2011 is still on-going; that PPELC as of December 31, 2010 is already completed; that it was done per fund and per FO; that for 2011, Negros IMO and Antique IMO ledger cards are updated already; and that updating of PPELC for other fields is still on-going.

Further, physical count of all property was conducted for CY 2011 and the Annual Inventory Reports of all NIA properties as of December 31, 2011 under different offices were already submitted; and that those reports were transmitted to NIA-CO.

g. In NIA RO No. VII, the construction period theory is adopted wherein all expenses during the construction of the projects are capitalized and infrastructure for public use shall be transferred to the Registry of Public Infrastructure, hence no depreciation is provided on said PPE accounts. On the accumulated balance of CIP account of P1,260 million, which included some completed projects not turned-over and reclassified to the appropriate PPE account, the said balance includes the amount of P435.845 million that was forwarded from Region VIII to Region VII with no accompanying SLs, thus the difficulty in identifying to which field office/s said amount shall be apportioned/recorded. It is assured that the substantial balance of the CIP account shall be reduced as soon as projects are completed and the required turnover documents are submitted by the field offices.

h. In NIA RO No. IX, except for the Land Improvements, the Inventory Committee was able to undertake a physical count of the PPEs as required under NIA MC No. 52, series of 2009. Management was unable to provide for depreciation for the properties, except for those acquired in CY 2006 to present, since they are still in the process of retrieving all pertinent documents as basis for reconciliation and/or reclassification of the accounts and for computing the appropriate amount of depreciation. PPE Ledger cards are already being maintained and concerned personnel were tasked to work back for those acquired in CY 2005 and earlier periods.

i. In NIA RO No. XII, properties were not yet taken up in the books due to absence of invoice receipt and Journal Entry Voucher (JEV) from Central Office and adjustments will automatically be effected upon the receipt of the related documents.

j. In NIA RO No. XIII, PPE SL per IMO is being maintained in the Regional Office. Preparation of PPELC is ongoing and a computerized program will be developed to facilitate preparation of PPELC. A communication was already issued to NIA field offices to submit Project Completion Reports and turnover documents for all completed projects. A committee will be created in the Regional Office to monitor compliance of the field offices. The formation of new Inventory Committee is on-going to fill up the vacancy resulting from reassignment/transfer of its former members.

1.14 By way of a rejoinder, in NIA Regional office No. VII, the cited PPE accounts are not classified as Public Infrastructures, hence, subject to depreciation.

2. The validity and accuracy of the balance of Cash in Bank accounts amounting to P11,425.841 million cannot be substantiated due to accounting deficiencies.

2.1 Audit of the Cash in Bank account as of December 31, 2012 disclosed the following accounting deficiencies that diminished reliance on Management's assertions on the correctness, completeness, validity and accuracy of the transactions reported under this account:

a. In NIA Cordillera Autonomous Region (CAR), the accuracy and reliability of the Cash in Bank account of P827.098 million could not be ascertained due to (i) an unreconciled difference of P0.739 million between subsidiary ledger and general ledger balances; (ii) a variance of P264,816 between the balances of the subsidiary ledgers and control records in the field offices; and (iii) dormant bank balance amounting to P340,380 which could not be analyzed since no bank reconciliation statements (BRS) were prepared.

b. In UPRIIS, discrepancies in the cash records and reports resulted from the following inconsistencies:

b.1 Four bank accounts which the reconciling items amounting to P323,874 had not been properly classified and thus had remained unadjusted. These doubtful reconciling items were indicated as "unreconciled difference of prior years" in the BRS;

b.2 Reconciling items amounting to P81,697; though already identified, remained unadjusted as at December 31, 2012;

b.3 Unreconciled difference of P100.364 million existed between BRS and SL balances of accounts;

b.4 Abnormal balance of P11.032 million; and

b.5 Although a trial balance was prepared for the Irrigation Operation Support Project (IOSP) which reported a cash in bank balance of P1.180 million as at December 31, 2012, there was neither reciprocal cashbook and SL maintained nor BRS prepared for the account.

c. In NIA RO No. V, records disclosed that aside from incomplete reconciliation of bank statements, the Accountant incurred delay in the preparation and submission of BRS for all the bank accounts under Fund 101 while BRS was not prepared as of December 31, 2012 for Fund 102. Review and verification of BRS revealed that long existing book and bank reconciling items since 1997 and even the current year's reconciling items totalling P2.838 million remained unadjusted as of the end of the year. It was alleged that the Accounting Section is incapable to reconcile long existing reconciling items due to lack of

proper documents/details to determine the nature and propriety of transactions that transpired in prior years and serve as basis to draw the required journal entry voucher to adjust these reconciling items in the books of accounts.

d. In NIA RO No. XIII, the agency was able to prepare and submit BRS as of year-end, however, verification showed that the reconciliation was made only between the bank balance and cash book balance maintained by the cashier. No reconciliation was made between the bank balance and cash in bank balance found in the books of the agency. Subsidiary ledgers were not properly maintained since prior years' entries/postings cannot be traced from the source documents.

2.2 We recommended that Management require the Finance/Accounting Section to:

a. Coordinate with the Irrigation Management Offices (IMOs) to analyze/verify in detail the unreconciled balances; determine the nature of disparities noted among the reciprocal cash records and reports and adjust records accordingly;

b. Exert all effort to reconcile the difference between the SL and general ledger (GL); update the SLs of bank accounts and reconcile balances with the GL balance;

c. Remit to the National Treasury the dormant bank balance of P340,380 in compliance with COA Circular No. 97-001 which requires the remittance of all dormant cash balances on hand and in other banks to the National Treasury;

d. Perform periodic reconciliation of GLs, SLs, BRS and cash books;

e. Trace the cause/s of abnormal balances in SLs and BRS identified;

f. Regularly prepare BRS based on the updated and reconciled SL balances of bank accounts; and

g. Take up in the books the reconciling items with valid documents.

2.3 Management gave the following comments:

a. In NIA CAR, they will continue to look into the differences to come up with a reconciled balance of the account. The dormant bank balance has no cash backing since it was only in the record that there is a balance for the said bank account.

b. In UPRIIS, disparities between records will be adjusted once documents become available. Since CY 2009, Accounting Section has been trying to

reconstruct the entries of prior years but the documents were already damaged by several typhoons and infestation. During the 1st quarter of 2013, some adjustments were already recorded and taken up in the books. Identified adjustments will be taken up immediately. Meanwhile, periodic reconciliation will be done by both division offices and OMS to facilitate an immediate check and balance of all transactions. Division Accounting Units were given instruction to submit BRS to the OMS, supported with bank statement, subsidiary ledgers and copy of cashbook. This will facilitate the reconciliation of records. Meanwhile, cashiers were given instructions to maintain cashbooks for every account and to determine weekly cash balances for each bank account for proper monitoring of cash availability.

c. In NIA RO No. XIII, the subsidiary ledgers were maintained for each office. The reconciliation between the subsidiary ledger balances and general ledger balance is in process.

3. The inadequacy of accounting records, deficiency in recording progress payments of infrastructure contracts for foreign-assisted and locally-funded projects and inclusion of dormant accounts cast doubt on the accuracy and reliability of the balances of Liabilities accounts.

3.1 Section 98 of PD No. 1445 provides that the Commission, upon notice to the Head of the Agency concerned, may revert to the unappropriated surplus of the general fund of the National Government any unliquidated balance of accounts payable in the books of the National Government which has been outstanding for two years or more and against which no actual claim, administrative or judicial has been filed or which is not covered by perfected contracts on record.

3.2 Paragraph 31, Reliability of the Framework for the Preparation and Presentation of Financial Statements of Philippine Accounting Standards (Volume 5) provides that:

“To be useful, information must be reliable. Information has the quality of reliability when it is free from material error and bias and can be depended upon by users to represent faithfully that which it either purports to represent or could reasonably be expected to represent.”

3.3 DBM-COA Joint Circular No. 99-6 dated November 13, 1999 prescribing the guidelines and procedures relative to the reversion of accounts payable, pursuant to Executive Order No. 109, states that:

“3.3 All undocumented A/Ps regardless of the year they were incurred, shall immediately be reverted to the [Cumulative Results of Operations-Unappropriated] CROU.”

“3.5 All FAPs-A/PS which have remained outstanding for two (2) years after the completion date of the project per loan/grant documents, shall be reverted to the CROU.”

3.4 Review of the accounts disclosed the following deficiencies in the accounting records of the Central and some Regional Offices which cast doubt on the validity and accuracy of the year-end balances of Liabilities accounts:

a. The year-end balances include account balances aggregating P1,282.145 million without details and supporting documents. These liabilities could not be considered as valid obligations due to lack of documentation, supporting schedules and absence of subsidiary ledgers.

Table 2 –Unsupported Liabilities account balances

Central/Regional Office	Amount (In million pesos)
Central Office	612.625
CAR	0.546
UPRIIS	365.988
CMIPP	84.011
V	36.273
XII	182.702
TOTAL	1,282.145

b. The year-end balances of Liabilities include long outstanding payables, which could not be validated due to absence of supporting documents.

Table 3 – Long Outstanding Payables

Central/Regional Office	Amount (In million pesos)
Central Office	71.764
CAR	0.546
TOTAL	72.310

c. There were liabilities accounts with balances that have been dormant for several years.

Table 4 – Dormant Liabilities accounts

Central/Regional Office	Amount (in million pesos)
CAR	1.842
I	3.229
TOTAL	5.071

d. In the Central Office, abnormal (debit) balance existed in the contractors' account in the subsidiary records/schedules supporting the GL balances of Liabilities accounts in the total amount of P744.574 million.

e. In the Central Office, Accounts Payable continue to exist for foreign assisted projects already completed several years ago in the total debit amount of P162.746 million.

3.5 The following discussion cites the reasons for deficiencies in the Central Office.

3.6 According to the Accounting Division in the Central Office, there were payables previously set-up and obligated, but were not closed when the Modified Disbursement Scheme (MDS) was implemented. Since the implementation of the MDS, disbursements were recorded directly to Cash in Bank account; hence, the Accounts Payable (AP) accounts that were not closed remained in the books. These APs distorted the fair presentation of the financial statement because the amount did not really represent valid payable that need settlement in the future.

3.7 Moreover, the DBM could not fund these unsupported payables in accordance with the DBM Circular Letter No. 2004-3 prescribing the revised procedure for payment of accounts payable of National Government Agencies which states that:

“3.2 The settlement of prior years’ due and demandable AP to internal and external creditors shall be given priority funding over current year’s APs provided that the request for the purpose are submitted within the prescribed dates and that the **documentation requirements** are complied with consistent with the provisions of CL No. 2004-2.”

3.8 The above deficiencies may also be attributed to the non-performance of periodic analysis of accounts during those years by the Accounting Division.

3.9 In compliance with the previous year’s audit recommendation, the Miscellaneous and Reconciliation Section (MRS) has started the reconstruction of the Subsidiary Ledgers for CYs 2005 to 2012. The MRS found out that some of the abnormal balances were due to previous years’ erroneous recording of non-cash transactions relative to the Loan withdrawals to pay the Progress Billings of contractors. Some of the errors discovered were due to foreign exchange differences between the recorded payable and the payment made, recording the AP in net amount without taking into consideration recoupment of the advances to contractor and the guarantee deducted from the amount of payable, and error in postings in the subsidiary ledgers. Reconstruction of the SL for CY 2005 and prior years and analysis of the accounts are on-going.

3.10 We recommended that Management require the Accounting Division/MRS to (i) continue the analysis and validation of accounts to correct errors made and to properly reverse undocumented accounts payable and (ii) to properly maintain updated Subsidiary Ledgers and schedules for all liability accounts.

3.11 Management gave the following comments:

a. In UPRIIS, the Accounting Section obligated all bid contracts based on Notice of Award and balances of all on-going projects were recorded as Accounts Payable ending December 31, 2012. For the other direct cost of line projects, balances were recorded as accounts payable so as not to disrupt its current implementation. Items taken up as AP but already paid as of December

31, 2012 will be adjusted. Supporting documents of other payables were attached to original vouchers paid in 2013 and to be submitted to COA for post audit.

b. In CMIPP, for liabilities that were undocumented, they will resubmit to COA Office all the transaction documents that support the accounts.

c. In NIA RO No. XII, they submitted the required documents but incomplete. They promised to take appropriate measures to comply with the recommendations.

4. Inadequate accounting records and deficiency in recording payments for Progress Billings on Infrastructure Contracts resulted in unreliable book balance of Guaranty Deposits Payable and Advances to Contractors of P37.920 million and P199.231 million, respectively.

4.1 Review of the Guaranty deposits payable and Advances to contractors' accounts disclosed the following deficiencies in the accounting records:

a. Existence of abnormal (debit) balance of the contractors' account in the schedule supporting the GL balance of Guarantee Deposits Payable in the amount of P37.920 million

a.1 The retention fee deducted from each progress billings might not be recorded as guarantee deposits payable because payments were recorded as debit to CIP in amounts net of retention fee; and when the retention fee was returned to the Contractor after the completion of the contract, debit to retention fee was recorded, hence the existence of the abnormal balance.

b. Existence of abnormal (credit) balance of the contractors' account in the schedule supporting the GL balance of Advances to Contractors in the amount of P43.073 million

b.1 According to the Miscellaneous and Reconciliation Section (MRS) these abnormal balances resulted from previous years' erroneous recording of payments of Progress Billings of contractors. The abnormal balances of Advances to Contractors might have been attributed to the recording of the 15 per cent mobilization fee directly to CIP and the deduction from the payments of progress billings was recorded as credit to Advances to Contractors resulting in a credit balance.

c. Advances to Contractors and Guarantee Deposits pertaining to completed projects in the total amount of P 18.561 million and P32.575 million, respectively, remained outstanding as of December 31, 2012.

c.1 Advances to contractors should have been deducted from each Progress Billing (PB) up to the final billing. Hence if NIA had monitored the payments and recorded the transactions correctly, the account

balance for the contractors with completed projects should have been zero. Similarly, had the contractor, upon completion of the project, requested for the refund of the guarantee deposit payable (retention fee), the same should have zero balance.

c.2 In NIA's reply to our previous year's audit recommendation, Management assured that all Advances to Contractors were deducted from their progress billings because the Engineering Division is monitoring the payments. Likewise, the return of retention fee (guarantee deposits payable) were all supported with schedules showing the accumulated retention fee deducted from the PBs prepared by the Engineering Division together with the photocopies of all the vouchers.

d. Improper maintenance of the subsidiary records contributed to the difficulty in analyzing the accounts. The SLs do not provide for the detailed historical data of the transactions for each contractor's accounts. The SL for contractor's account only contained entries such as: the month when the transactions was recorded in the books of account, the source book (General Journal, Check Disbursement Journal, Cash Disbursement Journal) and the total amount for the month. Detailed references of the source documents, namely: Check No., Date of Check, JEV No. and the particulars (invoice No., Name of project and Progress Billings No.) were not provided. Examination of the SL records of some accounts with negative balance disclosed that the return of the retention fee was the only transaction recorded in the SL of Contractor's Guarantee Deposits Payable.

4.2 Periodic analysis of accounts was not done during those years; hence, the abnormal balances were not adjusted. The MRS in compliance with the audit recommendations has analyzed these accounts and adjusted several abnormal balances. According to them, the reconciliation took longer time, due to the absence of proper turn-over of records from the previous staff and the oldness of the transactions. As of December 31, 2012, the MRS claimed that the reconciliation of 2010 transactions for Guaranty Deposits Payable was almost finished.

4.3 We reiterated our previous year's recommendation that Management require the Accounting Division to properly maintain updated Subsidiary Ledgers for all accounts.

4.4 We also recommended that Management require the Accounting Division to continue the analysis, validation and reconciliation of accounts and adjust the books to fairly present the account balances in the financial statements.

4.5 Management explained that most of these accounts are old accounts that require a lot of time for the verification and reconciliation process. They informed that reconstruction of subsidiary ledgers for the account guarantee deposits payable started last year (2012) as the old subsidiary ledgers could no longer be located. Management further informed that verification of these accounts is on-going and some accounts were already adjusted or corrected. Copies of Journal Entry Vouchers taking up the adjustments due to errors in prior years' entries were submitted to the audit team.

4.6 As a rejoinder, the journal entries will be reviewed to check the correctness of the adjustments made.

5. The accuracy and validity of the year-end balance of Due to National Government Agencies (NGAs) account in the Central Office amounting to P1.761 million is doubtful due to existing variance of P52.880 million between NIA's records and concerned NGAs' records. Moreover, the unused balance of the trust funds of P1.761 million was not returned to the Source Agency (SA) upon completion of the project.

5.1 Results of confirmation from the National Agricultural and Fishery Council (NAFC) and the Department of Public Works and Highways (DPWH) disclosed variance between these NGAs' records and NIA Fund 101 books in the amount of P52.880 million, as follows:

Table 5 – Variance of Year-end balance of Due to NGAs account between NIA's books and NGAs' records (In million pesos)

NGA	Balance per NIA's Book 12/31/2012	Balance per NGA's book 12/31/2012	Discrepancy
NAFC	0.972	15.320	14.348
DPWH	0.789	39.321	38.532
Total	1.761	54.641	52.880

a. **DPWH**

a.1 The discrepancy of P38.532 million between NIA's books and DPWH's books was due to non-submission by NIA of the audited liquidation report to DPWH.

a.2 NIA's records showed that in CY 2012, it received a total of P41.147 million from DPWH for the implementation of various irrigation projects nationwide. NIA-Central Office transferred the amount of P40.515 million to NIA Regional Offices to carry out the projects. The SLs maintained by NIA showed that the transfers were recorded as debit to Due to NGAs account, hence the balance was reduced upon cash transfers. The liquidation report attached to the JEV to record utilization of the fund showed only the list of checks issued to transfer the funds to the NIA Regional Office. There was no document showing the details of the disbursements made for the implementation of the project by the NIA Regional Offices. The copy of the liquidation report filed by the Accounting Department was not verified by the Auditor. On the other hand, DPWH only records the liquidation of the funds given to NIA upon submission of the Liquidation Report duly audited by the COA Auditor.

a.3 Management's practice of recording the fund transfers to NIA Regional Office as utilization of the fund, thereby reducing the Due to NGA

account, is not in accordance with Section 158, Volume III, MNGAS and COA Circular No. 94-013 dated December 13, 1994.

a.4 Section 158, Volume III, MNGAS states that:

“Section 158. Due to NGAs. This account is used to record the amount of liabilities due to national government agencies including those inter-agency transferred funds for the implementation of specific programs/projects.

Debit:

Payment of liabilities

Payment received to settle or liquidate liabilities due to NGAs
Settlement thru offsetting of inter-agency/inter-office transactions

x x x.”

a.5 On the other hand, COA Circular No. 94-013 states that:

“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.”

a.6 NIA Central Office Accounting Division should have only recorded as debit to Due to NGAs account the utilization of the funds upon the submission of the NIA Regional Offices' Liquidation Reports/Reports of Disbursements duly audited by the respective COA Auditors.

b. **NAFC**

b.1 Examination of records disclosed that the discrepancy of P14.348 million was due to incomplete liquidation report submitted by NIA to NAFC.

b.2 Records showed that NAFC transferred funds to NIA Central Office in the total amount of P64.762 million from 2002 to 2007. NIA Central Office transferred a total amount of P57.117 million to NIA RO No. I and No. VI and disbursed a total amount of P6.673 million; hence, the total liquidation recorded in NIA's book is P63.790 million, resulting in the book balance of P0.972 million. However, NAFC's records showed NIA's liquidation as follows:

Table 6 – Liquidation of NAFC Funds Transferred to NIA as recorded in NAFC’s Records (In million pesos)

Implementing RO	Name of Project	Amount of Fund Transfer	Liquidation	Unliquidated Balance
I	Rehabilitation of Principal Communal Irrigation System	15.653	15.652	0.001
VI	Rehabilitation of Agri-Development Project Irrigation System – Capital Outlay	49.109	33.789	15.320
TOTAL		64.762	49.441	15.321

b.3 The liquidation reports/disbursement reports submitted by the Regional Offices were the only ones recorded by the NAFC. The disbursements in the NIA Central Office were not taken up by the NAFC due to non-submission of Liquidation Report duly audited by the COA Auditor.

5.2 The inability of Management to coordinate with the SA to reconcile their records when the projects were completed may expose NIA to problems relating to the possible demand for the refund of the funds without reports by the SA anytime. Presently, NIA had experienced difficulty in securing the COA verified report since the transactions happened as early as CY 2002.

5.3 On the other hand, the unused balance of the trust funds in the total amount of P1.761 million was not returned to the SA upon completion of the project, in violation of Section 4.9 of COA Circular No. 94-013 which states that:

“The Implementing Agency shall return to the Source Agency any unused balance upon completion of the Project.”

5.4 **We recommended that Management:**

a. **Ensure strict compliance with COA Circular No. 94-013 dated December 13, 1994 and immediately refund unused funds to the SA;**

b. **Reconcile NIA records with the concerned agency and submit Liquidation Report/Statement of Disbursement duly approved by the Head of the Agency and verified by the COA Auditor to the SA relating to the disbursements not taken up by the SA;**

c. **Comply with the MNGAs and COA Circular in recording fund transfers to the Regional Offices for the implementation of the projects.**

Record utilization of the funds as debit to trust liabilities – Due To NGAs upon submission of the Liquidation Report from the Regions. Treat fund transfer to the Regions as advances for the implementation of the project using Due from Regional Offices account and close/debit said account upon submission by the Regional Office of the liquidation report; and

d. Ensure the conduct of periodic reconciliation of NIA records with the SA for trust funds that may be received in the future.

6. The accuracy and fair presentation of the Statement of Changes in Government Equity as of December 31, 2012 was doubtful due to the absence of complete accounting records to support the adjustments in Property, Plant and Equipment (PPE)- Public Infrastructure amounting to P7,398.116 million.

6.1 Review of the Statement of Changes in Government Equity (SCGE) for the year ended December 31, 2012 disclosed the following:

a. Adjustment for the PPE-Public Infrastructure was made yearly. The Accounting Division explained that the yearly adjustment represents the balancing figure to reconcile the consolidated year-end balance of the Government Equity, brought about by inconsistency in the Regional recording of transfers of PPE to Government Equity-PPE Infrastructure and closing of the nominal accounts at year end. The discrepancy was due to the following:

a.1 PPE transferred to Government Equity

- directly debited to the Government Equity
- recorded as 255 asset account perpetually
- recorded as 255 asset account and closed to Government Equity at year end

a.2 Closing of nominal accounts

- closing of the income and expense account to Retained Earnings
- closing of the income and expense account to Government Equity

Inconsistency in recording in the Regions resulted in discrepancies in the consolidation of account balances which the Central Office adjusts yearly without analyzing the details.

b. The presence of correction of prior period errors for Government Equity and PPE - Public Infrastructure in the amount of P24.840 million and P7,398.116 million, respectively, is not in accordance with PAS No. 8, paragraph 42 which states that:

“An entity shall correct material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by:

- a. restating the comparative amounts for the period(s) presented in which error occurred; or
- b. if the error occurred before the earliest prior period presented restating the opening balances of assets, liabilities and equity for the earliest prior period presented.”

“In applying paragraph 42, an entity shall disclose the following:

- a. the nature of the prior period error;
- b. for each prior period presented, to the extent practicable, the amount of the correction:
 - i. for each financial statement line item affected; and x x x
- c. the amount of the correction at the beginning of the earliest prior period presented.”

6.2 We recommended that Management:

- a. Formulate/devise guidelines to ensure consistency in the recording of transfer of CIP to GE-PPE Public Infrastructure; and**
- b. Ensure compliance with PAS No. 8 in presenting correction of prior period errors.**

6.3 Management submitted a revised SCGE. Review of the Statement revealed that while the balances in the SCGE reconcile with the balances of the accounts in the Trial Balance and the amounts presented in the Notes to Financial Statements, adjustments totaling P7,398.116 million in Government Equity – PPE Public Infrastructure were still not substantiated with details and documents. Management, however, stated that a radio message was sent to the regions/projects requiring them to submit a copy of their Registry of Public Infrastructure for evaluation/verification purposes.

7. Despite previous year’s recommendation, NIA continued the practice of transferring the unutilized cash under the Modified Disbursement Scheme (MDS) to Local Currency Current Account (LCCA) of NIA field offices due to delayed implementation of projects; thus, the balance of Cash in Bank-LCCA account increased from P5,181.110 million in 2011 to P11,318.026 million in 2012.

7.1 Analysis of the Combined Trial Balance of the NIA as of December 31, 2012 disclosed that Cash in Bank–LCCA for the General Fund has a balance of P11,318.026 million, broken down as follows:

Table 7 – Unutilized Cash under MDS Transferred to Local Currency Current Account

Fund	Amount (In million pesos)
101	10,742.314
102	575.712
Total	11,318.026

7.2 Verification disclosed that the huge amount of the cash balance may be attributed to the unutilized cash from Regional MDS bank accounts transferred to Provincial Irrigation Management LCCA bank accounts, contrary to the following laws, rules and regulations:

a. Section 70 of the General Appropriations Act for FY 2012, Republic Act No. 10155 which provides that all appropriated funds shall be disbursed only through the Bureau of Treasury and/or authorized servicing banks under the Modified Disbursement Scheme (MDS).

b. Section 3.6 of DBM National Budget Circular (NBC) No. 523 dated February 16, 2010 which provides that Notice of Cash Allocation (NCA) requirements of agencies authorized to be credited to their regular MDS Accounts shall be comprehensively released based on their Monthly Cash Program (MCP) pursuant to guidelines provided under DBM Circular Letter No. 2008-11, and that to maximize the available NCAs of the agency, the Common Fund Policy shall continue to be used.

c. Section 3.1.3 of DBM Circular Letter No. 2008-11 dated December 8, 2008 which provides that “all NCAs programmed and credited for the month whether part of the comprehensive release or constituting the additional NCA releases, shall be valid only until the **last working day of the said month**; and that any unutilized NCA corresponding to the book balance (i.e. net of outstanding checks) shall automatically lapse at the end of the month.”

d. Section 3.1 of DBM NBC No. 488 dated May 22, 2003 which states that “effective immediately, the practice of **transferring cash support through funding check under the Letter Advice Authority shall be discontinued**; and that as a result, the government agencies with cash balances arising from funding checks received from other agencies/offices within the same department/agency are hereby advised to immediately remit said cash balances to the National Treasury on or before June 30, 2003.”

7.3 It was the practice of the NIA Regional Offices to transfer funds from Cash-in-Bank MDS (Account 108) to NIA Provincial Offices Cash in Bank-Local Currency Current Account (CIB-LCCA Account No. 111) maintained by the latter to cover cost of the implementation of the projects. NIA Field Offices were directly in charge of

implementing the projects, thus payments of infrastructure contracts, hired labor and other administrative expenses were done by the Provincial Offices through the issuance of checks drawn from the LBP current account.

7.4 The above practice contradicted various laws and regulations which require that payments for the implementation of the projects should be drawn from MDS accounts and any unexpended balance be automatically reverted to the Bureau of the Treasury upon the expiration of the NCA.

7.5 In response to our previous year's audit recommendation, Management asserted that NIA Memorandum Circular No. 55, s. 2006 allows the transfer of funds to the field offices Provincial Irrigation Office (PIO). Management contended that such fund transfers were the projected cash requirements of the field offices which were part of the Program of Work/budget cost of the projects. The major implementer of the project was the PIO, thus, majority of the disbursements were paid by checks drawn from the LCCA of the field offices and it would be burdensome if payments would be made in the Regional Office as the location of the field offices are far from the Regional Offices. They further commented that Notice of Transfer of Allocation (NTA) should have been made up to PIO level; however, due to incomplete sets of books maintained by the PIO, NTA was not allowed to be issued to PIO.

7.6 Management further explained that the unutilized fund has accumulated due to delay in the design/planning, procurement and in the construction because of some problems encountered in the implementation of the projects.

7.7 The Audit Team posits that transferring of MDS fund to LCCA is not in consonance with the afore-cited laws, rules and regulations and the difficulty of obtaining subsequent re-release and the burdensome payment in the Regional Office are not acceptable reasons to deviate from the prescribed laws, rules and regulations.

7.8 It also shows that the implementation of irrigation projects targeted which NIA have requested for funding were not carried out as planned.

7.9 The presence of huge amount of unutilized cash defeats the intended purpose of the Budget Circulars which is to strengthen cash programming of the government agencies to ensure the optimal utilization of the government funds available. If NIA had not requested this funding requirement for the projects that it could not readily implement for the year, the government could have programmed these funds to other government projects.

7.10 We reiterated our previous year's audit recommendation that NIA ensure strict compliance with afore-cited law, rules and regulations pertaining to the Modified Disbursement Scheme and refrain from keeping government funds unused for a long period of time, depriving the government of much needed resources for its operation.

7.11 We further recommended that NIA realistically plan/program its targets/project implementation activities that are attainable, taking into consideration factors affecting the implementation especially NIA's existing manpower complement.

7.12 Management commented that they requested the NIA implementing units, regional and field offices to submit the status of fund utilization and the reasons/justifications for the delay in the utilization of the funds. Initial response received was the delay in civil works was due to bad weather condition. Because of the planting season, farmers requested for the suspension of the civil works to allow them to plant. However, by this time the cash was already reduced to P5 billion. COA will be furnished with the status of fund utilization.

8. Delay in the implementation of irrigation projects which resulted in the increasing accumulation of unutilized project funds further deprived farmer-beneficiaries of the timely delivery of services to them.

8.1 The following discussion cites instances of delay in the implementation of projects. The non-completion of the projects on time denied the supposed farmer beneficiaries of the intended benefits that they could have derived from the projects. Hence, the goal of the agency to support economic and social growth in the rural areas through irrigation development and management was not fully attained.

NIA-CARAGA

8.2 Notwithstanding COA’s audit recommendation and letters to Management inviting their attention, no liquidated damages estimated at P20.054 million were collected or deducted from the payment of progress billings for the Construction of Main Canal and Pumping Station from Aupagan Pumping Station to Sta. Josefa Pump Irrigation Project which was delayed by one year from its original completion date.

8.3 Review of the Implementation of Contract No. SJIPD-C-1 – Construction of Main Canal and Construction of Pumping Station/Building including two units submersible motor type from Aupagan Pumping Station to Sta. Josefa Pump Irrigation Project disclosed that implementation of the project as of the last billing date of November 30, 2011 was one year delayed from the original completion date of December 20, 2010. However, no liquidated damages were collected or deducted from the payment of progress billings despite COA’s audit observation memorandum and letters issued inviting NIA’s attention to collect liquidated damages.

8.4 Taking into consideration the two approved time extensions of project completion equivalent to 118 days, which to date Management has not submitted the complete supporting documents for the actual non-workable days in the site, the completion date of the contract is computed to be April 27, 2011. However, verification of the payments made disclosed that several progress billings were paid beyond April 27, 2011 but no liquidated damages were deducted, as shown in the table below:

Table 8 – Payment of Progress Billing Without Deduction of Liquidated Damages (In million pesos)

PB. No.	Check No.	Date of Check	Accomplishment for the Period	No. of days delay after 4/27/2011	Amount (exclusive of withholding tax)
6	561128	6/13/2011	12/26/10 to 1/25/2011	46	7.778
7	561322	6/28/2011	1/26/2011 to 5/25/2011	61	13.427

PB. No.	Check No.	Date of Check	Accomplishment for the Period	No. of days delay after 4/27/2011	Amount (exclusive of withholding tax)
8	561832	10/27/2011	5/26/2011 to 6/25/2011	180	6.812
9	562123	12/19/2011	5/26/2011 to 7/1/2011	232	10.058
10	562613	4/3/2012	7/2/2011 to 11/30/2011	336	3.943
TOTAL					42.018

8.5 The last progress billing, Progress Billing No. 10, covering the period July to November 2011 which was paid on April 3, 2012 reportedly covered a project accomplishment of 91.19 per cent. However, to date the project was not yet completed. The original duration of the project per contract was 464 calendar days. Adding the 118 days extension, the revised contract duration was 582 days. However, the actual duration of the project implementation as of December 31, 2012 was already 1,186 days or 604 days delayed equivalent to 103.78 per cent, which grossly exceeded the limit of 10 per cent of the specified contract time plus any time extension duly granted to the contractor. In this case, as provided for in Implementing Rules and Regulations (IRR) of RA No. 9184, NIA may rescind the contract, forfeit the contractor's performance security and takeover the prosecution of the project or award the same to a qualified contractor through a negotiated contract. Hence, the maximum amount of liquidated damages of P20.054 million, equivalent to 10 per cent of the contract cost of P200.544 million should have been collected.

8.6 Non-collection of liquidated damages and inability of Management to take action on rescinding the contract for the delayed project is in violation of the IRR of RA No. 9184 which states that:

"8. LIQUIDATED DAMAGES

8.1. Where the contractor refuses or fails to satisfactorily complete the work within the specified contract time, plus any time extension duly granted and is hereby in default under the contract, the contractor shall pay the procuring entity for liquidated damages, and not by way of penalty, an amount, as provided in the conditions of contract, equal to at least one tenth (1/10) of one (1) per cent of the cost of the unperformed portion of the works for every day of delay.

x x x

8.3. To be entitled to such liquidated damages, the procuring entity does not have to prove that it has incurred actual damages. Such amount shall be deducted from any money due or which may become due the contractor under the contract and/or collect such liquidated damages from the retention money or other securities posted by the contractor whichever is convenient to the procuring entity.

8.4. In case that the delay in the completion of the work exceeds a time duration equivalent to ten per cent (10%) of the specified contract time plus any time extension duly granted to the contractor, the procuring entity concerned may **rescind the contract**, forfeit the contractor's

performance security and takeover the prosecution of the project or award the same to a qualified contractor through negotiated contract.

8.5. In no case however, shall the total sum of liquidated damages exceed ten per cent (10%) of the total contract price, in which event the contract shall automatically be taken over by the procuring entity concerned or award the same to a qualified contractor through negotiation and the erring contractor's performance security shall be forfeited. The amount of the forfeited performance security shall be aside from the amount of the liquidated damages that the contractor shall pay the government under the provisions of this clause and impose other appropriate sanctions." (Emphasis supplied)

8.7 Had NIA strictly complied with the afore-mentioned IRR, considering the revised completion date of April 27, 2011, it should have deducted liquidated damages from Progress Billings No. 6 up to No. 10 which were paid from June 13, 2011 to April 3, 2012 in the total amount of P31.511 million; or have taken appropriate action to rescind the contract as early as June 25, 2011, when the implementation of the contract exceeded the time duration equivalent to 10 per cent of the specified contract time plus any time extension duly granted to the contractor.

8.8 We recommended that Management:

a. Strictly comply with the IRR of RA No. 9184 and take appropriate action to collect the liquidated damages amounting to P20.054 million and to rescind the contract; and

b. Submit progress report of the implementation of the contract as of December 31, 2012.

8.9 Management explained that the original contract date of the subject contract is December 30, 2010. However, due to valid and meritorious reasons, several contract time extensions were granted pursuant to the contract provisions and in conformity with IRR of RA No. 9184, thus, moving the expiry date from December 30, 2010 to September 25, 2012.

8.10 Management further justified that in view of the approved time extension nos. 1 to 8 duly granted to the said contract, no amount of liquidated damages will be imposed/deducted from the Progress Billing Nos. 6 to 10.

8.11 As a rejoinder, evaluation of Management comments, however, disclosed that copies of the approved time extensions and their supporting documents were not submitted to the Audit Team. Consequently, Notice of Suspension (NS) No. 2013-003-101 (11) dated April 22, 2013 was issued.

8.12 In compliance with the NS issued, NIA submitted certified true copies of the following documents:

a. Contract Time Extension Nos. 1 to 7 (Contract Time Extension No. 8 is under evaluation);

- b. Approved Change Order;
- c. Copy of performance security; and
- d. Monthly progress reports of the contract implementation Nos. 1 to 27.

8.13 Management informed that the following documents which are also the subject of NS No. 2013-003-101 (11) dated April 22, 2013 will be submitted to the Audit Team upon receipt of the reports from the field offices.

- a. Reports that show Right of Way (ROW) problems affect the construction work;
- b. Revised Construction Schedule; and
- c. Statistical Report Nos. 28 to 33.

8.14 Further to our rejoinder, a complete evaluation of the validity/reasonableness of the reasons cited for the contract time extensions such as ROW problems, additional structures and rainy/unworkable days can only be undertaken upon submission of all the documents required under NS No. 2013-003-101 (11).

Barbar-Small Reservoir Irrigation Project

8.15 Delayed implementation of the Barbar-Small Reservoir Project due to redesigned plans adversely affected the timely delivery of supposed benefits from the project to the intended beneficiaries.

8.16 The Barbar-Small Reservoir Project was intended to provide sustainable development in the rural areas by improving agricultural productivity in support to the agricultural development program of the government.

8.17 Like in the previous year's audit, the project showed delays in project execution due to redesigned plans. Only P7.757 million or 5.37 per cent was accomplished or expended by the Barbar-Small Reservoir Irrigation Project out of the total target budget cost of P144.400 million as of December 31, 2012.

8.18 Based on the report submitted by the Project-In-Charge of Barbar Small Reservoir Irrigation Project (SRIP), it was noted that the approved detailed engineering design of Barbar-SRIP (Dam/Reservoir) was approved last July 2012 but SRIP-PMO ordered designers to redesign the dam height from 41 meters to 25 meters so another set of detailed design was undertaken and was approved last September 2012. However, an additional geological investigation was conducted at the axis of the spillway and conduit and it was found out that the actual rock line is higher than the approximate rock line as per plan. This caused the delay in the implementation of the project.

8.19 We recommended that Management of NIA-Barbar Small Reservoir Irrigation Project make representation with the Engineering Department of NIA-Central Office to expedite the final design of the proposed plan of the project.

8.20 During the exit conference, Management informed that representation was already made with the Engineering Department of the NIA-Central Office to expedite the final design of the project. As a result, the proposed plan and design is already finalized and posted at PHILGEPS last February 22, 2013 and advertised the Invitation to Bid in a newspaper of general circulation on the same date.

8.21 As a rejoinder, we further recommended that Management of NIA-Barbar Small Reservoir Irrigation Project closely monitor the implementation of the project to ensure that the same is completed within the revised target.

NIA Regional Office No. 1

8.22 Delay in the implementation of irrigation projects resulted in accumulation of unutilized project funds totaling P37.018 million, failure to optimize the use of government funds and delay in the delivery of services to the farmer beneficiaries.

8.23 Review of the implementation of irrigation projects by the NIA-IMO for the year 2012 disclosed that two irrigation projects, GACO National Irrigation Project and Banaoang Pump Irrigation System, with total budget allocation of P64.462 million were not completed as targeted, resulting in unutilized funds of P37.018 million at the end of the year.

8.24 We recommended that Management:

- a. Monitor closely the project implementation and ensure that project is on schedule, and if necessary, issue suspension order once the slippage is more than negative 15 per cent;**
- b. Ensure the strict observance of the contract period stipulated in the contract and Notice to Proceed;**
- c. Validate reports prepared by contractors against independent monitoring reports to ensure that evaluation on the grant of extension to complete the project is based on justifiable circumstances; and**
- d. Prepare Cash Program to ensure that the funds allocated and released were used/utilized as programmed.**

8.25 Management explained that the main factor that caused the delay in the implementation of the project was the poor access roads brought about by the inclement weather condition during project execution as well as right-of-way problems.

8.26 By way of a rejoinder, we maintained, however, that Management execute programmed projects as scheduled for timely delivery of services to intended beneficiaries and maximize the use of resources.

8.27 Long overdue projects which were started since CYs 2008 and 2009 amounting to P19.494 million were not rescinded contrary to Section 68 of Rule 22 of RA No. 9184, thereby depriving the farmers of irrigation services which is the primary mandate of the NIA.

8.28 Section 68 of Rule 22 of RA No. 9184 states that once the cumulative amount of liquidated damages reaches 10 per cent of the amount of the contract, the procuring entity shall rescind the contract without prejudice to other courses of action and remedies open to it.

8.29 Item 3.A.2.C of Appendix 4 of RA No. 9184 also states that termination of contract shall be made if the contractor abandons the contract works, refuses or fails to comply with a valid instruction of the Procuring Entity (PE) or fails to proceed expeditiously and without delay despite a written notice by the PE.

8.30 The mission statement of the NIA is "Development and management of water resources for irrigation and provision of necessary services on a sustainable basis consistent with the agricultural development program of the government."

8.31 An evaluation of previous years' audit findings disclosed that three infrastructure projects started in CYs 2008 and 2009 were no longer completed as of December 31, 2012. A report from NIA Inspectorate disclosed that the Oco Communal Irrigation System project which started on January 28, 2008 was only 84.32 per cent completed. No more construction activity was seen on the job site. The Panganiban CIS that started on January 7, 2009 was likewise reported by the field office as 80 per cent completed, but no more construction activities were reported on the job site. Notices of Suspension were issued on both projects.

8.32 The Libmanan-Cabusao Pump Irrigation System (LCPIS) Package I at Libmanan, Camarines Sur was started on August 10, 2009. After two requests for time suspension by the contractor, the adjusted contract expiry date was May 11, 2011 per NIA LCPIS letter dated April 15, 2011. The contractor had not resumed its work activities and abandoned the project which was only 53.72 per cent completed. It had incurred more than ten per cent negative slippage. Notice of Suspension No. 12-010-101 was issued by the audit team last November 5, 2012 to inform the agency of its responsibility based on Section 68 of Rule 22 of RA No. 9184.

8.33 COA had recommended in its 2011 Annual Audit Report for the rescission of the contracts of these three projects due to abandonment by the contractors of the projects and incurrance of more than 10 per cent negative slippage. The law is clear on the matter regarding the rescission of contracts. Moreover, no action was taken by the contractor after information was sent to them by Management regarding the status of their projects.

8.34 The unfinished irrigation projects resulted in unimproved delivery of irrigation services to the farmers of the affected areas for four years now.

8.35 We recommended for the immediate rescission of the contracts of the erring contractors and take-over the prosecution of the projects by administration or award the same to a qualified contractor through negotiated contract.

8.36 There were six projects which started from 2008 to 2011 amounting to P64.051 million that were not completed as of December 31, 2012 contrary to the specified contract periods under the contract agreements between NIA RO No. V and the contractors.

8.37 Section 8.4 of Annex E of RA No. 9184 provides that “In case that the delay in the completion of the works exceeds a time duration equivalent to ten (10) per cent of the specified contract time plus any time extension duly granted to the contractor, the procuring entity concerned may rescind the contract, forfeit the contractor's performance security and take over the prosecution of the project or award the same to a qualified contractor through negotiated contract.”

8.38 There were six projects amounting to P64.051 million which started from 2008 to 2011 that are still on going to date. These projects were implemented in the following provinces:

Table 9 – Projects which Started from CY 2008 to CY 2011 that are Still On-going

Province	No. of Projects	Amount (In Million pesos)
Catanduanes	3	20.512
Camarines Sur	3	43.539
TOTAL		64.051

8.39 Inquiry and physical inspections on majority of these projects were conducted to ascertain their status.

8.40 For the three projects in Catanduanes that were started in 2008 and 2009, the Oco and Panganiban CIS projects were already abandoned by the contractors. Notices of suspensions were already issued reiterating rescission of their contracts. The Supang Datag project was reported as substantially completed and awaits the installation of the steel gates which had a revised design for the dam. However, the audit team reminded the agency on the imposition of liquidated damages.

8.41 For the three projects in Camarines Sur, the Timbang project was nearly completed after a change order was made due to revision of program of work owing to Right-of-Way problem. The contractor was able to receive the Notice of Resumption only in October 2012. On the other hand, the Patong Esperanza Project was reported to be 78 per cent completed. Delays were due to difficulty in hauling the aggregates. The other project had difficulty in constructing concrete barrels on the river bed of the main canal due to the deep ravine and presence of spring.

8.42 Last year, there were 22 long overdue projects amounting to P213.838 million. Of these, 16 projects amounting to P149.787 million were completed or equivalent to 70.05 per cent.

8.43 The delays were quite alarming since the intervening factors identified would not suffice the long period that passed but still resulted to unfinished projects. The projects' contract period ranges from 150 calendars days to 180 calendar days.

8.44 In effect, the agency cannot optimize the use of the canal linings and structures due to the delay in the completion of the projects. Development of the areas are also affected to sustain the rice self-sufficiency program of NIA since delayed rehabilitation or repair of the projects would mean less rice production. Also, collection from equity or irrigation service fees can be affected since the irrigators' associations still do not enjoy the services of these unfinished projects.

8.45 We recommended that NIA Irrigation Management Office be strict in the observance of the contract period as stipulated in the contracts and notice to proceed; and for the Regional Office Engineering and Operations Division key personnel to maintain a monitoring team to oversee progress accomplishment of ongoing projects.

NIA Regional Office No. XI

8.46 Approved contract time extensions were not attached to the paid vouchers and the possible liquidated damages amounting to P1.311 million were not computed contrary to Section 68, Rule XXII of the IRR of RA No. 9184.

8.47 Section 68, Rule XXII of the IRR of RA No. 9184 provides that all contracts shall contain a provision on liquidated damages which shall be payable by the contractor in case of breach thereof. For the procurement of goods, infrastructure projects and consulting services, the amount of the liquidated damages shall be at least equal to one-tenth of one per cent (0.1%) of the cost of the unperformed portion for every day of delay.

8.48 Review of 24 completed infrastructure projects as of December 31, 2012 disclosed that the 10 projects were completed beyond the contract period. We noted that the completion of the 10 projects was delayed from four to 99 days and no approved time extensions were attached to the final billing. However, liquidated damages amounting to P1.311 million were not computed contrary to Section 68, Rule XXII of the IRR of RA No. 9184.

8.49 Management explained that requests for time extensions were duly approved for the above-mentioned projects but were not attached inadvertently to the paid vouchers. Management also argued that liquidated damages would have been computed if there were no approved time extensions before payments were made pursuant to existing regulations.

8.50 We recommended that the Regional Irrigation Manager cause the immediate submission of the approved requests for time extension of the 10 delayed projects to the Office of the Auditor. Otherwise, collect the computed liquidated damages of P1.311 million from the contractors concerned pursuant to Section 68, Rule XXII of the IRR of RA No. 9184.

8.51 As of March 2013, Management has partially complied with the recommendation by submitting copies of the approved requests for time extension of six projects, namely: LMC #2011-19(Batutu RIS); LMC #2011-20 (Saug RIS); LMC #2011-14 (Lanuro CIP); LMC #2012-06 (Ogsing CIP); LMC #2012-08 (Lasang Dam) and LMC #2012-02 (Upper Tingale SIP).

NIA - Compostela IMO

8.52 Implementation of infrastructure projects was delayed due to non-acquisition of Site or Road Right-of-Way (RROW).

8.53 Annex “A” - Detailed Engineering for the Procurement of Infrastructure Projects, of the IRR of RA No. 9184 provides that “Detailed engineering shall proceed only on the basis of feasibility or preliminary engineering study made which establishes the technical viability of the project and conformance to land use and zoning guidelines prescribed by law.” In addition, the law provides that no bidding and awarding of contract for infrastructure project shall be made unless detailed engineering is complied with.

8.54 Audit of procurement disclosed that implementation of infrastructure project was delayed due to non-acquisition of Road Right of Way (RROW) which is a part of the detailed engineering activity as stated in Section 2.j, Annex “A” of RA No. 9184, as amended:

“xxx2. A schedule of detailed engineering activities shall include the following:

xxx

j) Preparation of Site or Right-of-Way Plans including Schedule of Acquisition”

8.55 These projects are the following:

Table 10 - Delayed Infrastructure Projects Due to Non-acquisition of RROW

Name of Project	Location	Contract Cost (In million pesos)	Remarks
Construction of Diversion Dam, Irrigation Facilities and Road System and Special Projects	Tagbibinta, Maragusan, Compostela Valley	15.210	Suspended due to pending negotiation of Right-of-Way (ROW) problem and was granted 70 calendar days extension. Received resumed order dated 11-5-12.
Construction of Batinao Diversion Dam and Irrigation Facilities	Batinao, Compostela, Compostela Valley	12.450	Suspended and granted 70 working calendar days extension due to right-of-way problem. Received resumed order dated 11-5-12.

8.56 We recommended that Management acquire first the site and right-of-way before conducting bids and awards pursuant to above-stated regulations of RA No. 9184 to avoid delay in the implementation of infrastructure projects.

8.57 Furthermore, we recommended that Management observe the laws and regulations provided in RA No. 8974 (An act to facilitate right-of-way site location for National Government including Government Owned and Controlled Corporation) particularly Section 3 of this Act which provides for the acquisition of real property needed as right-of-way site or location for any national government infra project through donation, negotiated sale, expropriation or any other mode of acquisition provided by law.

8.58 During the exit conference, Management informed that the right-of-way is no longer the responsibility of the NIA but rests on the local government unit or the Irrigators' Association. Moreover, the Irrigators' Association (IA) had informed Management that the road rights-of-way for these projects were already cleared but during the implementation of the project the problems cropped-up.

8.59 It is noteworthy to mention that Article III, Section 9 of the Constitution of the Philippines states that the private property shall not be taken for public use without just compensation. Towards this end, the State shall ensure that owners of real property acquired for national government infrastructure projects are promptly paid just compensation.

9. Advances granted to Local Government Units (LGUs) and National Government Agencies (NGAs) totaling P188.536 million and P70.640 million, respectively, by NIA Central and Regional Offices for the restoration/rehabilitation/repair of irrigation systems remained unliquidated as of December 31, 2012, resulting in the understatement of Construction in Progress account and overstatement of Receivable accounts by undetermined amount as at year end.

9.1 Republic Act No. 8435, otherwise known as the Agriculture and Fisheries Modernization Act (AFMA) authorizes the LGU to develop, construct, operate, and maintain irrigation systems with the assistance of the NIA.

9.2 Accordingly, NIA and several LGUs entered into a Memorandum of Agreement (MOA) where funds extended to LGUs for the implementation of irrigation system projects would be in the form of advances and subject to accounting and auditing rules.

9.3 The MOA provides the following responsibilities of NIA:

- a. Coordinate with the coordinators' association and LGU representatives in prioritizing the rehabilitation needs of the proposed systems;

- b. Provide assistance to the LGU in the preparation of Program of Work (POW) plans and other allied requirements, to conform with NIA standards and specification of the amount allocated for the project;
- c. Collate and integrate the bi-monthly status/accomplishment reports of the LGU on the execution of the sub-projects for submission to concerned agencies;
- d. Monitor, through Provincial Irrigation Management Office (PIMO), the execution of the project through on site assessment by comparing reported accomplishments with the visible progress of project execution; and
- e. Assist the LGU in the implementation of the project, when solicited, in activities like conduct of bidding and procurement of necessary services, materials, machinery and equipment needed in project execution

9.4 Likewise, Section 3 of the MOA provides the responsibilities of LGU, among others:

- a. Submit to the NIA field office duly approved POWs and panoramic pictures of proposed works to be undertaken in the sub-projects prior to construction;
- b. Submit to the NIA field office monthly status reports with captioned photographs of accomplishment and any other pertinent information in the execution of the sub-projects;
- c. Secure Certificate of Completion and Acceptance (CCA) of the sub-project from the concerned irrigators' association;
- d. Submit to the NIA audited Statements of Liquidation (SOL) and physical accomplishment reports (PARs) of completed sub-projects within 30 calendar days from reported date of completion;
- e. Secure the assistance of resident auditors of the Commission on Audit (COA) in the audit of financial accomplishment reports on the project upon completion of the project execution; and
- f. Disburse, under exclusive work arrangement, such fund for the project transferred by NIA for the direct management of the LGU, in accordance with the government accounting and auditing regulations.

9.5 Review of Due from Local Government Units and National Government accounts disclosed that the balances of the accounts as of December 31, 2012 included long outstanding fund transfers for more than 10 years. Details follow:

Table 11 – Long Outstanding Fund Transfers to LGUs and NGAs of more than 10 years (In million pesos)

Central/Regional Office	Due from LGUs	Due from NGAs
Central Office	93.329	44.681
I	1.082	-
V	29.428	-
IX	23.754	25.959
XII- Cotabato Irrigation Management Office	27.694	-
XIII	13.249	-
TOTAL	188.536	70.640

9.6 It has been observed in the previous years' audit of Advances to LGUs account, a total of six LGUs that were provided with funds since 2007 to 2008 did not submit the required audited SOL and physical accomplishment reports contrary to the provision of the MOA between NIA and LGUs.

9.7 Notwithstanding our audit recommendations since 2010, the PIMO did not coordinate with the concerned LGUs to verify status/accomplishments of the projects covered by these fund transfers. Also, it did not apprise the NIA Central Office – Systems Management Department and Finance Division of the status of the project for the latter to take appropriate actions for the immediate refund of the fund transfers if the project has not been implemented by the concerned LGUs or to secure liquidation documents if the projects were completed.

9.8 Our audit of Due from LGUs and Due from NGAs accounts further disclosed the following observations:

a. NIA Management was not able to secure from the concerned agencies the documents/reports necessary to liquidate said advances and to demand the refund of the unexpended balance. It was also observed that the delayed recording of completed projects/liquidation reports were due to lack of coordination between the General Accounting Division, the Project Management Office and the Foreign Loan Accounting Division. The General Accounting Division averred that the delay in recording was due to non-submission of PAR and SOL by the PIMO although the projects have long been completed, thus, no adjustment was made at the end of the year;

b. Some LGUs have submitted liquidation reports but with incomplete documentations, hence, these are inadequate bases for preparing Journal Entry Vouchers (JEVs) to take up the liquidation of the account;

c. Funds were released without the liquidation of the previous tranche contrary to COA Circular No. 94-013 which states that, "The fund to be transferred or sub-allotted to the IA shall be in an amount sufficient for three months operation subject to replenishment upon submission of the reports of disbursements by the IA;"

d. Due to absence of subsidiary records/documents for the account Due from LGUs, the details of the account could not be established. Out of the confirmation letters sent to 10 LGUs, two LGUs with total outstanding balances of P15.461 million confirmed their respective outstanding balances as correct while no replies were received from the remaining eight LGUs with total outstanding balances of P107.568 million;

e. On the other hand, examination of the JEVs drawn in 2012 to record liquidation of advances to NGA showed that 28 SOLs dated 2008 to 2010 in the total amount of P7.361 million attached to the JEVs were not verified by the COA Auditor. Additionally, there were no Accomplishment Reports submitted; and

f. The existence of negative (abnormal) balances in four NGAs accounts totaling P1.287 million casts doubt on the accuracy of the account balances. Subsidiary records for accounts recorded prior to 2009 were not properly maintained since they do not provide historical details of the accounts. A new SL is being printed each year showing the beginning balance from the previous year and the transactions for the year. Hence, for the old accounts, only the beginning balances are available.

9.9 The delay in recording of completed projects/liquidated advances resulted in the understatement of Construction in Progress account and overstatement of Receivable account by undetermined amount as at year end. Moreover, the delay in the liquidation of these fund transfers affected the project implementation and turnover to the farmer-beneficiaries thus, resulting in unimproved agricultural productivity and food security which is contrary to the main objective of the Agricultural and Fisheries Modernization Act.

9.10 **We reiterated our previous years' recommendations that Management:**

a. Demand the immediate liquidation of the fund transfers from the concerned LGUs/NGAs in strict compliance with the provisions of the MOA;

b. Improve the monitoring and supervision control of fund transfer for the implementation of projects. Require timely submission of Accounting Reports and monitoring reports from the IMO and PMO;

c. Ensure strict adherence to COA Circular No. 94-013 that succeeding fund releases be made only upon liquidation of the previous fund transfers;

d. Require the Accounting Division to record the liquidation only upon submission of audited SOL and Physical Accomplishment Report;

e. Require the Accounting Division to analyze the accounts to adjust the negative/abnormal balance; and

f. Require the Accounting Division to properly maintain Subsidiary Ledgers for receivable accounts and regularly reconcile the balances with the GL balances and update recording/posting of transactions at all times.

9.11 Management gave the following comments:

a. In the Central Office, Management duly noted the recommendations. In fact, demand letters to these six LGUs were already prepared as of this date and are being readied for mailing. Re-submission of the liquidation report from the Province of Quezon has been coordinated with the Provincial Accountant. Evaluation/verification is on-going. Results of the analysis will be immediately forwarded to the Audit Team. Also, the Accounting Division is in the process of reconciling and analyzing the Due from DENR and DOH of Southern Philippines Irrigation Sector Project and the existence of negative balances in four NGA accounts totaling P1.287 million. The reconciled reports will be submitted as soon as the reconciliation will be finished. Management submitted the Audit Certificate and the corresponding Summary of Expenditures to support the Journal Entry Vouchers drawn in 2012 to record 28 SOLs dated 2008 and 2010 in the total amount of P7.361 million.

b. In NIA RO IX, Management informed that upon closer analysis of the SLs and other source documents, it has been found that some of the balances appearing on the Due from LGUs account are mobilization funds or fund transfers to LGUs which were already liquidated. Adjustments were already made to this account in the previous years. Some LGUs have already submitted their Liquidation Reports duly signed by their Resident Auditors, however, there are other LGUs which have yet to submit their liquidations, hence the unliquidated balances appearing in the books. As for the Advances to National Government Agencies amounting to P25.959 million, this amount represents additional advances to the DPWH – ARMM last September 2012 for projects implemented in the Island Provinces of Basilan, Sulu and Tawi-tawi after they liquidated their previous advances in the amount of P19.773 million.

c. In NIA RO XIII, Management informed that official communication will be made to inform LGUs about their outstanding advances. They further commented that all recommendations are well taken.

9.12 We put emphasis on NIA's responsibility under the MOA with LGUs to monitor, through PIMO, the execution of the project and to gather and integrate the accomplishment reports of the LGU on the execution of the projects for submission to concerned agencies. By monitoring the projects, NIA Management would have been able to identify the completed projects from which the Statements of Liquidation (SOL) and physical accomplishment reports (PARs) are required to be submitted by the LGU to NIA within 30 calendar days from reported date of completion. The SOL and PARs are vital documents to liquidate said advances and serve as bases to demand from the LGUs the refund of any unexpended balance.

10. Non-adherence to pertinent regulations on the granting, utilization and liquidation of cash advances, insufficient accounting records and absence of proper monitoring resulted in the accumulation of Cash Advances to Officers and

Employees in the amount of P26.252 million which remained unliquidated or unsettled as of December 31, 2012, and overstatement of Receivable accounts and understatement of expense accounts.

10.1 Section 89 of PD No. 1445 provides that, “cash advance shall be reported on and liquidated as soon as the purpose for which it was given has been served. No additional cash advance 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.” Moreover, Section 128 of the same PD also provides that, “any violation of the provisions of Sections 67, 68, 89, 106, and 108 of this Code or any regulation issued by the Commission implementing these Sections, shall be punished by a fine not exceeding one thousand pesos or by imprisonment not exceeding months, or both such fine and imprisonment in the discretion of the court.”

10.2 COA Circular No. 97-002 dated February 10, 1997 states that:

Section 5.8 – “All cash advances shall be fully liquidated at the end of the year. Except for petty cash fund, the Accountable Officer shall refund any unexpended balance to the cashier for the issuance of official receipt.”

Section 5.9 - “At start of the ensuing year, a new cash advance may be granted, provided that a list of expenses against the previous cash advance is submitted. However, when no liquidation of the previous cash advance is received on or before January 20, the accountant shall cause the withholding of the Accountable Officer’s salary.”

Section 8 - “It shall be the responsibility of the Head of the Agency to ensure the proper granting, utilization and liquidation of all cash advances in accordance with these rules and regulations.”

10.3 Also, Civil Service Commission Resolution No. 040676 dated June 17, 2004, Rule V, Section 8 provides that “Failure of an Accountable Officer to render an account in full within the periods prescribed and after formal demand shall constitute the administrative offense of Gross Neglect of Duty punishable by dismissal from the service for the first offense. Full liquidation/settlement/payment of the subject cash advance outside the given periods shall constitute the offense of Simple Neglect of Duty punishable by suspension from the service for one (1) month and one day to six (6) months for the first offense, and dismissal from the service for the second offense.”

10.4 The foregoing rules and regulations were formulated to provide for a more efficient and effective control over the granting, utilization and liquidation of cash advances. However, audit disclosed that these rules were not strictly followed and implemented as can be observed from financial reports and records submitted, where several deficiencies were noted. The following examples illustrate our concern:

a. *NIA CAR*

Audit revealed that cash advances of officers and employees amounting to P363,129 remained outstanding for over three years despite repeated request for the liquidation. It was noted that Management did not institute remedies for their collections from concerned accountable officers.

b. *NIA RO No. IX*

The total unliquidated cash advances for CY 2012 amounted to P0.947 million. This showed a decrease of P123,412 or 11.52 per cent from CY 2010 of P1.071 million. This was included in the CY 2010 audit finding which were partially implemented in CY 2011. However, the Region continued to show laxity in enforcing the immediate liquidation of advances at the end of the year, hence reiterated in this report as it contravenes the regulations as cited above.

c. *NIA RO No. XIII*

Most of the long outstanding accounts already aged more than three years and proper accountability can no longer be established or determined due to absence or insufficient accounting records. Cash advances granted in 2009 and prior years which remained unliquidated as of year-end were not supported with complete reference documents, hence cannot be verified. There were negative unliquidated balances reported on the status of cash advances submitted by Management which remained not reconciled as of year-end. We also noted unsettled accounts of retired NIA personnel or personnel who have transferred to other office.

10.5 Since the above observations were reiteration of our prior years' audit findings, we strongly recommended that Management:

- a. Create a special group/task force to undertake the immediate analysis and reconciliation of the above account;**
- b. Impose legal sanctions mandated by law for those accounts that have remained outstanding and the concerned accountable officers who are still connected with NIA and exhaust all possible means to locate and collect the amount due from those who are no longer connected with NIA;**
- c. Ensure strict compliance with the above-cited laws, rules and regulations on the grant, utilization and liquidation of cash advances;**
- d. Require the Accountant to monitor and strictly enforce the liquidation of cash advances within the prescribed period and see to it that no additional cash advance shall be allowed unless the previous ones are settled or properly accounted for; and**
- e. Require the Accounting Section to prepare and maintain complete and updated subsidiary records for control and monitoring purposes.**

10.6 Management gave the following comments:

- a. At NIA CAR, all of the concerned liable persons were already separated/retired from the service. They said further that they will try to institute remedies for the collection of the cash advances.

b. At NIA RO No. IX, the concerned accountable officers were already instructed to settle their unliquidated cash advances and were no longer given additional cash advances. Also, NIA top Management issued MC No. 40, s. 2006 that allows the offsetting of all obligations to NIA by its officers and employees against the unpaid Cost of Living Allowance and Amelioration Allowance (COLA-AA) differentials. Hence, all unsettled cash advances of officers and employees will automatically be deducted from their remaining COLA-AA differentials.

c. At NIA Region XIII, the recommendations are well taken. They further commented that there were instructions already given to the accounting personnel of IMOs for the maintenance/updating of subsidiary ledgers at IMO level with complete details to facilitate reconciliation at the Regional Office.

11. Expenses aggregating P8.930 million not related to the implementation of projects were charged to project funds and recorded under Construction in Progress (CIP) account which resulted in higher project cost and may be considered irregular.

11.1 Section 37 of PD No. 1177 expressly provides that "All moneys appropriated for functions activities, projects and programs shall be available solely for the specific purposes for which these are appropriated."

11.2 Likewise, Section 4(3) of PD No. 1445 provides that "Trust funds shall be available and may be spent only for the specific purpose for which the trust was created or the funds received."

11.3 Section 4 of the Special Provisions for the Department of Agriculture of the General Appropriation Act of FY 2012 (RA No. 10155) quoted as follows:

"Implementation of Irrigation Projects. xxx shall be released directly to the NIA implementing units upon submission of the list of priority production areas where the irrigation projects are to be implemented and shall be used directly and exclusively for the restoration, rehabilitation and construction of irrigation projects: PROVIDED, That in no case shall said amount be used for engineering or administrative overhead expenses nor be realigned to augment any PS or MOOE requirements."

11.4 Review of disbursements disclosed that expenses not related to the construction/repair/rehabilitation of irrigation projects were charged to project funds and recorded under the Construction in Progress-Irrigation, Canals and Laterals account. These were expenses under the maintenance and other operating expenses such as travels, seminar/convention fees of various professional organizations, registrations to various professional organizations, hotel accommodations, meals and pasalubong, cell phone allowance of NIA personnel as well as expenses for NIA newsletters. Moreover, payments of wages and personnel benefits of plantilla casuals were charged to this account.

11.5 In NIA RO No. VI, the total unrelated expenses amounting to P6.588 million for the calendar year 2012 were charged to project funds. Details are shown as follows:

**Table 12 – Schedule of Unrelated Expenses charged to Project Funds
(In million pesos)**

Expenses	NIA-RO VI	NIA-Aklan IMO	NIA-Antique IMO	TOTAL
Traveling Expenses	0.264		0.013	0.277
Traveling Exp.-NIA Anniversary Celebration	0.061		0.096	0.157
Reg. Fee-Professional Org. Meals/Pasalubong/Hotel	0.041			0.041
Accommodation	0.093	0.149		0.242
Cell phone Allowance	0.022			0.022
Newsletter	0.017			0.017
Wages of Plantilla Casuals Employees	5.004			5.004
Personnel Benefits of Casual Employees	0.828			0.828
TOTAL	6.330	0.149	0.109	6.588

11.6 The total expenses of P6.588 million were accounted for as project cost although they were not related to restorations, rehabilitation and construction of irrigation projects, thus resulting in higher project cost.

11.7 In NIA RO No. III, the following disbursements not related to the implementation of the irrigation projects were charged against the project funds:

- a. Payment for meals and snacks on various occasions during the year which amounted to P0.923 million.
- b. Payment for electricity and water consumption in the amount of P1.419 million.

11.8 The charging of the above expenses may be considered irregular as defined in COA Circular No. 2012-003 dated October 29, 2012 since it is not in accordance with the above-mentioned laws, rules and regulations. The term “irregular expenditures” as defined in COA Circular No. 2012-003, “signifies expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in law. Irregular expenditures are incurred without conforming with prescribed usages and rules of discipline. There is no observance of an established pattern, course, mode of action, behavior, or conduct in the incurrence of an irregular expenditure. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular.”

11.9 We recommended that Management require the reversion to the project fund the amount spent for unrelated project expenses.

12. Notwithstanding previous years’ audit recommendations, NIA’s procurement of consulting services under an Agency-to-Agency Agreement with NIA Consult, Inc. (NIACI) continues to contravene the IRR of RA No. 9184, and

other regulations on the procurement of consulting services for government projects.

12.1 Records showed that NIA has procured consulting services for various irrigation projects through negotiated procurement under an Agency-to-Agency Agreement with NIACI instead of competitive public bidding. For CY 2012, consulting services in the total amount of P53.218 million were contracted.

12.2 Section 6 of Government Procurement Policy Board (GPPB) Implementing Guidelines on Agency-to-Agency Agreement provides that:

“The end-user unit shall undertake a cost benefit analysis, taking into consideration the following factors: prevailing standard cost of the project in the market, absorptive capacity of the Servicing Agency, and such other factors.

Based on the assessment and recommendation of the end-user unit, the BAC shall issue a resolution recommending the use of Agency-to-Agency Agreement to the Head of the Procuring Agency.

Upon approval of the BAC resolution, the Procuring Agency shall enter into a Memorandum of Agreement with the Servicing Unit.

For purposes of transparency, the Procuring Agency shall post for a period of seven (7) calendar days, general information pertaining to the procurement activity conducted, in the following areas: Phil GEPS, Website of the procuring agency and any conspicuous place in the premises.”

12.3 Review of the procedures for the procurement of consultancy services from NIACI showed the following deficiencies:

- a. NIA did not prepare the budget cost for the procurement of consultancy services for approval of the Board of Directors;
- b. NIA did not conduct cost benefit analysis to prove that the Agency-to-Agency Agreement is more efficient and economical for the government; and
- c. There was no document submitted to support NIA's compliance with RA No. 9184 posting requirement of the procurement of consulting services in the Phil GEPS, website of the procuring entity and any conspicuous place in the premises of the Agency.

12.4 The non-compliance with the afore-mentioned laws rules and regulations, particularly the conduct of a cost benefit analysis to justify that an Agency-to-Agency Agreement is more efficient and economical for the government, casts doubts whether the procurement of consulting services from NIACI was the most advantageous to NIA.

12.5 It was further observed that the approved Annual Procurement Plan (APP) submitted for CY 2012 did not include procurement of the above-mentioned consulting services contrary to Section 7.2 of IRR of RA No. 9184 which states that “No

procurement shall be undertaken unless it is in accordance with the approved APP of the procuring entity.” Section 7.3.2 also states that, “[T]he end-user units of the procuring entity shall prepare their respective Project Procurement Management Plan (PPMP) for their different programs, activities, and projects.” The PPMP shall include information on procurement methods to be adopted and the estimated budget cost.

12.6 Review of the contract amount, as observed in previous years’ audit, disclosed that the cost of the consultancy services procured by NIA were not in accordance with the rates for computing consultancy cost prescribed by the GPPB’s Manual of Procedures for the Procurement of Consulting Services and National Economic Development Authority (NEDA) Implementing Rules and Regulations on the Procurement of Consulting Services for Government Projects. In CYs 2010 and 2011, the contract cost of consulting services is higher by P15.914 million and P7.024 million, respectively, compared to the computed prescribed contract price.

12.7 The GPPB’s Manual of Procedures for the Procurement of Consulting Services and NEDA Implementing Rules and Regulations on the Procurement of Consulting Services for Government Projects states that:

“The cost of consultancy shall consist of the following and shall be presented in the agreement in like manner:

a. Salaries or billing rates – These are remunerations to be paid to the Consultant’s staff/personnel who are directly engaged in the consulting services as per agreed manning schedule. It covers the basic rates of the staff multiplied by a billing factor of the consulting firm.

The billing factor or multiplier shall be derived from:

i. Overhead cost are incidental and general administrative and management expenses of the firm other than those directly related to the project. In any case the overhead cost shall not exceed 20% of the basic salary.

ii. Social Charges

iii. Management fee – remuneration for the professional know how and expertise. The amount shall be fixed as a percentage of the sum of the basic salary, overhead cost and social charges but not to exceed 15%.

b. Reimbursable Costs

i. Housing Allowance cost to cover housing, including power and water – Given to consultant who will be staying continuously for more than 1 month.

ii. Per diem - daily allowance given to the Consultant personnel while on official trips authorized by the Agency and/or explicitly required in the contract as follows:

- Outside of the base of operation
- Outside of the designated official station

Per diems shall be reckoned from a 24-hour day trip of at least 50 km away from the official station

c. Other costs required for the completion of the services.”

12.8 For CY 2012, the total contract price for consulting services of three contracts exceeded the prescribed contract amount computed using the rates provided in the NEDA and GPPB Guidelines in the total amount of P6.102 million, computed as follows:

Table 13 – Comparison between the Actual Contract Amount and the Prescribed Contract Amount based on NEDA and GPPB Guidelines (In million pesos)

	Tumauini River Multipurpose Project	Sapalan River Irrigation Project	Gandara River Basin Irrigation Project
Remuneration	6.695*	3.010	5.640
Overhead 20%	1.339	0.602	1.128
Total of Rem and OH	8.034	3.612	6.768
Management Fee 15% of Rem and OH	1.205	0.542	1.015
Reimbursable Cost**	7.090	3.948	7.842
Total Before Contingency	16.329	8.102	15.625
Contingency 5%	0.816	0.405	0.781
Total	17.145	8.507	16.406
Plus VAT 12%	2.058	1.021	1.969
Total Cost of Consulting Services per NEDA guidelines	19.203	9.528	18.375
Cost per contract	21.490	11.108	20.610
Difference	2.287	1.580	2.235
Total Difference for the 3 contracts			6.102

*Salary of the Report Editor/Budget and Administrative Officer in the amount of P0.595 million (for 8.5 months) could not be included as remuneration of expert since his duties were not included in the Term of Reference (TOR). Review of the documents revealed that the actual work performed could only be classified as administrative which was already covered by the overhead cost.

**Salary of the Secretary/Clerk and Utility person under the Support Staff could not be allowed as reimbursable cost since it is also administrative in nature which was already covered by the 15 per cent overhead.

Salary of the CAD operator should have been computed for the months where his service is needed during the designing phase and not the whole duration of the project.

12.9 It was also observed that the TOR of the Consulting Services did not indicate the names and the respective relevant qualifications of the experts who will be assigned

to perform the tasks indicated in the TOR. These are very vital in the evaluation of the competence of the expert to perform the Agency's consulting services requirement which are also the basis for determining the reasonableness of the consultant's remunerations. Consequently, the Contract did not provide any provision on the change of experts. The GPPB Manual on Procurement of Consulting Services requires that the name of the consultants and their qualifications should form part of the Technical Proposal; and the Contract should include terms relative to the replacement of expert during the execution of the contract.

12.10 Review of the payment of Progress billing for Consulting Services disclosed that payments were not supported with any document relative to NIA's evaluation and acceptance of NIACI's Accomplishments and Outputs/deliverables submitted covered by the Progress Billing. The Progress Billings were only supported with NIACI's Bill and Summary of Contract Cost and Payment prepared by NIACI and approved by NIA.

12.11 Further, there was no document to support NIA's evaluation and approval of the reimbursable cost billed. Documents to support payment of reimbursable cost were also incomplete, as follows:

a. Some of the vehicle rental payments to individuals were only supported with Acknowledgement Receipt (AR) or Reimbursement for Expense Receipt (RER). The propriety of the AR/RER could not be established due to the absence of documents such as photocopy of the valid identification card of the payee with signature, the Certificate of Registration of the vehicle hired and the corresponding Land Transportation Office (LTO) - issued Official Receipt (OR). These documents are supposed to be required from the vehicle owner chosen as the supplier of service after a canvass from three suppliers/vehicle owners was made.

b. Vehicle rental payments were not supported with approved itinerary/trip ticket indicating the name of passengers, the purpose, the destination with the corresponding time and dates. Also, justification for the necessity of hiring vehicles was also lacking as required by Section 340 of Government Accounting and Auditing Manual (GAAM), Volume I which states that "as a general rule, only the ordinary public conveyances or customary modes of transportation shall be used. The use of special hires of PUs, garage cars, launches, motorboats, sailboats and bancas shall not be allowed unless justified by the prevailing circumstances, such as but not limited to, carrying large amount of cash, bulky equipment which cannot be conveniently transported through ordinary mode of transportation x x x."

c. Meal expenses were not supported with purpose of meeting, attendance sheet and the result of meeting conducted.

d. Remuneration of NIA officers appointed as project's technical advisors were not supported with the following documents to show proof of the service rendered such as: (i) Office Order from NIA that these officers were assigned as advisor to consultancy services for NIA projects undertaken by NIACI in addition to their duties, (ii) project plan to support the assigned/defined specific activity and the corresponding completed and accepted deliverables in accordance with the time frames set per project component and (iii) the

computation of the honorarium as prescribed in Section 4 of the DBM Budget Circular No. 2007-2 which provides that total amount of honorarium received for the year should not exceed 25 per cent of annual salary.

e. Per diems/Field Allowance and Travel expenses reimbursed were not supported with Itinerary of Travel, only Statement of Expenses with corresponding ORs and Invoices were attached.

12.12 We recommended that Management:

a. Strictly comply with IRR of RA No. 9184 and conduct proper planning of procurement of consulting services by requiring the end-user to compute the budget cost of the consulting services needed and include these in the Annual Procurement Plan;

b. Strictly comply with GPPB's Implementing Guidelines on Agency-to-Agency Agreement by:

b.1 Conducting cost benefit analysis to ensure that the contracted amount is most economical;

b.2 Requiring the BAC to evaluate and recommend the contract of consulting services through Agency-to Agency Agreement for approval to the Board of Directors; and

b.3 Posting the procurement of the consulting services activities in the Phil GEPS, NIA website and Bulletin Board;

c. In the absence of cost benefit analysis and NIA's current problem in shortage of design and engineering manpower, consider conducting public bidding for the procurement of consulting services for the time being and take appropriate action to immediately address the problem on manpower shortage;

d. Strictly comply with the NEDA and GPPB Guidelines on the computation of Consulting Services by using these guidelines in the computation of Approved Budget for the Contract (ABC) and evaluation of the TOR submitted by NIACI for approval;

e. Ensure that the TOR of any Consulting Services Firm includes the names and qualifications of the experts assigned to perform the task covered by the contract and provisions of terms relative to the change/replacement of experts; and

f. Evaluate the reimbursable cost being billed by NIACI to ensure that only valid and supported expenses are approved for payment. Payments with incomplete documents will be suspended in audit.

13. The General Fund was used to cover costs indirectly associated with the restoration, rehabilitation and construction of irrigation projects.

A. Payment for the General Engineering Supervision and Administrative (GESA) cost for the implementation of NIA irrigation projects amounting to P8.592 million were inappropriately charged against the General Fund.

13.1 Section 4 of the Special Provision for the Department of Agriculture of Republic Act No. 10155 – General Appropriations Act (GAA) for FY 2012 states that:

“The amount of Twenty Four Billion Four Hundred Fifty Four Million Fifty Two Thousand Pesos (P24,454,052,000) appropriated under B.I.a and B.II.i. shall be released directly to NIA implementing units upon submission of the list of priority production areas where the irrigation projects are to be implemented and shall be used directly and exclusively for the restoration, rehabilitation and construction of irrigation projects. PROVIDED, That in no case the said amount be used for engineering or administrative overhead expenses nor be realigned to augment any PS or MOOE requirement.”

13.2 Moreover, Section XXXV of the GAA - Budgetary Support to Government Corporation also allocated a total amount of P2,060.598 million, to NIA for support to operations for the implementation of various irrigation projects nationwide and for the maintenance of irrigation. The law clearly provides that budget allocation to cover all the GESA for the implementation of irrigation projects is released to NIA under the Budgetary Support and the General Fund intended for irrigation projects and shall only be used to pay direct cost, i.e. payment to contractors and cost of labor and materials for the projects implemented through administration.

13.3 Verification of disbursements for CY 2012 disclosed that the General Fund received for Small Reservoir Irrigation Project (SRIP), Feasibility Study (FS) and Detailed Engineering (DE) and Irrigation Management Transfer Support Services (IMTSS) were used to pay Personal Services and Maintenance and Other Expenses in the total amount of P8.592 million, contrary to the provision of the said Act, as follows:

Table 14 - Personal Services and Maintenance, and Other Operating Expenses Charged to the General Fund (In million pesos)

Particulars	Amount
Travel Expenses	0.715
Training, Meals and Accommodation	1.336
Salaries and Wages	4.275
Allowances (Bonus/Cash Gift/Clothing/PEI/ RATA/TEV)	2.204
Dormitory/Janitorial Services SRIP	0.062
TOTAL	8.592

B. Management fee amounting to P4.302 million was paid for Libmanan Cabusao Dam Project, Parpagoja SRIP 1 and CRRNENIAAIS contrary to RA No. 10155 and Presidential Decree No. 1702.

13.4 Our audit disclosed that NIA collected five per cent management fee amounting to P4.302 million from the General Fund for the following projects in CY 2012:

Table 15 – Irrigation Projects with Managements Fees Collected (In million pesos)

Name of Project	Check No.	Project Cost per SARO/ Agency Budget Matrix	Management Fee Collected
Construction/Repair/Rehabilitation of New Existing NIA Assisted Irrigation System (CRRNENIAAIS)	562968	10.000	0.099
Parpagoja SRIP 1	589336	20.000	0.703
Libmanan Cabusao Dam Project	562908		3.070
	562968	70.000	0.430
TOTAL			4.302

13.5 The above disbursements are contrary to Section 3(b) of PD No. 552 amending RA No. 3601 and PD No.1702 (NIA Charter) which states that:

“Operating Capital – x x x The National Irrigation Administration is hereby authorized to impose as an administration and engineering overhead charge, five percent of the total cost of projects undertaken by it.”

13.6 The five per cent GESA charged as project cost or Management fee, being an administration and engineering overhead charge could not be paid using the General Fund. Moreover, the Libmanan Cabusao Dam Project was indefinitely suspended on December 14, 2009 per Notice of Suspension issued by the NIA Administrator to re-evaluate possible alternative scheme of implementation considering the recommendations made by the Institute for Environmental Conservation and Research of the Ateneo de Naga after its conduct of initial investigation in November 2009. The only activity for the year was the conduct of feasibility study; hence, for CY 2012 the project has not yet been undertaken and the charging of management fee even against the Budgetary Support (Fund 501) is contrary to PD No. 552.

13.7 Management asserted that the five per cent management fee was charged to budget allocations for CY 2011 which were only received in 2012 and are not covered by RA No.10155. This contention is deemed not acceptable because management fee could only be charged for projects undertaken. Since the funds for the implementation was only received in CY 2012, then the activities for the implementation of the projects using the funds received should also be made in CY 2012, hence no management fee should be charged against budget allocation for CY 2011.

13.8 We recommended that NIA Management (i) ensure strict compliance with the provision of RA No. 10155 and PD No. 552 and (ii) refund to the Bureau of

Treasury the amount paid for GESA and management fee previously charged to the General Fund.

14. Despite previous years' audit recommendation, Management has not taken action to recover the unexpended portion of the advances to the contractor amounting to approximately P36.477 million for the suspended project "Libmanan-Cabusao Diversion Dam and Appurtenant Structure." Moreover, Management has no concern for the potential loss that may be derived from its inaction to prevent further corrosion of the unused steel sheet piles and the reinforced bars in the total reported amount of P31.070 million and P20.658 million, respectively, due to the exposure of these assets to the elements for more than two years.

14.1 Records showed that on May 8, 2009, a contract was executed between NIA and A.M. Oreta and Company, Inc. for the construction of Libmanan-Cabusao Dam Project and Appurtenant Structure in the total contract amount of P700.778 million. The Libmanan-Cabusao Dam Project, one of the priority projects of then President Gloria Macapagal-Arroyo, is located within the Bicol River Basin Area and is intended to help increase crop production and to replace the existing pumps that irrigate some 2,195 hectares of riceland in Libmanan and Cabusao in Camarines Sur.

14.2 During the implementation of the project, the Regional Manager, NIA Region V, thru its letter dated September 24, 2009 to the NIA Administrator forwarded a Resolution of Sangguniang Bayan of Sipocot, Province of Camarines, informing to stop the construction of Libmanan-Cabusao Dam and be scrapped due to the danger that perpetually threatens the lives of the people of the six Sipocot-Poblacion Barangays where more or less 20,000 people reside. This was followed by another Sangguniang Bayan Resolution declaring opposition to the project.

14.3 In view of the strong resistance of the residents of Sipocot and Lupi towns of Camarines Sur, a Notice of Suspension dated December 14, 2009 was issued to the Contractor with the information that NIA top Management decided to suspend indefinitely the implementation of the project to re-evaluate and rethink of possible alternative scheme of implementation considering the recommendations made by the Institute for Environmental Conservation and Research of the Ateneo de Naga after conducting an initial investigation for the said project on November 6, 2009.

14.4 This is a reiteration of our previous year's audit observations which NIA Management has not submitted the requested comments and documents. Despite the extension given to Management per their letter dated April 13, 2012 on the submission of the comments on the audit observations, we were not favored with any reply.

14.5 We have requested that NIA conduct an inventory of the supplies and materials to be witnessed by COA representatives to determine the existing quantities and condition of the inventory, but until now no physical inventory was conducted. Inventory taking at present is very important to determine whether the inventory are all accounted since the last inventory taking was made three years ago.

14.6 We also recommended that NIA take appropriate action to prevent further corrosion of the steel sheet piles and the reinforced bars in the total reported amount of P31.071 million and P20.658 million, respectively.

14.7 On March 1 to 3, 2012, the Technical Service Group (TSG), then Cluster C, Corporate Government Sector (CGS), COA conducted an inspection and evaluation on the status of the inventory stock and implementation of the suspended project "Libmanan-Cabusao Diversion Dam and Appurtenant Structure" Contract No. R5-LCDPN-C1, to verify the reported work accomplishment. The following were the results of their inspection and evaluation, for which we did not receive any explanation from Management:

a. Accomplishments reported in the Overall Monthly Accomplishment Report as of December 31, 2009 in the total amount of P8.845 million were not actually done:

a.1 Item 104-B Rock Excavation – P4.090 million – No work done, there was no indication of hauled materials

a.2 Item 105 – Overhaul (waste disposal) – P4.755 million- No work done, there was no indication of hauled materials

b. Item 115 – Steel Gates and lifting mechanism in the amount of P12.060 million were reported in the accomplishment report to be 100 per cent complete,, however, the driving of the steel gate was not carried out. The PERT CPM disclosed that the driving of these steel gates and lifting mechanism should have been done within the period September to October 2009, two months before the contract was suspended. Moreover, the amount was included in both the accomplishment report and in the inventory.

c. The PERT CPM which forms part of the contract also indicated the steel sheets in item 114 should have been installed within the period September to October 2009 but as of suspension date the steel sheets were not completely installed.

d. The COA-TSG evaluation report dated January 7, 2010 for the inspection conducted on December 21-22, 2009, (seven days after the date of suspension) disclosed that no steel bar was present and only 1,539 linear meters of steel sheets were counted during the inspection, but the inventory report for the physical count conducted by Management in July to August 2010 disclosed the existence of steel bars in the total amount of P20.658 million, and 6,906 linear meters of steel sheets which means that deliveries were still accepted after the suspension of the contract.

e. The steel sheets piles, reinforcing steel bars and steel gates were already corroded/rusted because they were exposed to the elements for more than two years. Materials Warehouse should have been constructed as one of the items in Item E-Temporary Facilities.

14.8 Evaluation of related documents submitted by Management revealed the following:

a. According to Management, the actual materials delivered on site of steel sheets piles is in accordance with the required length reflected in the Good for Construction (GFC) Drawings and that the actual materials delivered on site are the same as stipulated in the contract as shown in the table below:

Table 16 – Quantity of Steel Sheet Piles Per Contract and Per Delivery

Item 114 Steel Sheet Piles	Quantity per Contract (In linear meter)	Quantity per proposed 1 st billing (In meter) (supply and delivery)	Quantity Delivered on site per GFC & Per physical count
Supply and Delivery			
Steel sheet Files			
8 mm x 40 cm x 3.0 m	1,900	807	798
8 mm x 40 cm x 6.0 m	1,880	1,590	1,584
8 mm x 40 cm x 12.0 m	-	-	3,156
8 mm x 40 cm x 4.0 m	-	-	1,368
Total	3,780	2,397	6,906

As presented in Table 16, the quantity per contract is 3,780 linear meters while the actual quantity per inventory report and per GFC drawing is 6,906 linear meters showing a difference of 3,126 linear meters. Moreover, the amount of the contract was computed using the 3,780 linear meters @ P4,499.06/linear meter with a total cost of P17.006 million while the inventory report includes the cost of sheet files of P31.070 million for the 6,906 linear meters. We did not receive any approved variation order for this difference and considering that a column for revised quantities in the table was not presented, we assumed that there is no variation order. Thus, there is a difference of 3,126 linear meters, an over delivery of steel sheets.

b. The Monthly Contract Implementation Coded Report for Transmittal, reporting the status of Contract No. NIA-R5-LCDPN-C1 as of May 31, 2010 showed 14.048 per cent accomplishment against the programmed accomplishment of 24.94 per cent signed by the Regional Manager, NIA Regional Office No. V. Also, the submitted proposed Progress Billing No. 2 covering the period October 1 to December 14, 2009 prepared by the Contractor, checked and submitted by the NIA Project Engineers, showed 10.44 per cent accomplishment amounting to P73.153 million. The two reports showed different percentage of accomplishment.

14.9 Despite our previous years' recommendation, Management has not submitted computation of the actual work accomplishment of the contract taking into consideration the deficiencies noted above for them to use as basis in recovering the unexpended portion of the advances to contractor. Based on the evaluation of the COA-TSG and the submitted Report for the inventory taking conducted in July and August 2010, the amount of the advances to contractor of P105.112 million could be reduced by the following:

Table 17 - Computation of Items Chargeable Against the Advances to Contractors (In million pesos)

Valid Inventory	Amount
Steel Sheet 3,780 lm @ P4,499.05 excluding over delivery	17.006
Reinforcing Steel Bars – Uncut 355,309.67kg @P58.14/kg	20.658
Reinforcing Steel Bars – Cut and Bended 113,391 kg @ 58.14	6.592
Aggregates fine 961.12 cubic meters	2.019
Coarse Aggregates 1,514.34 cubic meter	3.233
Work Accomplishment as of 12/14/2009 proposed PB No. 2	
101- Temporary Facilities – 50.53 per cent	6.567
102- Cleaning and Grubbing	0.504
115 A – Furnish Sluice steel gates assembly	12.060
Total	68.639

14.10 It was also observed that the reported work accomplishment of the contract of 10.44 per cent amounting to P73.153 million comprised mainly of delivered supplies where installation was not substantially made.

14.11 **We reiterated our previous year’s recommendations that Management:**

- a. **Take appropriate action to recover the unexpended portion of the advances to contractor;**
- b. **Conduct physical inventory of the supplies and materials to be witnessed by COA representatives to determine the actual existence and present condition of the inventory;**
- c. **Submit the duly signed, reviewed and approved reports of the actual accomplishment and supplies inventory to COA for validation, such as:**
 - c.1 **Physical Accomplishment as of December 31, 2009;**
 - c.2 **Revised computation of unexpended portion of advances to contractors taking into considerations the valid items presented in the table and the possible liquidated damages for the delay in the installation of steel sheets and steel gates assembly;**
- d. **Investigate why the reinforcing steel bars and steel sheets were still accepted after the contract was already suspended and submit corresponding report of the investigation; and**
- e. **Take appropriate action to prevent further corrosion of the steel pipes and steel bars on the site.**

14.12 **We further recommended that if circumstances warrant, initiate administrative and/or appropriate action against officials/employees who may be found negligent in safeguarding the subject materials against wastage or improper disposition.**

14.13 Management commented that there was no mutual termination yet and they are still negotiating with the contractor since the latter was claiming P250 million for alleged accomplishment which was not reasonable. An inventory taking was conducted in February 2013. The Regional Office was advised to take necessary measures to safe keep the materials on site to prevent further corrosion. Other possible utilization of the materials for other projects will be looked into. An investigation will be conducted on the delivery of materials after the suspension date.

15. The current level of NIA’s irrigation development is relatively low at 53.60 per cent as 1,450,601 hectares or 46.40 per cent remain to be developed out of the estimated total irrigable area of 3,126,340 hectares as of December 31, 2012. The minimal increase in irrigable areas developed may be attributed to the rehabilitation and restoration of existing irrigation systems being given precedence over the generation of new areas for development. Likewise, while NIA projects rehabilitated 206,897 hectares and restored 45,950 hectares in existing irrigation systems, constituting 184 per cent and 67 per cent of the respective targets as of December 31, 2012, NIA projects generated 55,500 hectares of new areas only or 55 per cent of the targeted area of 100,994 hectares. Total available allotment for these projects amounted to P27.803 billion with total cash and non-cash support amounting to P19.915 billion as of December 31, 2012 while obligations incurred amounted to P24.218 billion.

NIA attained an average cropping intensity of 157 per cent for the last four cropping years.

Status of Irrigation Development

15.1 The Philippines reportedly has approximately 10.3 million hectares agricultural lands of which 3.1 million hectares are considered irrigable and primarily devoted to rice and corn.

15.2 It was noted from the Year-end Report of NIA as of December 31, 2012 that the total service area developed was 1,675,739 hectares or 53.60 per cent of the estimated potential irrigable area of 3,126,340 hectares. Of this area, 104,810 hectares of areas were converted to land use other than agricultural use and others are permanently non-restorable. Thus, firmied-up service areas totaled 1,570,926 hectares. Review of sampled Year-end Reports of NIA from CYs 2009 to 2012 on the status of irrigation development revealed a minimal increase in irrigable areas developed. Details follow:

Table 18 – Status of Irrigation Development (in hectares)

Year	Estimated Total Irrigable Area	Total Firmied-up Service Area	Converted and Permanently Non-Restorable Area	Total	% of Irrigation Development	Remaining Potential Area to be Developed
2012	3,126,340	1,570,926	104,810	1,675,736	53.60	1,450,601
2011	3,126,340	1,566,591			50.11	1,559,749
2010	3,126,340	1,542,668			49.34	1,584,232
2009	3,126,340	1,539,937			49.26	1,586,963

15.3 The level of irrigation development is reflected in terms of irrigated area over the estimated potential irrigable area. Table 18 presented the state of NIA's irrigation development which is relatively low in 2012 at 53.60 per cent with slight increase from 2011 of 3.49 per cent while irrigation development scarcely moved in 2009 and 2010.

NIA's Accomplishments against Targets

15.4 Review of the sampled reports further disclosed the apparent prioritization for rehabilitation and restoration of existing irrigation systems over the generation of new areas for development. Consider the following targets set by NIA for CYs 2009 to 2012:

Table 19 – Targets set by NIA for CYs 2009 to 2012 (In hectares)

Year	New	Restoration	Rehabilitation
2012	100,994	68,738	112,370
2011	33,431	55,298	128,567
2010	12,989	66,862	248,565
2009	18,457	134,050	105,929

15.5 Comparison of the accomplishment of NIA against its targeted area for generation of new areas, rehabilitation and restoration showed the following information:

Table 20 – Comparison of Accomplishments vs Targets, CYs 2009-2012 (In hectares)

Year	Target	New			Target	Restoration			Target	Rehabilitation		
		Actual	(Shortfall) Surplus	Per cent		Actual	(Shortfall) Surplus	Per cent		Actual	(Shortfall) Surplus	Per cent
2012	100,994	55,500	(45,494)	55	68,738	45,950	(22,788)	67	112,370	206,897	94,527	184
2011	33,431	23,923	(9,508)	72	55,298	31,331	(23,967)	57	128,567	137,062	8,495	107
2010	12,989	6,603	(6,386)	51	66,862	51,329	(15,533)	77	248,565	196,075	(52,490)	79
2009	18,457	9,909	(8,548)	54	134,050	101,779	(32,271)	76	105,929	174,506	68,577	165

15.6 The above tabulation disclosed that while NIA projects rehabilitated 206,897 hectares and restored 45,950 hectares in existing irrigation systems, constituting 184 per cent and 67 per cent of the respective targets as of December 31, 2012, NIA projects generated 55,500 hectares of new areas or 55 per cent of the targeted area of 100,994 hectares. It was apparent that Management's utmost efforts were devoted to the rehabilitation of existing irrigation systems as actual accomplishments far exceeded its targets by 184 per cent as of December 31, 2012.

15.7 The reported total available allotment for the irrigation projects including cash/non-cash support and the obligations incurred from 2009 to 2012 follow:

Table 21 – Financial Status CYs 2009 to 2012 (In million pesos)

Year	Total Available Allotment	Cash/Non-Cash Support	Obligation
2012	27,803.100	19,915.140	24,218.282
2011	17,854.430	11,466.628	13,653.448
2010	15,930.824	12,482.846	14,107.147
2009	16,203.265	13,154.849	15,201.840

Performance of Existing Irrigation Systems

15.8 One of the indicators of the performance of existing irrigation systems is in terms of cropping intensity. Cropping intensity is the fraction of the cultivated area that is harvested. Cropping intensity is the percentage of the gross cropped area to the net area sown. The cropping intensity may exceed 100 per cent where more than one crop cycle is permitted each year on the same area.

15.9 The reported programmed area for irrigation for the crop year 2011-2012 was 1,300,545 hectares. As of December 31, 2012, irrigated area was 569,622 hectares during the dry season (November 2011 to April 2012) 574,383 hectares during the wet season (May 2012 to October 2012) and 121,556 hectares for the third crop or a total of 1,265,561 hectares which is 97 per cent of the programmed area. The irrigated cropping intensity attained was 159. The table below presents the performance of existing irrigation system in terms of cropping intensity of the different crop years:

Table 22 – Cropping Intensity of the Different Crop Years

Crop Year	Programmed Area for Irrigation (ha)	Actual Irrigated Area (Ha)				Irrigated Cropping Intensity (Per cent)
		Wet Season	Dry Season	Third Crop	Total	
2011-2012	1,300,545	574,383	569,622	121,556	1,265,561	159
2010-2011	1,212,752	566,006	553,396	16,248	1,135,650	170
2009-2010	1,188,254	546,363	529,810	26,221	1,102,394	147
2008-2009	1,185,856	545,632	531,599	59,472	1,136,703	152

15.10 **We recommended that Management exert effort to achieve its target in the generation of new areas for irrigation development to increase agricultural production and productivity among beneficiary farmers in irrigated areas.**

15.11 Management gave the following comments:

- a. Majority of the facilities and structures constructed by the NIA average 40 years old and above with a deterioration rate of three per cent annually; hence, actual conditions dictate that restoration and rehabilitation works be given priority to ensure sustained delivery of water;
- b. For crop year 2011-2012 of national irrigation systems (NIS) ending December 31, 2012, the irrigated area during wet season was 574,383 hectares while dry season was 569,622 hectares as compared to the firm-up service area (FUSA) of 712,789 hectares. One of the factors contributing to the gap between irrigated area and FUSA is the deteriorated state of irrigation facilities, necessitating the prioritization of rehabilitation and restoration works;
- c. For big projects, it will take five to 10 years in order to generate new areas; hence, the Agency concentrated on short gestating projects which will give immediate outcome within a year to increase irrigated areas that will in turn, bridge the gap between irrigated areas and FUSA and also the generation of new areas;

- d. Restoration works are being undertaken together with rehabilitation works in order to address the routine maintenance of canal networks and facilities to maintain such efficiency and mitigate deterioration;
- e. Within one year, our implementation of projects were concentrated only for one to two months right after the harvest period up to the time that the next cropping season starts, for NIS and CIS projects;
- f. New projects need time to investigate up to construction and are mostly concentrated on small areas to generate 10-100 hectares areas;
- g. The 104,810 hectares of irrigated farmland were converted to subdivision, housing and industrial sites and others which NIA has no control in view of permits issued by other agencies; and
- h. Commonly, the project duration is not one year but extended up to another year due to social intervention and other factors as mentioned above.

15.12 As a rejoinder, restoration and rehabilitation works of the existing irrigation facilities and structures indeed would ensure sustained delivery of water. However, we are of the view that NIA has to exploit all the potentials of irrigation development as a means to enhance the socio-economic welfare of the farmers and one way to do this is to develop new areas for irrigation.

15.13 We are also of the view that an improved system of operations and maintenance is more economical than rehabilitation of aging irrigation facilities. Thus, we further recommend that a system for operations and maintenance be developed as well as measures for monitoring and evaluation of the technical performance of the irrigation facilities.

16. Contract and award for the construction of Madongan RIS in Ilocos Norte totaling P71.200 million, which amount required the approval of the Administrator, were split into several packages; Five of these packages were already delayed of their completion, thus, depriving the farmer-beneficiaries in their immediate utilization and benefits which could be derived from these irrigation facilities; and Contracted amount for Package Ten did not tally with the total Itemized Works, Notice of Award and other documents supporting the contract, incurring a variance of P300,000, thereby casting doubt on its accuracy and regularity.

16.1 Section 54.1 of the Revised IRR of RA No. 9184 provides:

“Splitting of Government Contracts is not allowed. Splitting of Government Contracts means the division or breaking up of GOP contracts into smaller quantities and amounts or dividing contract implementation into artificial phases or sub-contracts for the purpose of evading or circumventing the requirements of law xxx.”

16.2 There is deemed to be splitting when it is resorted to in order to evade the required approval of higher authorities or circumvent control measures provided for by these rules and regulations (p. 124, 2nd paragraph of the Government Expenditures Handbook).

16.3 NIA Memorandum Circular (MC) No. 20, s. 2012 provides for the Revised Delegated signing authorities for NIA Officials as follows:

“PROCUREMENT OF INFRASTRUCTURE PROJECTS

2. Public Bidding for Locally Funded Projects

	AWARD	CONTRACT
b. Above P40Million	Approving Official Administrator	Approving Official Administrator
c. Up to P40 Million RIO	Regional Manager	Regional Manager

REQUEST FOR BIDDING FOR INFRA PROJECTS

b. Above P40Million	Administrator
c. Up to P40 Million RIO	Regional Manager “

16.4 It was noted that the Contract for the construction of Madongan RIS in Ilocos Norte totaling P71.200 million, which amount required the approval of the Administrator, were split into several packages. As verified, the status of project accomplishments as of November 30, 2012 was as follows:

Table 23 – Status of Project Accomplishments as of November 30, 2012

Package	Contract Amount (In million pesos)	Date of Contract	Date of Expiry	Status as of November 2012	
1	35.636	July 23, 2012			
2	3.436	July 9, 2012			
3	4.469	July 20, 2012			
4	4.465	July 27, 2012			
5	4.465	July 20, 2012			
6	1.963	July 20, 2012	Oct. 20, 2012	ongoing	delayed
7	4.507	July 16, 2012	Nov. 14, 2012	ongoing	delayed
8	4.247	July 16, 2012	Nov. 14, 2012	ongoing	delayed
9	3.600	July 13, 2012	Nov. 1, 2012	ongoing	delayed
10	4.412	July 20, 2012	Nov. 7, 2012	ongoing	delayed
TOTAL	71.200				

16.5 It also bears emphasis that the 10 contract packages for the Construction of Madongan RIS with total project cost of P90 million were covered with one Program of Work dated November 4, 2011 and a one-time release of funding made thru Advice of Sub-Allotment (ASA) No. DBM-BMB-E-12-0006484 dated January 2, 2012 in the amount of P82.935 million.

16.6 Considering the huge amount involved, the contract should have been subjected to the approval of the Administrator. It was apparent that splitting of contract was resorted to avoid review or approval by higher authorities.

16.7 Above information also revealed that five packages were already delayed of their completion, thus depriving the farmer-beneficiaries of immediate utilization and benefits that could be derived from these irrigation facilities had it been completed on time. Likewise noted were the conflicting dates of contracts execution which was not in accord or consequent with the packaging periods.

16.8 Furthermore, it was noted in Package Ten that the total contract cost did not tally with the total itemized works. Different amounts were also reflected in the Notice of Awards and other relative documents supporting the contracts, hence showing a variance of P300,000, thereby casting doubt on the regularity of the contract.

16.9 According to Management, rains or storms were the identified causes of project delays. Project delays have been the perennial issue for the past decades. In as much as causes were already identified, these should have long been acted upon by Management, subjected to further review and considered in every project feasibility study as well as in bid evaluation. The perennial occurrence of these causes that left unresolved for so long may not justify the Agency's act of splitting the projects into several packages.

16.10 **We recommended that Management:**

a. **Strictly observe the provision of Section 54.1 of the Revised IRR of RA No. 9184 on the prohibition of splitting of government contracts and NIA MC No. 20, s. 2012 on the Revised Delegated signing authorities of NIA Officials;**

b. **Enforce the penalty under Rule XX1, Section 65 of RA No. 9184 against public officers who committed the acts of splitting the contracts, if found liable;**

c. **Expedite the completion of the delayed project packages for the immediate utilization by and benefits to farmer-beneficiaries. Conduct further study of the identified causes of project delays and consider these in every project feasibility study as well as in bid evaluation; and**

d. **Ensure that contract amounts should always reconcile with all other supporting bid documents.**

17. **In NIA Regional Offices VII and XIII, taxes withheld and statutory monthly contributions totaling P33.527 million as of December 31, 2012 were not remitted to the concerned agency/corporations, contrary to government laws, rules and regulations.**

17.1 Section 2.8 of Bureau of Internal Revenue (BIR) Revenue Regulation (RR) No. 2-98 as amended by Section 5 of BIR RR No. 10-2008 states that in general, the employer shall be responsible for the withholding and remittance of the correct amount of tax required by deducting and withholding from the compensation income of his employees. If the employer fails to withhold and remit the correct amount of tax, such tax shall be collected from the employer together with the penalties or additions to the tax otherwise applicable.

17.2 Section 6 of PD No. 1146 (GSIS Law) provides that it shall be compulsory upon the employer to deduct and withhold each month from the monthly salary of each employee the contributions payable by him and to remit the same and its share to the Government Service Insurance System (GSIS) within ten days of each calendar month following the month to which the contributions apply.

17.3 Section 20 of Implementing Rules and Regulations of the National Health Insurance Act of 1995 (RA No. 7875 as amended by RA No. 9241) states that the monthly premium contribution of employed members shall be remitted by the employer on or before the tenth (10th) calendar day of the month following the applicable month for which the payment is due and applicable.

17.4 Section 3 of Rule VII of Implementing Rules and Regulations of RA No. 9679 or the HDMF Law of 2009, otherwise known as Pag-IBIG states that “all employers shall remit to the Fund their contributions and the contributions of their covered employees as well as the latter’s loan amortizations or payments to the Fund, as provided for under Section 2 of this Rule, when applicable, within fifteen (15) days from the date the same were collected unless another period is previously agreed upon between the employer and the Fund, or within such periods as the Fund may prescribe otherwise.”

17.5 As of December 31, 2012, unremitted taxes to the BIR and statutory contributions to the GSIS, Pag-IBIG and PhilHealth were noted in the following Regional Offices:

**Table 24 – Unremitted Taxes and Statutory Contributions
(In million pesos)**

Regional office	Due to BIR	Due to GSIS	Due to Pag-ibig	Due to PhilHealth	Total
VII	2.855	0.817	0.128	0.059	3.859
XIII	28.963	0.294	0.249	0.162	29.668
TOTAL	31.818	1.111	0.377	0.221	33.527

17.6 In NIA Regional Office No. XIII, abnormal balance of account Due to GSIS amounting to P77,628 as of December 31, 2012 was noted which affected the accuracy of the account balance. The negative balance was a forwarded balance from previous years which remained unreconciled at year end.

17.7 The issue on unremitted taxes and statutory contributions was raised in previous years’ Combined Annual Audit Report on NIA Fund 501. Among the reasons cited by some Regional Offices were that the balances pertain to prior years and were the subject of an on-going reconciliation; and due to lack of personnel, more time was requested to reconcile the withheld and remitted taxes and other contributions.

17.8 **We reiterated our prior years' recommendations that Management require the Accounting Section to:**

- a. **Maintain subsidiary ledgers and reconcile the amount withheld against the amount remitted every month; and**
- b. **Analyze the account to determine the cause/s of the outstanding balances or negative balances and remit immediately the contributions found to be unremitted and make necessary adjustments, if warranted.**

17.9 Management gave the following comments:

- a. In NIA RO VII, Management justified that (i) part of the total amount were balances forwarded from NIA RO VIII to NIA RO VII in 2009 that are still included in the ongoing reconciliation; (ii) as far as NIA RO and its field offices are concerned, statutory contributions and taxes withheld are regularly remitted to the government agencies concerned on or before the 10th day of the following month and are actually reported in the Financial Statements on the month they are deducted from the salaries and wages of officials and employees concerned; and (iii) Subsidiary ledgers are maintained per official/employee by the field offices concerned.
- b. In NIA RO XIII, Management informed that recommendations are well taken and reconciliation of the accounts is on-going.

Help for Catubig Agricultural Advancement Project (HCAAP)

18. Claims made by Sanyu Consultants, Inc. in the total amount of P169.359 million and Y541,934,750, for the cost of services rendered for Filipino and Foreign components, respectively, were processed and paid without complete documentation in violation of Section 4 of PD No. 1445 and NIA-JBIC Loan Agreement.

18.1 Section 4 of PD No. 1445- Fundamental principles states that – “(6) Claims against government funds shall be supported with complete documentation.”

18.2 In accordance with the loan agreement between the Republic of the Philippines and the Japan Bank for International Cooperation (JBIC), a Contract for Consulting Services for Help for Catubig Agricultural Advancement Project (HCAAP) was entered into between NIA and Sanyu Consultants, Inc. (SCI) in association with the Engineering and Development Corporation of the Philippines (EDCOP) and Hydrotere Consultants, Inc. (HTC) on June 5, 2002 with ceiling amount of Y547.957 million for foreign component and P167.064 million for local component.

18.3 The scope of the consulting services as provided in Consulting Services Terms of Reference consisted of technical assistance for all the components of the project, namely:

- a. Provide Guidance for Overall Project Management;

- b. Provide Services for Irrigation and Drainage and Rural Infrastructure Improvement Components (including engineering facilities for Schistosomiasis Control Component);
- c. Provide Services for Schistosomiasis Control Component;
- d. Provide Services for Agricultural Supporting Services Component;
- e. Provide Services for Institutional development Component;
- f. Provide services for Procurement of Equipment;
- g. Provide Services for Land Acquisition, Resettlement and monitoring of ECC;
- h. Training of agencies' staff concerned; and
- i. Submission of Reports

18.4 The Technical Proposal provides the details of the task to be performed by the consultants and the specific output for each task.

18.5 Section 5.06 of the Contract for Consulting Services states that:

“5.06.1 Based on Section 2.07 of the October 1999 Guidelines for the Employment of Consultants under the JBIC ODA Loans, NIA is responsible for supervising the Consultant’s performance and ensuring that the consultants carry out the assignment in accordance with the contract.

5.06.2 NIA shall consult with the Implementing Structure (Project Steering Committee, Project Coordination Office and Project Implementation Units) and relevant executing agencies for the finalization of the indicators and their target figures, and submit them to the Bank immediately, but not later than one (1) month after commencement of consulting services.

5.06.3 NIA shall evaluate regularly (no less than on a quarterly basis) the Consultant’s activities based on the indicators. NIA shall propose measures for improving ‘approach methodology’ and ‘work plan’, and modify the indicators/target figures when necessitated.

5.06.4 After incorporating the comments from the relevant parties, NIA shall incorporate its evaluation results and other issues in a Quarterly progress report and submit the Report to the Bank on a quarterly basis, as stipulated in the loan agreement.”

18.6 Records showed the total payments for the consultancy services were as follows:

Table 25 – Total Payments for Consultancy Services

Component	PB No.	Period Covered	Amount
Local	L02/2002 to L126/2012	Aug 2002 to Dec 31, 2012	P169,359,284
Foreign	F02/2002 to F113/2011	July 2002 to Nov 30, 2011	Y541,934,750

18.7 Review of the payments made to SCI disclosed the following observations:

a. There were no documents attached to the payments showing the result of evaluation made by NIA on the consultant's activities as required by Section 5.06 of the Contract for Consulting Services. Moreover, the required quarterly progress report submitted to JBIC incorporating NIA's evaluation results with the comments from the relevant parties was not included as one of the supporting documents.

b. There was no document showing the outputs/deliverables submitted by the consultants and duly accepted by the Project Implementing Unit (PIU) concerned and forwarded to the Project Coordination Office (PCO) for review and approval.

c. Documents submitted as basis for payment pertained to certificates of attendance and daily record of activities, among others, which we considered as inadequate as there were no outputs/deliverables against which these could be validated:

c.1 Endorsement of the NIA-HCAAP Project Manager (PM) of the invoice of the consultancy service to the concerned official of NIA Central Office (Administrator for Project Development and Implementation 2007) for evaluation and appropriate action;

c.2 Certification by the NIA-HCAAP-PM that the services rendered by the Consultants as specified in the invoice for the period is in accordance with the terms and conditions of the contract and that no claim has been made with respect to services not rendered;

c.3 Certification of Accountability- certifying that the consultant does not have any accountability to any party such as individual, supplier or business firm of goods, and employer for services and no claims has ever been made against the consultant as of the said period issued by the Team Leader of the Consultant (Hitoshi Toku-57/2007);

c.4 Letter to the Administrator, NIA, Attention: Assistant Administrator (AA) for Project Development and Implementation (PDI), submitting the invoice together with the supporting documents of the Team Leader (TL) of Consultants requesting approval for payment and signed by the AA for PDI on the Approved for payment portion;

c.5 Claims for payment which include among others, information showing description of goods and services rendered, PB Payment No. xx and the amount signed by the TL Sanyu Consultants;

c.6 Certificate of Attendance issued by TL, certifying the the presence of the local consultants in the HCAAP for the period; and

c.7 Daily working record of each consultants showing their daily activities for the period prepared by the individual consultant, approved by the TL Sanyu and concurred by the HCAAP-NIA PM.

18.8 It was noted that reports and outputs that should have been made/prepared by the SCI were not readily available at NIA Central Office and the NIA HCAAP Irrigation Management Office because the related documents were not submitted to us despite our request.

18.9 Schedule 7 (Transfer Procedure) of the Loan Agreement states that each request for disbursement shall be accompanied by the following supporting documents evidencing each payment and its usage:

“ii. for payments for consultant’s services-the claim put in by the consultants indicating, in sufficient details, the services rendered, period covered, and amount payable to them.”

18.10 Due to the absence of vital documents such as the output/deliverables of the consultants and evaluation results of consultants’ performance, the propriety of the payments made to SCI cannot be ascertained.

18.11 **We recommended that Management:**

a. Comply with the aforecited rules and regulations and JBIC loan agreement and submit immediately the outputs and reports provided in the terms of reference of the Consulting Services Contract, otherwise all the payments will be suspended in audit;

b. Submit the Quarterly Progress Report as required by Section 5.06 of the Contract for Consulting Services and the Matrix, Annex 4.5 of the Implementation Manual; and

c. Devise policy guidelines on the acceptance of the consultancy services rendered to establish responsibility/accountability on its evaluation and recommendation for payment.

19. Major terms and conditions of the Contract for Consulting Services for Help for Catubig Agricultural Advancement Project (HCAAP) entered into between NIA and Sanyu Consultants, Inc. (SCI) differed from the terms actually implemented. Details follow:

Table 26 – Disparity in Terms and Conditions between the Contract for Consulting Services and Actual Implementation

	Per Contract	Per final billing Dec 2012	Variance
Estimated Man-months –Foreign Consultant	146	157.50	11.50
Estimated Man-months – Local Consultant	393	489.83	96.83
Estimated Man-months – Administrative Staff	546	1,142	596
Term of Agreement	A period of not more than 65 calendar month from start of work	127 months from June 2002 to Dec 31, 2012	62 months
Work Implementation Schedule	6 ½ year June 2002 to Dec 2008	10 ½ years May 2002 to December 31, 2012 (local) November 30, 2011 (foreign)	4 years extension
Contract Amount- Foreign Component	Y547,957,000	Y 541,934,750	Y6,022,250
Contract Amount-Local Component	P167,064,000	P169,359,284	P(2,295,284)
*Change of experts during the implementation of the consultancy services – Seven out of the 15 foreign consultants/experts were changed Eight out of the 19 local consultants/experts were changed			

19.1 Section 4 of the Loan Agreement for HCAAP between JBIC and the Government of the Philippines 4.1.e states that:

“Any **modification** or cancellation of a contract reviewed by the BANK shall require the prior written concurrence of the BANK thereto, provided, however, that any change which does not constitute important modification of the contract and shall not affect the contract price, shall not require such concurrence of the bank.”

19.2 Furthermore, the Contract of the Consulting Services states that:

“Section 2.03 – Estimated man-months – Notwithstanding any contrary provision herein, the parties hereto agree that Consultant shall perform the Services in accordance with the Work Schedule attached as Appendix B hereof and, for the performance of its obligations under this Agreement, it shall make available the required person-months of services in the Philippines as specified in the Assignment Schedule attached as Appendix C hereof, completing 146 person-months of services of foreign experts and 393 man-months of services by local experts. **Unless otherwise agreed upon by the parties hereto, in no event shall the Consultant render the Services hereunder in excess of the said man-months of services.**

Section 2.04 – Adjustments/Revisions in the Scope of Work – In the course of this Agreement, adjustments may become necessary in the

Work Schedule/Assignment Schedule of the Consultant as set forth in Appendix B and Appendix C hereof, in which case **the same may be made with prior written notice to and approved by NIA.**

x x x

Section 3.02 - **Except as NIA may otherwise agree**, the Staff shall consist of those indicated in Appendix C and no changes shall be made in the Staff.

x x x

Section 4.13 - Adjustments between items – The amounts shown for individual items and as a total in Appendix D are only estimated for the purpose of establishing the total cost of the services. During the course of the services, under runs or over runs on individual items may develop. In such adjustments/transfers between items can be made by the Consultant, **subject to prior approval of NIA**, and provided further, that such **adjustments be made within the ceiling amount of Contingencies** for both foreign currency portion and local currency portion set forth in Appendix D.”

19.3 As shown in the Table 26, major terms and conditions of the consulting services contract were not followed. Supporting documents for the revision made by Management such as the request of the consultant and the approval of NIA and JBIC (BANK) of the new terms of agreement, were not among the supporting documents of the disbursement vouchers for the loan withdrawals that were submitted to COA for audit.

19.4 It was observed that for the local component, there was an increase in remuneration of the consultants and administrative staff of P16.866 million which was not charged to contingencies.

19.5 Review of the itemized cost of the consulting services disclosed that the major changes resulted in the increase in cost of remuneration for local component and foreign component in the amount of P16.866 million and Y20.695 million, respectively, due to the increase in man-months of the Team Leader, Co Team Leader and the Administration Staff. Decrease in the cost of investigation of P12.969 million for local component even out the net increase in the total cost of consulting services to P2.295 million only. However, in terms of service delivery, the services of the Team Leaders and Administration Staff could not compensate the construction supervision services undelivered nor the investigation not conducted. The progress of the delivery of services using the conduct of the budgeted investigation could not be verified due to non-submission of the progress reports and outputs.

19.6 Final payment for the consulting services was made despite non-submission of the completion report. Furthermore, the payment was only supported with the Certificate of Completion issued by the Acting Project Manager (PM) HCAAP-NIA and no documents to support the acceptance of the service delivered from the concerned Project Implementing Unit (PIU) were submitted.

19.7 Section 4.01 of the Contract for Consulting Services states that: “Final Payment – Upon completion of the Service, consultant shall promptly render a final accounting of foreign and local currency costs under Sections 4.06 and 4.07. Final payment shall be made within thirty (30) days after a Certificate of Completion issued by the NIA shall have been submitted by the Consultant.”

19.8 The Certificate of Completion issued by the Acting PM HCAAP-NIA dated January 13, 2013 stated that the Consultants for the implementation of HCAAP has satisfactorily completed their contract. However, progress reports of the consultancy services and documents on the related evaluation made were not submitted to support the certification. NIA is only one of the HCAAP PIUs which is responsible for one component only, that is, the Irrigation and Drainage Component, while the contract covers services for the other project components being implemented by the DPWH, Department of Health (DOH), Municipal Government of Catubig and Las Navas.

19.9 In all instances, NIA should have closely monitored the progress of the consultants. Evaluation should be administered by the NIA to ensure that assignment is progressing satisfactorily and that payments claimed by the consultants are appropriate.

19.10 Moreover, completion report was not submitted which is not in consonance with the Contract’s Terms of Reference (Section 11 Submission of report) which states that:

“the Consultant shall prepare and submit the following reports to the PCO and PIU:

“(5) Completion report – To be submitted, upon **completion of all the services, giving all aspects related to the project management and the project works.**”

19.11 Review of the progress of the implementation of the Irrigation and Drainage Component of the HCAAP disclosed that the scope of work indicated in the Terms of Reference, specifically under Appendix C – Work Implementation and Assignment Schedule of the Consulting Services was not completely and satisfactorily accomplished.

19.12 Section 5.3 of the Technical proposal of the Consulting Services - Consultant’s Work Schedule- states, among others, the following:

“i. The project implementation period is about 6.5 years, which composes of (a) Detailed Design Stage – 1 year and 3 months, (b) Construction Supervision – 5 years and 3 months.

ii. The detailed design stage includes mainly, preparation of Implementation Manual, conduct of detailed design, preparation of tender documents.

iii. Before the actual design works, additional survey and investigation will be carried out during the first six months. Such survey and investigation shall include: topo-survey, geological survey for tunnel

and deep wells, hydrogeological investigation, Schistosomiasis investigation, and analysis socio-economy/agriculture.

iv. After the accomplishment of necessary survey/investigation above, consultants will set design criteria, prior to the commencement of actual design works. By using such criteria made, each Consultant assigned during this period shall execute design works under the instruction of Team Leader/Deputy Team Leader.

v. Design works will be made for: intake facilities, irrigation canals, drainage canal, roads (national, farm-to-market) including bridge, water supply, structures and demonstration farm.

vi. Preparation of the final outputs for the design stage – Toward the end of the Detailed Stage Design Stage, finalization of design works will be made together with cost estimation. In accordance with the design made, tender documents will be finalized.

vii. The consultant shall provide construction supervision services in the Construction of: a. Irrigation and Drainage – Demonstration farm, tunnel, diversion dams, main canals, laterals and sub-lateral irrigation canals, on-farm facilities, etc.“

19.13 Section 6.01 of the Contract for Consulting Services – Responsibilities of the Consultant states that:

“Generally, but without limiting Consultant’s responsibilities elsewhere stated under this Agreement, it shall:

a. Carry out the services with sound engineering theories and practices to ensure that the final works will provide the most economical and feasible development for the project x x x.

b. Perform the work in an efficient and diligent manner shall use its best efforts to keep reimbursable cost down to the possible minimum without impairing the quality of the services rendered.

c. Accept full responsibility for the consulting engineering services to be performed under this Agreement for which the consultant is liable to NIA.”

19.14 Based on the scope of work of the consulting services for the Irrigation and Drainage Component, we noted that some of the works were not satisfactorily completed as follows:

a. **Detailed Design Stage** – Delay in the construction work during the period July 1 to December 14, 2007 was due to latent physical conditions at the site differing materially from those indicated in the Contract.

a.1 As mentioned above, the consultants are responsible for the outputs that were used in the bidding of the Irrigation Drainage

Component, for which the Contract was awarded to Hanjin Heavy Industries and Construction Co., Ltd. (Contractor).

a.2 However, the implementation of this Contract resulted in various delay in the construction which led the Contractor to file claim for idle equipment and indirect cost for the period May 2007 to June 2008 with the Construction Industry Arbitration Commission (CIAC) on November 18, 2008. The Contractor claimed that it could not perform the work as planned due to erroneous horizontal alignments in the Good for Construction (GFC) drawings. The CIAC in its decision dated August 3, 2009 stated that:

“WHEREFORE, judgment is hereby rendered in favor of claimant and against Respondent in the amount of P28,970,203.23, broken down as follows:

-Idle Equipment and Indirect Cost from May 2007 to June 2008 – P28,970,203.23 , Attorney’s fee - 0 –”

a.3 The Court of Appeals, Manila, in its decision dated June 25, 2012 on the Petition for Review of the Final Award of the Arbitral Tribunal of the CIAC filed by NIA, affirmed the Final Award of the CIAC Arbitration Tribunal with MODIFICATION that the award of compensatory damages in favor of respondent Hanjin Heavy Industries and Construction Corporation is reduced to P4,033,380.91.

a.4 It clearly showed that the erroneous outputs delivered by the Consultants resulted in the delay in work and payment of damages due to idle equipment and indirect cost in the amount of P4.033 million. Section 6 of the Contract clearly states that the Consultant has the full responsibility for these outputs, but NIA has not filed claim against them.

b. **Implementation Stage** – Construction Supervision was not 100 per cent completed.

b.1 As mentioned above, the consultant’s services include supervision for the construction of the structure and facilities for all the irrigation and drainage component to be carried out for five years and three months. However, due to delay in construction which resulted in the deletion of some scope of work from the original contract which was later repackaged into six contracts, the construction was not finished as programmed. Hanjin continued work until December 31, 2011. As of December 31, 2012, four contracts were still on-going and the two contracts were not yet bid out. Hence, the services for the construction supervision were not 100 per cent delivered. The percentage of completion of the aforementioned contracts as of December 31, 2012 is shown below:

**Table 27 – Percentage of completion of On-going Contracts
as of December 31, 2012**

Item	Particulars	Percentage of Completion/Status
HCAAPD-C-1	Construction of Hagbay Diversion Dam and Appurtenant Structure Structures including Supply, delivery and Installation of Steel Gates	54.60 per cent
HCAAPD-C-2	Construction of the Remaining Works of Bulao Diversion Dam and Appurtenant Structures including Supply, Delivery and Installation	45.96 per cent
HCAAPD-C-3	Construction of Catubig Right Main Canal (CRMC) Laterals 1,3,5 and Drainage improvement	NTP-10/31/2012 No accomplishment reported
HCAAPD-C-4	Construction of Pinipisakan Bridge Flume and Canal lining of critical portion of CRMC	NTP-10/31/2012 No accomplishment reported
HCAAPD-C-5	Construction of Catubig Left Main Canal (CLMC) Sta.0+000 to Sta.12+400 Laterals 1,2,2x,3,3x,4 and Drainage improvement and Mobilization/Demobilization	No bidding yet
HCAAPD-C-6	Construction of CLMC Sta. 12+400 to Sta. 22+585 Laterals 5x6,7 and Hinaga Bridge Flume, Drainage Improvement Mobilization/ Demobilization	No bidding yet

b.2 Furthermore, construction supervision of farm facilities were not also 100 per cent completed since four contracts were still on-going as of December 31, 2012. Details follow:

**Table 28 – Status of Construction Supervision of Farm Facilities
as of December 31, 2012**

Item	Particulars	Percentage of Completion/Status
HCAAPD-LMC-C-1	Labor and materials and hauling for the construction of On Farm Facilities Pinipisakan Service area-TO S1,S3,S5 TO 1,2,3,4	90.00 per cent
HCAAPD-LMC-C-2	Construction of Catubig Irrigation Subsystem On Farm Facilities Haremasan area TO 11-15	89.90 per cent
HCAAPD-LMC-C-3	Construction of Catubig Irrigation Subsystem TO 5 to 10 Pinipisakan Service area	50.02 per cent
HCAAPD-LMC-C-4	Labor and materials and hauling for the construction of On Farm Facilities Pinipisakan Service area-TO S1,S3,S5 TO 1,2,3,4	54.78 per cent

19.15 Records pertaining to the turnover of records, documents and equipment as stipulated in Section 7.03 of the Contract of Consulting Services, were not submitted. As of December 31, 2012, NIA had purchased furniture and equipment in the total amount of P4.051 million.

19.16 Also, NIA and Sanyu Consultants, Inc. entered into an agreement relative to the rental of three units of brand new vehicle, i.e., Wagon 4WD, Pick up 4WD and Van in June 2003 wherein NIA will reimburse the Consultant's vehicle rental in the total amount of P11.100 million (P185,000 per month for 60 months). The rental includes fuel and oil, operation and maintenance cost, comprehensive insurance, LTO registration and driver's salary. In the event that service vehicles are still needed by the Consultant after the established maximum period of 60 months, vehicles could still be utilized without rental cost. However, cost of fuel and oil, operation and maintenance cost, comprehensive insurance, LTO registration and driver's salary shall be chargeable against the project. A deed of donation shall be executed by the Consultant.

19.17 **We recommended that Management submit:**

- a. **List of the outputs submitted by Sanyu Consultants, Inc.;**
- b. **Documents showing the approval of NIA and the BANK relative to the revisions on the terms and conditions of the Contract for the Consulting Services mentioned above;**
- c. **Evaluation made by NIA in coordination with the Project Steering Committee/Project Coordination Office (PSC/PCO), PIUs and other implementing bodies on the over-all services rendered by Sanyu Consultants, Inc. with reference to the scope of work stipulated in the Terms of Reference of the Consulting Services;**
- d. **Completion Report of all the components covered by the Consulting Services duly accepted by PCO/PSC;**
- e. **Documents to support the acceptance of the services rendered by the Consultants issued by the concerned PIUs and the PCO; and**
- f. **Inventory reports and turnover documents for the furniture, equipment and the three motor vehicles.**

19.18 **Likewise, we recommended that Management:**

- a. **File a claim against the Sanyu Consultants, Inc. relative to the CIAC decision on the payment of cost of idle equipment and indirect cost brought about by erroneous horizontal alignment in the amount of P4.033 million; and**
- b. **Require Sanyu Consultants, Inc. to complete the undelivered services without additional cost.**

19.19 Management commented that it had submitted the following reports and documents:

- a. Service Completion Report of the Consulting Services as of December 31, 2012;
- b. Monthly, Quarterly and Annual Progress Reports of Consulting Services;
- c. List of Equipment and furniture turned-over to NIA duly accepted by the NIA-HCAAP PMO Property Officer;
- d. Deed of Donation between Sanyu Consultants, Inc. to NIA covering three motor vehicles: Mitsubishi Wagon, Isuzu Pick-up and Nissan Van; and
- e. Copies of the approval of 15 revisions of Consulting Services Terms and conditions.

19.20 Management stated that reports of the PCO/PIU and NIA on the evaluation of the Consultant's outputs are for submission and that they have coordinated with the Consultants to submit immediately the lacking reports, drawings and plans.

19.21 Management further commented that there were 15 revisions/adjustments of the terms of the Contract for Consulting Services and only two had written concurrence from the Bank, the rest were approved by NIA only because there were no major modification. Copy of the approved revisions will be furnished to COA.

19.22 As a rejoinder, the Audit Team would like to emphasize that it is not only the outputs that were required but also the review/evaluation and acceptance of the Consultant's outputs by the PIUs and the PCO.

19.23 Also, documents showing Evaluation and Acceptance of the Completion Report by PCO or NIA, and Inventory List of all the outputs turned-over were not yet submitted. Management was also reminded that Notice of Suspension will be issued for the non-submission of complete documents supporting the payments to Sanyu Consultants, Inc.

19.24 Meanwhile, perusal of the copies of the request and approval of the 15 revisions disclosed the following observations:

- a. The revisions requested and approved pertained to the increase in man-months of the local and foreign experts resulting from the extended implementation of the HCAAP Project.
- b. All the 15 requests for revisions were approved by Head of NIA and no document was submitted relative to the two revisions that were forwarded to JBIC for approval.
- c. Justifications made for the requests only stated the excess reimbursable cost and the necessity to add man-months for local and foreign consultants brought about by the extended date of implementation of the project. There was no explanation on why the planned investigations, particularly the geological investigations were not conducted.

d. Details of the realignment of cost are as follows:

**Table 29 – Details of the Realignment of Consultancy Cost
(In million)**

Realignment to	Amount	Taken from	Amount
Remuneration and Allowance-			
Local Experts	P 13.975	Reimbursable Cost	P 13.890
Local Support	P 2.628	Contingency -Foreign	2.976
Contingency Local	P 0.264		
Remuneration and allowance–		Reimbursable Cost	Y 8.997
Foreign Experts	Y 9.764	Contingency	Y 0.767

e. No documents were submitted for the approval of change of experts

19.25 In view of the incomplete documents to support the payments, Notice of Suspension will be issued by the Audit Team.

20. The inability of NIA to exercise due prudence or diligence of a good father of a family in the partial take-over of the Contract of Works with Hanjin covered by Contract Number - HCAAPI-C-1, particularly the Construction of Hagbay and Bulao Sub-projects amounting to P245.179 million resulted in the increase in cost in the implementation of the sub-projects by P159.432 million and without attaining the reason of the partial take over which was to meet the targeted project completion date of August 25, 2010.

20.1 In NIA's effort to fast track the implementation of the project to meet the targeted project completion date of August 25, 2010, NIA partially took over the Hagbay and Bulao subprojects from the original contract awarded to Hanjin, and repackaged this to Contract Nos. HCAAPD-C-1 (Hagbay) and HCAAPD-C-2 (Bulao). The two contracts were acquired through public bidding and were awarded to J.D. Legaspi Construction and Brostan Construction and Development, respectively, at an aggregate contract price of P404.612 million. Compared to the original amount of these sub-projects in the Hanjin contract, the aggregate contract price is higher by P159.432 million. Moreover, the main reason of the takeover which was to complete the project on August 25, 2010 was not attained. To date, almost three years from the target completion date, Hagbay and Bulao Sub-projects remained uncompleted and have incurred considerable slippage/delay.

20.2 The proposal of the take-over was approved by the NIA Board of Directors based on the information, evaluation and recommendation presented by the NIA Engineering and Operations Department through the letter of the then Acting Deputy Administrator dated June 8, 2009, which contained the following information, summarized as follows:

a. Hanjin's accomplishment as of March 31, 2009 was only 13.85 per cent with contract time elapse of 60 per cent.

b. Hanjin was informed on the NIA's intent for Partial Take Over of the two sub-projects, namely, the Bulao and Hagbay areas considering that in these two areas, no physical accomplishment had been undertaken.

c. Hanjin failed to show or indicate any specific remedial measures to cope up with their delays in order to finish the work within the target expiry date.

Evaluation:

With the accomplishment per month by Hanjin, and their present logistics, NIA was convinced that the remaining works could not be finished within the scheduled expiry date of the contract.

Recommendation:

a. In line with NIA's commitment to the President of the Philippines to complete HCAAPI-C-1 project by August 25, 2010 to be able to irrigate some 4,550 hectares and significantly increase agricultural production income, NIA proposed to undertake Partial Take Over of Contract of Works so that Bulao and Hagbay sub projects may also be completed by August 25, 2010.

b. NIA invoked the provision of Article GC-22, NIA's Right to Take Over or Delete Part of the Contract Work, particularly, the Bulao and Hagbay areas.

c. Considering the remaining project contract time and the loan closing date of January 23, 2011, if the proposed Partial Take Over would be approved by the NIA Board of Directors, it was planned to implement these two projects thru domestic bidding. **The estimated time line to procure the said contracts was 86 calendar days.**

20.3 The NIA Board in its 860th regular meeting held on June 18, 2009 approved the proposed Partial Take Over of Contract of Works with Contract No. HCAAPI-C-1 (Bulao and Hagbay sub-projects) per Resolution No. 7592-09, Series of 2009. It was stated in the Resolution that due to the contractor's inability to finish the project on time because of the weather condition in the area during the construction, and the delay on the mobilization of the equipment, NIA was compelled to undertake partial take-over of the contract of works for Bulao and Hagbay sub-projects and to fulfill the commitment to the President to complete the project by August 25, 2010 to be able to significantly increase agricultural production in the area.

20.4 NIA did not take into consideration salient conditions that should have helped them to come up with a decision that is most advantageous to the government which their position requires as public officials entrusted with government funds. In all instances, they should exercise due diligence and prudence of a good father of a family.

20.5 NIA should have considered the following:

a. The remaining number of calendar days to attain the completion target date of HCAAPI-C-1 Project reckoned from its deliberation and approval of the partial take over by the NIA Board of Directors on June 18, 2009 to August 25, 2010 (433 calendar days) was inadequate to carry out the procurement and the implementation of civil works.

a.1 The undertaking of the unfinished contract work through domestic public bidding, as in the instant case, would surely entail considerable time for pre-bid activities (preparation of bid documents, etc), procurement of contract and mobilization of equipment. Based on the approved First Revised PERT/Network furnished to the Team, prevailing at the time when the proposed Partial Take Over of Contract Works was submitted to the NIA Board of Directors for approval and procurement time line of 86 calendar days estimated by the Engineering and Operations Department, the Team came up with the procurement and implementation period, computed as follows:

Table 30 – Computation of Procurement and Implementation Period

Description of Activity	Duration (Calendar-Day)	
	Hagbay Sub-Project	Bulao Sub-Project
Procurement Activities	86	86
Implementation Activities	624	575
Total Duration	710	661

a2. Hence, the data above, NIA could have concluded that it could not complete the work on August 25, 2010; the very reason why a partial take-over was considered and recommended for approval.

b. Considering that the original contract was awarded in 2006 with a cost of 13.91 per cent below the ABC, the possibility that the cost would increase is very apparent/high.

b1. NIA should have considered this factor, because the new contract cost would be much higher. Thus, the aggregate contract price of the new contracts that cover the portion of work taken over was **P159.432 million** higher compared to the original cost of P245.180 million, computed as follows:

Table 31 – Comparison of the Aggregate Contract price of the New Contracts to the Original Contract Price

Particulars	Amount
	(In million pesos)
Original Cost of Hagbay and Bulao Sub-Projects per HCAAPI-C-1 contract with Hanjin Heavy Industry and Construction Co.	245.180
Repackaged Hagbay Projects awarded to J.D. Legaspi on March 8, 2010 – HCAAPD-C-2	231.889
Repackaged Bulao Sub projects awarded to Brostan Construction Equipment	172.723
Total Cost of the Sub-Projects (new)	404.612
Difference between original cost and repackaged awarded cost	159.432

c. The cause of the delay was the late issuance of GFC (Good For Construction) to correct the erroneous horizontal realignment and not the delay in the mobilization of equipment by Hanjin.

c1. NIA Management reported to the Board of Directors that the delay was caused by Hanjin's late mobilization of the equipment and that the latter could not complete the project as targeted. The NIA Board of Directors was not informed of the erroneous horizontal realignment of the CRMC. CLMC, Hagbay Right Main Canal (HRMC), Hagbay Left Main Canal (HLMC), Bulao Main Right Canal (BRMC), and Bulao Left Main Canal (BLMC) totaling 35 kilometers and the HCAAP-PMO late issuance of GFC drawings on these, which caused the delay in the implementation of the HCAAPI-C-1 Project. Furthermore, the NIA Management did not mention during the meetings that there was a pending claim for idle equipment filed by Hanjin on November 18, 2008 with the Construction Industry Arbitration Commission (CIAC). CIAC Decision, promulgated on August 3, 2009, rendered in favor of Hanjin (as Claimant) and against NIA (as Respondent) ordering the latter to pay P28.970 million for Idle Equipment and Indirect Cost.

c2. Hanjin's delay in mobilization of equipment should not have been raised during the deliberation for the Partial Take Over or Delete Part of Contract Works since the Revised First Pert/CPM Network Diagram, prevailing at that time, indicated that the said activity was completed within the approved schedule.

c3. Moreover, as gleaned from the approved First Revised PERT/CPM Network with target completion date of August 25, 2010, the Mobilization of Equipment activity: a) for the first four batches falls within the critical path, had a duration of 183 calendar days, reckoned from March 22, 2007 (the start of HCAAPI-C-1 project) ending on September 20, 2007 and two batches for additional equipment that ended on September 15, 2008. **Thus, Hanjin's completion of Mobilization of Equipment on September 20, 2007 was still within the approved revised schedule.**

c4. The unworkable days due to bad weather condition should not had been considered as contributory to Hanjin's fault to complete the contract as targeted because these would similarly affect the new contractor that would implement the Hagbay and Bulao Sub- projects.

20.6 As of April 30, 2013 or after the lapse of two years, eight months and six calendars days after target completion of August 25, 2010 committed by NIA to the President of the Philippines, Hagbay and Bulao Sub-projects remained not completed with 44.53 per cent and 26.57 per cent slippages according to PMO-HCAAP Acting Project Manager. Hence, to date, the purpose of Hagbay and Bulao Sub-projects to irrigate the service area of 702 and 748 hectares, respectively, has not yet been realized.

20.7 From the foregoing discussion, NIA's Partial Take Over or Deletion of Part of Contract Works with Hanjin could not pass the test of prudence or the diligence of a good father of a family because the acts resulted in unnecessary use of government funds that could have been avoided and the delay in the completion of the project. The Head of the Agency and Public officials have the full responsibility of managing the utilization of government funds, as provided for in the provisions of PD No. 1445, viz:

“Section 2. Declaration of Policy. It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with laws and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency economy and effectiveness in the operations of the government. The responsibility to take care that such policy is faithfully adhered to, rest directly with the chief or head of the government agency concerned.”

“Section 4 x x x“Financial transactions and operations of any government agency shall be governed by the fundamental principles set forth hereunder, to wit: (4) Fiscal responsibility shall to the greatest extent, be shared by all those exercising authority over the financial affairs, transaction, and operations of the government agency.”

“Section 102. Primary and secondary responsibility -

- (1) The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency.
- (2) Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him without prejudice to the liability of either party to the government.”

20.8 We recommended that Management:

- a. Ensure compliance with the provisions of PD No. 1445 and exercise due diligence of a good father of the family in carrying out the duties and responsibilities of government officials entrusted with government funds and resources;**
- b. Consider revising the terms of the future infrastructure contract relative to the provision on the NIA’s Right to Take Over or Delete Part of Contract Work to effect the following:**
 - b.1 Applicable if the Contractor has fault in the delay of implementation of Contract Work;**
 - b.2 Implementation of Deleted Part of Contract Work shall not entail additional cost to NIA; and**
 - b.3 Deletion of the provision that states “NIA or its representative shall not be civilly liable for any act done by them in pursuance of these provisions;” and**
- c. Take appropriate action to file charges against all officials responsible in the evaluation, recommendation and approval of the Partial**

Take Over or Delete Part of Contract Works relative to Contract No. HCAAPI-C-1, if warranted.

20.9 Management submitted set of communications/letters containing the events, discussion, and exchange of views that transpired relative to the partial take over which guided them in their decision. Perusal of the documents disclosed that the Team already had copies of these documents and had considered the same in coming up with the audit findings/observations.

20.10 NIA gave the following comments:

“This Office conducted a careful deliberation of the problems in the Contract during the coordination meetings attended by the field personnel, Consultants, top management and engineering staffs and the analysis of the situation before it was elevated to the NIA Board of Directors for approval. The primary consideration is in terms of the cost benefit versus the objective of the project. Foremost, the objective of the project is for the agricultural and rural development designed to initiate sustainable agricultural and economic development in the Catubig Valley in the whole province of Northern Samar that would bring about the improvement in the quality of life of the farming communities in the benefited barangays in Catubig and Las Navas. Northern Samar is one of the poorest among the poorest Province in our country. Second consideration, the Hanjin is below 13.91 per cent of the Approved Budget. In terms of cost, NIA knew and determined already that repackaging these two sub systems will result to slight increase in cost compare to original estimate of the project. However, the big factor considering this decision is to realize the delivery of the objective of the project.

“For the recommendations, this Office is very much willing to make such amendment in our bidding documents and will consider all COA suggestions. For filing of appropriate charges against all officials and personnel responsible in the evaluation, recommendation and approval of the Partial Take over, this Office would like to inform the members of the Audit Team that NIA’s action regarding the decision is in good faith and as mentioned above, the social aspect is the primary consideration. Hence, we believe that it is unjust to file charges against those responsible personnel and officials.”

20.11 As a rejoinder, the Team agrees with Management comment that the primary factor to be considered was the attainment of the objective of the project. However, we could not reconcile their reasoning knowing that it will take **longer time** and additional cost; Management still decided to partially take over the project, which they knew very well would ultimately result to delay in the delivery of the expected services. Moreover, as could be gleaned on the comments received, Management did not take into consideration the cause of the delay in the prosecution of the Contract by Hanjin which was due to erroneous drawings and NIA’s late delivery of corrected plans and drawings.

20.12 We still believe that Management should have exercised due diligence and prudence, as well as have exhausted all means to help Hanjin complete the project considering the Contractor’s international track record which the same would not allow to

be tainted. In the end, if it could not still deliver satisfactorily, Management could have terminated the contract in accordance with the provisions embodied therein. Thus, we still maintain our recommendations.

21. The termination of Contract No. HCAAPI-C-1 is not in accordance with the terms and conditions of the Contract and was approved beyond its expiration date of December 31, 2010; hence, the termination has no legal basis. Moreover, due to termination of the contract, liquidated damages due to delay in the prosecution of the contract work were not imposed.

21.1 Three months after the approval of the partial take-over of the HCAAPI-C-1 by the Board of Directors on March 22, 2010 and the contract time extension revising the completion date to December 31, 2010, Hanjin, in coordination meeting held in NIA Field Office, Las Navas, Catarman, Samar, on June 29, 2010 informed the body that part of their plans for the contract was to complete the first 15 of the 21-kilometer Catubig Right Main Canal (CRMC) until December 31, 2010 and they will be submitting a variation order with revised contract quantities and costs **excluding the remaining works of Pinipisakan Bridge Flume, Catubig Left Main Canal (CLMC) including the Laterals and the CRMC Laterals.**

21.2 Validation of the termination of the Contract HCAAP-C-1 disclosed the following deficiencies:

a. Hanjin's termination of its Contract invoking its right per GC-23 - Contractor's Right to Terminate Contract Work, resulting from the occurrence of a Special Risk as provided under paragraph (d) of Article GC-8 Liability for Special Risks, both of the General Conditions, Volume I of the Contract was approved by NIA, without satisfying all the mandatory conditions provided under GC-23.

b. The overrun amounting to P187.961 million, equivalent to 18.90 per cent of the original contract amount, issued under the Second Revised Contract-Quantities and Costs, in line with the Termination of Contract violated the limit of cumulative amount of variation orders of 10 per cent of the original project cost as provided under GC-16 of the Contract.

c. The Second Revised Contract-Quantities and Costs covering the underrun and overrun amounting to P400.091 million and P187.961 million, respectively, was approved by the NIA Board of Directors after the revised expiration date of Contract No. HCAAPI-C-1 rendering this contract invalid.

d. NIA's approval of the termination of the contract in view of the legal opinion that this is most beneficial to NIA was defective because records available during that time show otherwise.

A. Conditions under GC-23 "Contractors Right to Terminate the Contract" were not met.

21.3 In a letter dated October 1, 2010, the Director/General Manager of Hanjin confirmed that they do not intend to proceed further the prosecution of the Contract

Work specifically the CLMC and its appurtenant structures and facilities, CRMC laterals and its appurtenant structures and facilities and other remaining works as indicated in the First (1st) Revised Contract Quantities and Costs approved by the NIA Board of Directors on March 22, 2010 and submitted the corresponding proposed second revised contract quantities and costs. Hanjin's decision was anchored on the Contractor's Right to Terminate Contract Work under GC-23 of the General Conditions of the Contract, resulting from the occurrence of a Special Risk as provided under paragraph (d) of the General Condition – 8 (Liability for Special Risks) and conveyed to NIA the three major issues, correlated to GC-8, which affected the prosecution of Contract Work.

21.4 Also, GC-23 Contractor's Right To Terminate Contract Work, General Conditions, Volume I of the Contract Documents states that:

"If the Contract Work shall be completely stopped for a continuous period of more than 90 calendar days through no act or fault of the Contractor or anyone employed by him or as a result of occurrence of Special Risks as provided in Article GC-8, LIABILITY OF SPECIAL RISKS, the Contractor shall, without prejudice to any other right or remedy, have the right to give NIA 15 calendar days written notice to the effect that the Contractor intends to terminate the contract if the Contract Work cannot be resumed by the Contractor.

If within 15 calendar days after receipt by NIA of such notice, the Contractor cannot resume Contract Work for reasons specified above, he (the Contractor) shall have the right to terminate the Contract and recover from NIA payment for any loss or damage to the Contract Work arising out of, or in connection with, or by consequence such termination as described in Article GC-24, Payment if Contract is Terminated." (Underlining supplied)

21.5 Perusal of the documents relative to the termination of the contract disclosed that four conditions of GC 23 were not satisfied; hence, the termination of the contract has no legal basis. The following are the results of the evaluation:

On the first condition. **There was no complete stoppage or suspension of Contract Work for more than 90 calendar days.** This fact was confirmed by the HCAAP Project Manager during the coordination meeting held at NIA Central Office on October 8, 2010, wherein Hanjin's intention to terminate the remaining works of Contract No. HCAAPI-C-1 was discussed. Likewise, Hanjin admitted in their letter dated October 1, 2010 to the then NIA Acting Administrator that there was no suspension of work for more than 90 calendar days as contemplated under GC-23.

On the second condition - Hanjin's assertion that the occurrence of the unstable weather condition unfavorable for the prosecution of the Contract Work is a Special Risk as provided in Article GC-8, is not acceptable. Bad weather condition is not among the special risk defined in GC 8.

“Special risks are:

- a. insofar as they directly affect the execution of the Works in the country where the Permanent Works are to be executed:
 - i. war and hostilities (whether war be declared or not), invasion, act of foreign enemies;
 - ii. rebellion, revolution, insurrection, or military or usurped power, or civil war;
 - iii. ionizing radiation, or contamination by radioactivity from any nuclear fuel, or from any nuclear waste from the combustion of nuclear fuel, radioactive toxic explosive or other hazardous properties of any explosive nuclear assembly or nuclear component thereof;
 - iv. pressure waves caused by aircraft or other aerial devices traveling at sonic or supersonic speeds;
 - v. riot, commotion or disorder, unless solely restricted to the employees of the Contractor or of its Subcontractors and arising from the conduct of the Works;
- b. loss or damage due to the use or occupation by NIA of any Section or part of the Permanent Works, except as may be provided for in the Contract;
- c. loss or damage to the extent that it is due to the design of the Works, other than any part of the design provided by the Contractor or for which the Contractor is responsible; and
- d. any operation of the forces of nature (insofar as it occurs on the Site) which an experienced contractor:
 - (i) could not have reasonably foreseen, or
 - (ii) could reasonably have foreseen, but against which he could not reasonably have taken appropriate measures to prevent loss or damage to physical property occurring.”

21.6 Hanjin claimed that “the 5.0 mm per day or below of rainfall measurement which is considered zero and not counted as rainy day under Table LC-03 Monthly Rainy Days more than 5.0 mm/day at Catubig (1996-2001) is totally not applicable in this project because the actual site condition show that a downpour of 30 minutes with measurement of below 5 mm would render the site unworkable. Thus, the assumptions in LC-03 to the effect that for embankment works, 20 mm rainfall depth/day or higher, the Contractor’s output will be affected; and for concreting works, 30 mm rainfall depth/day or higher, the Contractor cannot effectively undertake normal activities. These are all grounded on unrealistic premise in view of the actual conditions.”

21.7 These arguments were not accepted by the PMO and the Consultant; they pointed out that the Contractor should have endeavoured or provided plastic cover on the stockpiled embankment materials to prevent them from being wet during rainy period such that it can easily be used when the rain stop, as stipulated under Clause 1003 Compaction Equipment, Volume III of the Contract Documents. Hence, such assertion will not allow the termination of contract under GC-23 as there was fault on the part of Hanjin for not providing plastic covers.

On the third condition. There was no 15 calendar days written notice given by Hanjin to NIA to the effect that the Contractor intends to terminate the contract since there was no complete stoppage of Contract Work in the first place. The written notice was intended to give NIA the opportunity to take remedial measures so that the Contractor can resume the implementation of the Contract Work.

On the fourth condition. The same was likewise not satisfied as the Contract Work was not completely stopped and Hanjin **continued the implementation of the project.** The only reason stalling the progress of the implementation of Contract Work was the desire of Hanjin not to proceed with the prosecution of the Pinipisakan Bridge Flume, CLMC including the Laterals and the CRMC Laterals.

B. The overrun or increase of 18.90 per cent exceeded the limit of 10 per cent increase provided in GC 15 and GC 16 of the Contract

21.8 The overrun or increase in the quantity of works amounting to P187.961 million representing 18.90 per cent of the original contract amount of P994.392 million is not in accordance with GC 15 and GC 16 of the Contract which states that:

“GC – 15 Change in the Works

NIA may at any time, make any change, by written order, in the form, quality or quantity of the Works or any part thereof that in the opinion of NIA may be necessary or desirable and the Contractor shall be bound to such written order to do any of the following:

- a) increase or decrease the quantity of any work included in the Contract;
- b) omit any such work;
- c) change the character or quality of such work;
- d) change the levels, lines, position and dimension of any or any of the works; and
- e) execute additional work of any kind necessary for the completion of the project.

No such change shall in any way invalidate the Contract but the value (if any) of all such changes shall be taken into account in accordance with Article-16, VARIATION ORDERS.

All items of works with lump sum costs are not subject to variation in quantities and price adjustments due to change in schemes or as a result of NIA's review and approval; x x x"

"GC -16 Variation Orders

The Variation Order should be within the general scope of the project as bid and awarded. A variation order may either be in the form of a Change Order or Extra Work Order."

"No. 4 of Change Order/Extra Work Orders

Any cumulative Variation Order beyond ten percent (10%) shall be subject of another contract to be bid out if the works are separable from the original contract. In exceptional case where it is urgently necessary to complete the original scope of work, NIA may authorize a Variation Order beyond ten percent (10%) but not more than (20%) subject to the guidelines to be determined by the Government Procurement Policy Board (GPPB)." (Underlining supplied)

21.9 Due to the aforesaid violation, the Variation Order in the amount of P187.961 million included in the 2nd Revised Contract of HCAAPI-C-1 was invalid.

C. Approval of the Second Revised Contract quantity cost was beyond the expiration date of the 1st Revised Contract

21.10 Shown in the table is the history of HCAAPI-C-1 Revision.

Table 32 – History of HCAAP Revision

	Completion Date	Amount (In million pesos)
Original Contract	March 22, 2010 (1,095 cd) Time Extension 158 days Revised – August 25, 2010	994.392
2 nd Revised Contract Termination Approved: February 21, 2011 Scope: In addition to the deleted Bulao and Hagbay sub projects: Deletion of Pinipisakan Bridge Flume, Catubig Left Main Canal (CLMC) including the Laterals and the CRMC Laterals	December 31, 2010	537.950
2 nd Revised Quantities –Final Firmed up Approved – January 24, 2012	December 31, 2010	545.920

21.11 As shown in Table 32 it was only during the 1st special board meeting held on February 21, 2011, that the NIA Board of Directors, per Resolution No. 7671-11, Series of 2011, approved the proposed Second (2nd) Revised Contract Quantities and Costs for Contract No. HCAAPI-C-1 in the amount of P537.950 million.

D. Approval of the Contract termination was based on deficient evaluation and was disadvantageous to the government.

21.12 NIA approved the termination of the contract in view of the legal opinion that this was most beneficial to NIA because it would not shoulder the costs accompanying the loss or damages attendant to the occurrence of risk. However, this issue was not elaborated on the opinion, and was not presented in the evaluation. If there was really a probable damage that would be incurred, the Legal Department should have brought it up such that the pros and cons could have been carefully evaluated. Moreover, the grounds invoked by Hanjin for the termination per GC 23 as previously mentioned were not substantial.

21.13 Records relating to the additional cost and delay in the procurement activities of the previously deleted Contract Works brought about by the partial take-over were already available during the time of the decision, hence, Management should have taken this into consideration rather than the probable claim of damages.

21.14 The following are the available information on the procurement of the deleted portion of the contract as of October 2010:

**Table 33 – Information on the Deleted Portion of the Contract
(In million pesos)**

	Contract Amount Approved ABC*	Original Amount per HCAAPI-C-1	Increase in Cost	Completion Date
Hagbay Sub-Project	231.889			935 days January 22, 2013
Bulao Sub Project	173.607			No bidding yet
Total	405.496	245.180	160.316	

21.15 NIA should have projected that the termination would definitely incur additional cost and result in a longer period of time to implement/complete the project. NIA should have enforced Hanjin to implement the Pinipisakan Bridge Flume, CLMC including the Laterals and the CRMC Laterals amounting to P400.091 million under Contract No. HCAAPI-C-1. If Hanjin refused, NIA should file claims against the Performance Security in the amount of P749.759 million posted by the Contractor, pursuant to GC-35 of the Contract, to guarantee the contractor's faithful performance of the Contract.

21.16 Records as of December 31, 2012 disclosed that the termination of the contract resulted in the incurrence of additional cost and a longer period of time completion, as shown below:

Table 34 – Additional Cost Incurred Due to Repackaged/Deleted Scope of Work

Scope of work Deleted and Repackaged	New Contract No.	Contract Amount/ABC (In million pesos)	Date of Completion
Construction of Pinipisakan Siphonic Bridge Flume and Concrete Lining for Critical Portion of CRMC for the Help Diversion Dam, Irrigation and Drainage Canal, and Appurtenant Facilities/ Structures including Supply, Delivery and Installation of Steel Gates, Las Navas, Northern Samar	HCAAPD-C-3	49.527	650 calendar days August 11, 2014
Construction of CRMC's Laterals 1,3,4, and 5, Structure and Creek Improvement for the HCAAP, Las Navas, Northern Samar	HCAAPD-C-4	104.988	800 calendar days January 8, 2015
Construction of CLMC (Sta. 0+000 to Sta. 12+400), Laterals 1, 2, 2x, 3, 3x, 4 and Appurtenant Structures and Drainage Improvement	HCAAPD-C-5	422.261	No bidding yet
Construction of CLMC (Sta. 12+ 400 to Sta. 22+585), Laterals 5x, 6, 7, Hinaga Bridge Flume and Drainage Improvement	HCAAPD-C-6	213.506	No bidding yet
Total Cost of repackaged contract work		790.282	
Cost of deleted portion in the original contract		400.091	
Increase in cost due to repackaging		390.191	

21.17 In view of the aforementioned facts, the contract termination is deemed invalid; hence, any disbursements arising from this contract is considered to be irregular use of government funds that will be proper subject of disallowance.

21.18 In consideration of the invalid termination of the contract, liquidated damages estimated at P112.464 million, should have been imposed against Hanjin pursuant to GC-61 of the Contract for refusal to implement and satisfactorily complete within the specified time, plus extension thereof, the construction of the remaining works of Pinipisakan Bridge Flume, CLMC including the Laterals and the CRMC Laterals.

21.19 As a result of the Termination of Contract Work, Hanjin was: (i) relieved from its contract obligations to construct the remaining works of Pinipisakan Bridge Flume, CLMC including the Laterals and the CRMC Laterals; (ii) allowed to implement overrun valued at P189.142 million; and (iii) avoided the inevitable imposition of liquidated damages pursuant GC-61, Volume I of the Contract Documents.

21.20 However, in view of the Team's observation that Hanjin's Termination of Contract, as concurred by NIA is not valid and **for refusal of the Contractor to**

implement and satisfactorily complete within the specified time, plus extension thereof, the construction of the remaining works of Pinipisakan Bridge Flume, CLMC including the Laterals and the CRMC Laterals it is proper to impose liquidated damages against Hanjin in accordance with GC-61 of the Contract which states that:

“GC-61 Liquidated Damages

When the Contractor refuses or fails to satisfactorily complete the Contract Work within the time specified herein plus any extension thereof, authorized by NIA as provided under this Contract, and is hereby in default under this Contract, the Contractor shall pay the NIA for the liquidated damages, and not by way of penalty, an amount to be determined in accordance with the following formula for each calendar day of delay, until the work is completed and accepted or taken over by NIA.

$$\begin{aligned} \text{TLD} &= \text{VUUP} \times [(1 + \text{OCC})^n - 1] \times \text{K} \\ \text{VUUP} &= \text{TCP} - \text{VCUP} \end{aligned}$$

Where:

$$\begin{aligned} \text{TLD} &= \text{Total Liquidated Damages, in Pesos} \\ \text{VUUP} &= \text{Value of the Uncompleted and Usable Portion of the contract work, as of the expiry date of the Contract, in Pesos} \\ \text{TCP} &= \text{Total Contract Price, in Pesos} \\ \text{VCUP} &= \text{Value of the Completed and Usable Portion of the contract work, as of the expiry date of the Contract, in Pesos} \\ \text{OCC} &= \text{Prevailing Opportunity cost of Capital for government projects set by NEDA, which is currently pegged at 15\%} \\ n &= \text{total number of years that the contract work is delayed after the expiry} \\ \text{K} &= \text{adjustment factor to cover additional losses} \\ &= 1 + \text{C} + (\text{I} \times n) \end{aligned}$$

Where :

$$\begin{aligned} \text{C} &= \text{cost of construction supervision as a percentage, not exceeding 10\%} \\ i &= \text{annual inflation rate, as defined by NEDA} \end{aligned}$$

NIA will also impose additional liquidated damages on the Contractor provided that such is prescribed in the Instruction to Bidders.

x x x x

In no case however, shall the total sum of liquidated damages exceed fifteen percent (15%) of the total contract price, in which event the contract shall automatically be taken over by NIA or award the same to a qualified contractor through negotiation and the erring Contractor's Performance Security shall be forfeited. The amount of the forfeited Performance Security shall be aside from the amount of the liquidated damages that he Contractor shall pay NIA under the provision of this Clause." (Underlining supplied).

21.21 Using the formula provided in GC 61 of the contract for computing the liquidated damages, the amount arrived at is P150.190 million, while the maximum amount of Total Liquidated Damages (TLD) of 15 per cent is computed to be P112.464 million, hence the TLD to be imposed is the latter.

21.22 In view of the approval of the termination of Contract No. HCAAPI-C-1 of Hanjin with NIA without legal basis, we recommended that Management:

- a. Take appropriate action to collect Liquidated Damages amounting to P112.464 million from Hanjin; and
- b. File appropriate charges against all officials responsible in the evaluation, verification and approval of termination of the Contract, if warranted.

22. The paid overrun/increase of quantity for Item Nos. 104.b – Canal Excavation (Hard) and 106.b - Structure Excavation (Hard) in the amount of P168.774 million covered by the 2nd Revised Final Firmed-Up Contract was not supported with investigation and inspection conducted, explicitly concluding the necessity of the increase in quantity. Likewise, the work was implemented before the approval by the NIA Board of Directors of the Second Revised and Final Firmed-up Contract Quantities and Costs, in violation of GC-16.Cb of the Contract. Moreover, the time frame for processing of the Second Revised and Final Firmed-up Contract Quantities and Costs exceeded the time frame limit from the preparation up to approval by NIA of thirty (30) calendar days in violation of GC-16.A5e of the Contract.

22.1 Review of the Progress Billings of Hanjin Heavy Industries and Construction Co. disclosed that the overrun in the total amount of P168.774 million was paid under Progress Billing (PB) Nos. 24 to 26. Details of the overrun paid are shown in Tables 35, 36 and 37.

Table 35 – PB covering Payments of Overrun

No.	Billing Period	Actual Physical (%)	DV. No./ Withdrawal Application No	Check No./ Withdrawal Authorization No.	Date	Amount (In million pesos)
24	Oct. 1-Nov. 30, 2010	68.049	1103 0317	516405	04/06/2011	13.256
			NIA -214	NOD-048	3/29/2011	110.467
25	December. 1-25, 2010	96.158	1107 2237	516744	08/12/2011	1.319
			NIA -223	NOD-027	10/04/2011	10.990

No.	Billing Period	Actual Physical (%)	DV. No./ Withdrawal Application No	Check No./ Withdrawal Authorization No.	Date	Amount (In million pesos)
26	December 26-31, 2010	100.000	1206 4676 NIA -251	578072 NOD-018	07/30/2012 08/21/2012	5.704 47.530

Table 36 - Details of the Overrun Paid

Item No.	Description	Unit Cost In (Peso)	Original Quantity (cu.m.)	1st Revision Quantity (cu.m.)	2nd Revision Quantity cu.m.	Final Firmed-Up Quantity	2nd & Final Revision Overrun	Amount of Overrun (In million pesos)
B	EARTHWORKS							
B-104	Canal Excavation b. Hard	192.70	20,200	20,000	819,638	850,819	830,819	160.099
B-106	Structure Excavation b. Hard	288.08	2,557	2,557	32,670	32,670	30,113	8.675
GRAND TOTAL								168.774

Table 37 -Accomplishment for Covering the Overrun

Billing No.	Billing Period	Item No. 104.b Canal Excavation (Hard) Accomplishment (cu. m.)			Item No. 106.b Structure Excavation (Hard) Accomplishment (cu. m.)		
		Previous	This Period	To Date	Previous	This Period	To Date
24	Oct. 1-Nov. 30, 2010	20,000.00	789,896.53	809,896.53	2,557.00	17,732.32	20,289.32
25	December 1-25, 2010	809,896.53	0	809,896.53	20,289.32	12,284.61	32,573.93
26	December 26-31, 2010	809,896.53	40,922.18	850,818.71	32,573.93	96.16	32,670.09
Total Quantity			830,818.71			30,113.09	

22.2 As shown above, the bulk of the excavation was only done from October to November 2010, two months before the contract work completion date of December 31, 2010.

22.3 Hereunder is the tabulated signatories of PB Nos. 24 to 26 with respective participation of the signatories:

Table 38 – Signatories and their Participation of Payments of Overrun

Progress Billing Nos. 24 and 25		Final Progress Billing No. 26	
Name and Designation	Participation	Name and Designation	Participation
Office Engr./ Hanjin,	Prepare	Office Engr./ Hanjin	Prepare
Chief Office Engr. / Hanjin	Check	Chief Office Engr. / Hanjin	Check
Engineering Manager/ Hanjin	Review	Engineering Manager/ Hanjin	Review

Progress Billing Nos. 24 and 25		Final Progress Billing No. 26	
Name and Designation	Participation	Name and Designation	Participation
Project Manager / Hanjin	Submit	Project Manager / Hanjin	Submit
Chief, Construction Section/ NIA	Check	Chief, Construction Section/ NIA	Check
OIC, Operation Division / NIA	Check	OIC, Operation Division / NIA	Check
Team Leader / Consultants	Review	Team Leader, Consultants	Review
Project Manager / NIA	Submit	Project Manager, NIA	Submit
Manager, Engineering Department / NIA	Recommend Approval	Manager, Engineering Department / NIA	Recommend Approval
OIC, Office of the Deputy Administrator for Engineering and Operations, NIA	Approve	Acting Deputy Administrator, For Engineering and Operations, NIA	Approve

A. Payment of the Overrun was not in accordance with the Contract and not supported with investigations explicitly concluding the necessity of the variation order.

22.4 Validation of the basis for overrun disclosed that this was not in accordance with the General Condition (GC) of the Contract and not supported with inspection/investigation conducted, explicitly concluding the necessity of the increase in quantity.

22.5 GC-16 of the Contract states that:

“Variation Order may either be in the form of a Change Order or Extra Work Order which cover any increase/decrease in quantities, including the introduction of new work items that are not included in the original contract or reclassification of work items that are either due to change of plans, design or alignment to suit actual field conditions resulting in the disparity between the preconstruction plans used for the purpose of bidding and the as *staked plans* or construction drawings prepared after a joint survey by the Contractor and NIA after award of Contract.”

22.6 However, in the instant case, instead of Variation Orders, Revised/Final Firmed-Up Contract Quantities and Costs was issued by NIA.

22.7 Also, GC-16.A5a of the Contract provides that:

“If the Engineer believes that a Change Order or Extra Work should be issued, he shall prepare the proposed Order accompanied with the notices submitted by the Contractor, the plans therefore, his computations as to the quantities of the additional works involved per items indicating the specific stations where such work is needed, the date of his inspections and investigation thereon, and the logbook thereof, and a detailed estimate of unit cost of such items of work, together with his justification for the need of such Change Order or Extra Work and shall submit the same to the Assistant Administrator for Project Development and Implementation (PDI).” (Underlining supplied)

22.8 The HCAAP-PMO and the Project Consultants should have investigated the subject overrun involving reclassification of work item, from Item No. 104.a – Canal Excavation (Common) to Item No. 104.b – Canal Excavation (Hard) and from 106.a –

Structure Excavation (Common) to 106.b – Structure Excavation (Hard) and rendered an explicit conclusion on the necessity of the said overrun. However, based on the allied documents gathered by and provided by NIA to the Team, the former, particularly the HCAAP-PMO and/or the Project Consultants did not explicitly concluded or justified the necessity of the overrun for Item Nos. 104.b – Canal Excavation (Hard) and 106.b – Structure Excavation (Hard). The HCAAP-PMO and the Project Consultants are in appropriate position to conduct investigation and make explicit conclusion on the necessity of any variation in the contract

22.9 From the documents furnished to the Team by the Acting Project Manager of HCAAP-PMO, through a letter dated May 20, 2013, we summarized the discussions made and actions taken relative to the determination of the overrun, as follows:

Table 39 – Discussions/Actions relative to the Evaluation of the Overrun

Document Reference	Gist of the Discussion/Actions Taken
December 9, 2008 Letter Reply of Project Manager, Hanjin to HCAAP-PMO's letter dated December 4, 2008	<p>Hanjin, made a proposal to use Dressta TD-15 Crawler Dozer 190 Hp with Ripper in lieu of 180 Hp Dozer in determining common or hard excavation.</p> <p>Hanjin clarified that the basis/criteria to consider in determining whether the material is common or hard will be the Bid Documents specification, particularly Section IV-102.</p> <p>Hence, excavated materials that can be ripped to be loosened by a dozer having a maximum capacity of 190 Hp, including boulders of less than one (1) cu. m. in size/volume is considered <u>Common Excavation</u>. While excavation of any materials and boulders (whose volume is at least one (1) cubic meter) that cannot be ripped to be loosened by the 190 Hp Dozer is considered <u>Hard Excavation</u>.</p> <p>He emphasized that Hanjin is at disadvantage to use a high capacity for said determination, but they had no choice due to scarcity of 180 Hp Dozer in the market</p>
Memorandum from HCAAP PMO dated January 6, 2009	<p>Project Manager, HCAAP PMO forwarded to the Assistant Administrator (AA) for Project Development and Implementation (PDI), the proposal of Hanjin contained in the aforementioned letter dated December 9, 2008 for clarification.</p>
Memorandum from EMD, CO January 26, 2009	<p>The AA for PDI informed HCAAP-PMO that he has no objection to the proposal of Hanjin to use Dressta TD-15 Crawler Dozer 190 Hp with Ripper in lieu of 180 Hp Dozer for the determination of common or hard excavation.</p>
Letter from Hanjin dated October 21, 2009	<p>The Project Manager, Hanjin, informed the Project Manager, HCAAP-PMO that with results of test conducted on October 16, 2009 on site at CRMC Sta. 20+400 - time and output were the major considerations to get a conclusive</p>

Document Reference	Gist of the Discussion/Actions Taken
Memorandum from HCAAP PMO dated October 27, 2009	<p>and irrefutable technical analysis regarding classification of the excavated materials.</p> <p>Indubitably, Hanjin come to a conclusion that SILSTONE/MUDSTONE along and within the project area is classified as Hard Excavation</p> <p>Their request to consider said siltstone/mudstone materials along and within the project area as hard stone excavation, would finally be approved by NIA.</p> <p>The Project Manager, HCAAP PMO furnished the Team Leader, Consultant, copy of Hanjin's letter dated December 9, 2008, PMO-HCAAP letter dated January 6, 2009 to NIA Central Office and their reply dated January 26, 2009 and suggested that interpretation of test results should be based simply on the relevant provisions of the contract documents and agreements made between NIA and Hanjin on the use of 190 Hp instead of the unavailable 180 Hp crawler-type tractor to conduct the test.</p>
Letter of Sanyu Consultant Team Leader dated November 4, 2009 to HCAAP Project Manager	<p>The Consultant clarified that based on the test result conducted on October 16, 2009 which showed that:</p> <ul style="list-style-type: none"> • materials is <u>rippable</u> but not easily with average ripped length of 7.5 meters in 3 minutes using three digging point hydraulic ripper (Sta. 20+457 to 460 and Sta. 20+458 to 480); and • 10 meters in 3 minutes using one digging point hydraulic ripper (Sta. 20+423 to 431, Sta. 20+440 to 452 and Sta. 20+540 to 560)
	<p>In terms of Production Output Siltstone (hard excavation) – Volume is 7.62 cu m/hr (Sta. 20+452 to 472) Common Materials – 140.76 cu m/hr. (Sta. 20+472 to 560)</p>
	<p>Conclusion:</p> <ul style="list-style-type: none"> • there is a big difference between the volume of output of common and siltstone/mudstone materials; this information is relevant in making a fair and equitable decision since the derivation of unit cost for common and hard excavation in HHIC proposal, they estimated that the production output is 4,000 cu m/day – common, and 200 cu m /day for hard using 200 HP bulldozer with hydraulic ripper. • Since the cost of equipment comprise the majority of the cost in earthwork construction, it is necessary to

Document Reference	Gist of the Discussion/Actions Taken
	consider the production output in the determination whether the subject material is common or hard.

22.10 The documents presented above could not show that the HCAAP IMO, the Consultant, and NIA Engineering Department explicitly concluded the necessity of the overrun. Likewise, the actions taken by NIA were not sufficient to show results of Consultant's and NIA's investigation, any technical analysis conducted or computation to support the increase in volume of 830,000 cu meters and 30,000 cu meters hard materials for Canal and Structure Excavation, respectively. The Consultant in its evaluation of the result only concluded/opined that the production output be considered in the determination of common or hard excavation.

22.11 Moreover, the Geologist Report furnished to the Team did not adequately establish the necessity of the overrun for Item Nos. 104.b – Canal Excavation (Hard) and 106.b - Structure Excavation (Hard) because the Report:

- a. did not clearly declare that materials investigated fall under hard excavation; and
- b. the location of hard excavation particularly in terms of depth from ground surface differed with those indicated in Cross-Sectional Plans supporting the Second Revised Contract Quantities and Costs furnished to the Team.

22.12 Further, the Report On Geological Assessment of the Deep Cut Sections along the Main Canal alignment and Dampsite of HCAAP dated May 13, 2010 rendered by (i) Sr. Geologist A, Project Planning Division (PPD); (ii) Supervising Engineer A, Design Specification Division; and (iii) Principal Geologist A, PPD, states among others:

“Fieldwork was focused at the deep cut excavated section along the main canal of HCAAP located at Las Navas and San Isidro, Northern Samar, from May 4, 2010 to May 8, 2010 in order to assess the rippability of the underlying rock. The scope of work consists of rating the rock in terms of rippability as function of eight physical characteristics and properties. The interrelationships of relative rock hardness and compressive strength with excavation characteristics are likewise obtained from the methodology. In the classification and assessment, rock lithology, identification criteria for rock hardness, and existing discontinuities were also determined and measured.

x x x x

CONCLUSION AND RECOMMENDATIONS –

Hard Excavation - Considering the unfavorable topography along the main canal and Dam Section, hard excavation may be applied on the main canal excavation crossing the hills and very deep (>10 m) side slope and in the dam site. Underlining supplied)

22.13 As could be gleaned from the report it did not establish the location and the estimated volume of the hard excavation.

22.14 To support the audit observation, the Audit Team took sworn statements of NIA officials who rendered the said Geologist Report. All of them were asked the question, “In your conclusion/recommendation of the geological assessment on the rippability of the rock materials taken from HCAAP you prepared, how certain are you that the materials can be ripped by equipment/dozer of above 180 HP to 200 HP?” Tabulated hereunder are their replies:

Table 40 – Replies on the question “How certain are you that the materials can be ripped by equipment/dozer of above 180 HP to 200 HP?”

Position/Designation	Reply
Supervising Engineer	“As a member of the team, I relied on the Geologists that have expertise and more knowledge about the geological characteristics of materials being observed.”
Senior Geologist	“The rippability we conducted was based on geologic conditions/data and I personally have no available reference to directly convert these information or estimates into parameters exactly quantifiable by the equipment.”
Principal Geologist	<p>“a. I am certain that materials along the main canal <u>from the ground surface down to 10 meters depth can be easily ripped by equipment with less than 180 HP</u>. This certainty was based on the weathering and degree of cementation of the materials as observed during the field investigation.</p> <p>b. As stated in our report dated May 13, 2010, the compacted/slightly cemented siltstone were identified and characterized beneath 10 meters as exposed at deep cut sections. Said materials can be hardly ripped by <u>180 HP</u> to 270 HP dozer as shown in the Rippability Rating Chart of Weaver, 1975.”</p>

22.15 Based on the foregoing, only the Principal Geologist rendered a clear statement on the location of siltstone and common materials.

22.16 Taking into consideration the applicable Technical Specifications of the Contract and the clarification made by the **Principal Geologist** in his sworn statement, the subject materials could be classified as either common or hard excavation.

22.17 The location of hard excavation, particularly in terms of depth from the ground surface, as clarified by the Principal Geologist differed with those indicated in Cross-Sectional Plans prepared by the Consultant which were furnished to the Team.

Table 41 – Comparison of Location of Hard and Common Excavation

Type of Excavation	Principal Geologist's Sworn Statement	Cross-Sectional Plans
Common materials –easily ripped by 180 HP dozer	Along the main canal – from ground surface to 10 meters depth	
Compacted/slightly cemented siltstone hardly ripped by 180 HP to 270 HP dozer	Were identified beneath 10 meters	Station 0+000 to 15+040 (consisting of 342 stations) ground surface to 10 meters depth)

22.18 The Natural Grade Line and Hard Soil elevations and their corresponding differences for left, center line and right taken from the furnished Cross Sectional Plans were tabulated by the Audit Team to arrive at the location of each type of excavation.

22.19 The Team would like to emphasize that the Cross Sectional Plans mentioned above were furnished to the Team by the Deputy Administrator of NIA through a letter dated April 2, 2013. However, the said Cross Sectional Plans bear no approval from the authorized and concerned NIA officials.

22.20 In view of the foregoing discussion, the Team finds that the Geologist Report did not adequately establish the necessity of the overrun for Item Nos. 104.b – Canal Excavation (Hard) and 106.b - Structure Excavation (Hard).

22.21 In addition, considering the P168.774 million monetary amount involved, the Team posits that no less than the actual test should have been conducted to establish the necessity of subject overrun particularly the reclassification of work from common to hard excavation.

22.22 NIA incurred additional expenditures on the subject overrun amounting to P168.774 million in violation of GC-16.A5a, 16.A5e and 16.Cb of the Contract and the same is considered as irregular transaction that is disallowed in audit pursuant to Section 5.3.2, Chapter II of the 2009 Rules and Regulations in the Settlement of Accounts prescribed under COA Circular No. 2009-006 dated September 15, 2009. The lack of investigation report from NIA justifying the necessity of the subject overrun and the approval of the Second Revised and Final Firmed-Up Contract Quantities and Costs after the expiration of the Contract also serve as bases for the disallowance.

B. The actual number of days spent in processing the Second Revised and Final Firmed-up Contract Quantities and Costs exceeded the time frame limit prescribe in GC-16.A5e.

22.23 General Condition of the Contract 16.A5e states that:

“The time frame for processing of Variation Order from preparation up to the approval by the NIA shall not exceed thirty (30) calendar days.”

22.24 The time line of events for the approval of the Second Revised Contract Quantities and Costs issued in line with the Contractor's Termination of Contract Work, are as follows:

Table 42 - Time lines of Events on the Approval of Second Revised Contract Quantities and Costs

Events	Date
Request of the Project Manager, Hanjin, to HCAAP-PMO/NIA to conduct test to determine common or hard excavation	December 9, 2008
Hanjin request for Termination of Contract Work	October 5, 2010
NIA Board of Directors approval of Termination of Contract Work	December 13, 2010
Approval of the NIA Board of Directors of the Second Revised Contract Quantities and Costs	February 21, 2011

22.25 As shown in the Table 42, it took two years and two months for NIA from the date Hanjin made the request to conduct test to determine common or hard excavation, until the approval by the NIA Board of Directors of Second Revised Contract Quantities and Costs covering the subject overrun.

22.26 Also, the Final Firmed-Up Contract Quantities and Costs was submitted to the NIA Board of Directors on December 7, 2011 and was approved on January 24, 2012.

22.27 The actual time of processing the Second and Final Firmed-Up Contract Quantities and Costs from the preparation up to approval by the NIA exceeded the thirty (30) calendar days limit in violation of GC-16A5e of the Contract.

22.28 The approval of the Second Revised and Final Firmed-Up Contract Quantities and Cost after the revised contract expiry date of December 31, 2010, casts serious doubt on their validity.

22.29 We recommended that Management take appropriate action to collect the P168.774 paid by NIA to Hanjin under Progress Billing Nos. 24-25 and Final Progress Billing No. 26 covering the subject Overrun.

22.30 Likewise, we recommended the filing of appropriate charges against all officials responsible in the evaluation, verification and approval of the payments to Hanjin, if warranted.

23. NIA did not submit complete plans and drawings for Contract Nos. HCAAPD-C-1 and HCAAPD-C-2; hence, the validity of the contract work accomplishment billed and paid in the total amount of P59.868 million could not be verified. For contract works accomplishment with complete documents, results of validation disclosed that the amount billed and paid exceeded the actual accomplishments in the aggregate amount of P18.702 million.

23.1 Records showed that as of December 3, 2012, NIA paid a total of P116.195 million for the contract works covering the Bulao and Hagbay sub-projects, as follows:

Table 43 – Payments for Bulao and Hagbay Sub-projects

Contract No.		Progress Billing No./Period Covered	Accumulated % of Accomplishment	Contract Amount (In million pesos)	Amount Billed (In million pesos)
HCAAPD-C-1	Construction of Hagbay Diversion Dam, Irrigation and Drainage Canals and Appurtenant Facilities including the Supply, Delivery and Installation of Steel Gates	PB Nos. 1 to 3 July 2, 2010 to July 31, 2012	33.69	233.325	78.614
HCAAPD-C-2	Construction of Bulao Diversion Dam, Irrigation and Drainage Canals and Appurtenant Facilities including the Supply, Delivery and Installation of Steel Gate	PB No. 1 September 29, 2011 to July 31, 2012	21.76	172.723	37.581
TOTAL					116.195

23.2 Out of the paid contract work accomplishments reported in the progress billings, accomplishments for the following items of work in the total amount of P59.868 million could not be validated due to non- submission of the plans and drawings:

Table 44 – Work Accomplishments Not Validated

Contract No.	Plans and drawings not submitted	Work Item	Amount (In million pesos)
HCAAPD-C-1	Approved original and as stake plan/shop drawing for the Hagbay Dam, Hagbay Left and Right Main Canal showing the station limits and cross-sectional plans for every 20 meters; and	Item A- Diversion Dam 102 - Clearing and Grubbing 103 - Channel Excavation Common 104 - Structure Excavation, Common 105 - Structure Backfill	5.943

**Table 45 – Excess Payment and Reported Accomplishment
(In million pesos)**

Contract No.	Progress Billing No.	Amount of Accomplishment Billed and Paid	Actual Accomplishment per validation/inspection	Overstatement
HCAAPD-C-1	1 to 3	16.876	2.710	14.166
HCAAPD-C-2	1	7.162	2.626	4.536
TOTAL		24.038	5.336	18.702

23.5 Non-submission of complete documents to support payments of progress billings of infrastructure contract is not in accordance with COA issuances, namely: Memorandum No. 91-704 dated February 27, 1991; Circular No. 87-278 dated November 12, 1987; Memorandum No. 2005-027 dated February 28, 2005 and Circular 2009-001 dated February 12, 2009, all of which require for the submission of copy of government contracts, purchase order and their supporting documents to the COA for evaluation within five working days from the execution of the contract. Failure of the Management to comply will result to the suspension of the transactions covered by the said contracts.

23.6 **We recommended that Management:**

- a. **Ensure compliance with COA rules and regulations on the submission of documents supporting infrastructure contracts;**
- b. **Require the contractors to refund the excess payment amounting to P14.166 million and P4.536 million paid by NIA relative to HCAAPD-C-1 and HCAAPD-C-2, respectively;**
- c. **Take appropriate action by filing charges against persons found liable for misrepresentation by reporting incorrect accomplishments, reviewing, recommending approval for payment and approving payments; and**
- d. **Ensure that all progress billings are duly reviewed and evaluated such that only actual accomplishments are paid.**

23.7 Management gave the following comments:

- a. Payments were based on the duly certified Delivery Receipt and Accomplishment Reports submitted by the Project Management Office wherein trust and confidence remains. This Office posed to consider the declared delivery as the actual accomplishment.
- b. Upon verification from the PMO, it was gathered that stealing of various materials particularly reinforced steel bars in the Contractor's stock yard was rampant. Also, it was gathered that steel gates were sent back to the Supplier for modification as per instruction of PMO. While experiencing series of intermittent rains, typhoons and flooding, it was mutually agreed that the Contractor shall wait for NIA's advice when to deliver the said gates.

c. NIA is requesting ample time to further re-quantify the declared physical accomplishment before filing charges against the persons accountable. Management informed the HCAAP PMO to conduct further validation in the Contractor's stockyard of materials, if ever that the said findings proven correct, NIA will automatically deduct the corresponding amount of the excess quantity of materials paid in their succeeding billing.

23.8 As a rejoinder, the Team would like to emphasize that it is the responsibility of the Head of Agency to ensure the existence of effective control measures within the Organization to safeguard government funds from loss and misuse. As discussed in our observation, the incident could not be considered as an isolated case since several progress billings from different contractors were involved and the amount of the discrepancy is very material that is P18.702 million out of the total amount P56.327 million inspected or equivalent to 33.20 per cent. Hence, we believed that these misrepresentations were deliberate and should be properly investigated.

23.9 Furthermore, the allegation that the steel gates were being returned to the supplier for modification was unrealistic/improbable because the steel gates came from Quezon City. The Contractor will incur additional cost in shipping these gates back and forth from Samar to Quezon City rather than modifying them in the site. Also, J.D. Legaspi is an experienced Contractor with trusted supplier for this kind of steel works, hence, the probability of defective delivery is very remote. Moreover, the team during their inspection had already asked why the steel gates could not be found on site, but the HCAAP PMO did not offer any explanation.

23.10 We maintain our recommendations and further recommended that NIA consider revising the terms and conditions of the infrastructure contract such that delivery of supplies will not be a separate pay item, instead be included in the installed materials item, just like the DPWH is currently adopting.

24. NIA could not account for the construction materials left on site by Hanjin in view of the termination of Contract HCAAPI-C-1 valued at P34.676 million. Moreover, NIA did not deduct from the Progress Billings paid, the cost of construction materials, supplies and equipment withdrawn by other Contractors from these inventory valued at P3.289 million.

24.1 The Final Progress Billing No. 26 of the terminated contract HCAAPI-C-1 included delivery of materials but not installed in the total amount of P34.676 million. However, NIA could not submit the report of the actual inventory conducted for these materials left by Hanjin.

24.2 During the site visit, the COA Technical Audit Specialists observed that construction materials were being withdrawn by several Contractors and were used in prosecuting their contracts work covered by the HCAAP Project.

24.3 In reply to the request of the Team, the HCAAP Acting Project Manager furnished us with the Report of Withdrawals of Construction Materials withdrawn by the contractors implementing the HCAAPD-C-1 and HCAAPD-C-2 from the stock file kept at Las Navas and Catubig Field Offices, summarized as follows:

Table 46 – Construction Materials Withdrawn by Contractors

Contract No.	Inventory Withdrawn	Amount (In million pesos)
HCAAPD-C-1 Hagbay Sub-project	construction materials	1.706
	Laboratory supplies and apparatus	no amount available
HCAAPD-C-2 Bulao Sub-project	construction materials	1.583
	1 unit base radio	no amount available
	10 generator sets	no amount available

24.4 Review of the payments of the Progress Billings for HCAAPD-C-1 and HCAAPD-C-2 disclosed that the billed amounts were paid in full without deducting the cost of construction materials withdrawn in the amount of P3.289 million and the cost of laboratory supplies and apparatus, 10 generator sets and one unit of base radio in undetermined amount.

24.5 It was also observed that the said Report of Withdrawals was only made upon the request of the Audit Team. As a result, the HCAAP Project Management Office is still conducting a physical inventory of the stock file to establish the on hand balance of the construction materials and to fully account for the construction materials left by Hanjin.

24.6 We recommended that Management:

- a. Immediately collect from the concerned contractors the cost of construction materials withdrawn in the total amount of P3.289 million;**
- b. Determine the cost of the laboratory supplies and apparatus, one unit base radio, and 10 generator sets withdrawn from NIA and require the contractors concerned to pay the amount immediately;**
- c. Complete the inventory taking and fully account for the construction materials delivered by Hajjin for Contract No. HCAAPI-C-1 that were left on the site and furnish the COA the results of the inventory taking made; and**
- d. Deduct from future Progress Billing the cost of the materials withdrawn by the Contractor in addition to what was reported.**

24.7 Management commented that the construction materials, specifically the Reinforced Steel Bars, will be pulled out. Further, the Acting Manager, HCAAP PMO, clarified that there is an existing agreement between the contractor of HCAAP-C-2 and NIA stipulating that the equivalent amount of Reinforced Steel Bars withdrawn will be deducted in the final billing. The Acting HCAAP PMO committed to complete the inventory taking in all areas covered by the original contract of Hanjin to establish the balance and to fully

account for the utilization of the construction materials. The corresponding amount will be deducted from the future progress billings/receivables of the contractor's once NIA established the cost.

24.8 During the exit conference, NIA explained that they have conducted joint inventory with Hanjin which was used in the final progress billing. They will look into the computation made by the Audi Team to come up with the accounting of the construction materials left by Hanjin in the Catubig area.

SUMMARY OF TOTAL AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

As of December 31, 2012, audit suspensions, disallowances and charges amounted to P1,423.800 million, P110.334 million and P0.218 million, respectively, for all funds of NIA.

B. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 60 audit recommendations embodied in the previous years' Annual Audit Report (AAR), 12 were fully implemented, 30 were partially implemented and 18 were not implemented. The summary is shown below.

Observations and Recommendations	Actions Taken/Comments
<p>1. The existence, valuation and accuracy of the year-end balance of Property, Plant and Equipment (PPE) accounts stated at P80,491.922 million representing 91.64 per cent of total assets, were not established due to incomplete subsidiary ledgers, incomplete inventory taking, non-provision of depreciation and inclusion of unserviceable assets.</p>	<p>Previously reported/reiterated in the AAR for the past 14 years.</p>
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>a. Strictly comply with the above-cited law, rules and regulations;</p>	<p>Partially implemented</p>
<p>b. Maintain updated subsidiary ledgers, property ledger cards, stock cards and other subsidiary records; and reconcile accounting and property records periodically;</p>	<p>Partially implemented</p>
<p>c. Conduct complete physical inventory of all property and reconcile results with accounting records; regularly reconcile accounting and property records of the Field Offices with the Regional Office, or the Regional Offices with the Central Office, and record any adjustments in the books;</p>	<p>Partially implemented</p>
<p>d. Provide depreciation on all depreciable assets; and</p>	<p>Partially implemented</p>
<p>e. Take appropriate action to immediately dispose of unserviceable assets.</p>	<p>Implemented Reiterated in Part II.A, Observation and Recommendation No. 1 of the current report.</p>
<p>2. The accuracy of the year-end balance of Construction-in-Progress (CIP) account amounting to P61,562.705 million could not be ascertained due to non-</p>	<p>Previously reported/reiterated in the AAR for the past 14 years.</p>

Observations and Recommendations	Actions Taken/Comments
<p>maintenance of subsidiary records for CIP. Moreover, costs of completed projects were not transferred to proper Property and Equipment accounts.</p>	
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>a. Transfer the cost of completed projects to the proper asset accounts or Public Infrastructure-Government Equity account in compliance with government accounting rules and regulations, accounting standards and NIA Memorandum Circulars;</p>	Partially implemented
<p>b. Prepare/Maintain and regularly update subsidiary ledgers and project cost sheets for each project for monitoring the cost during the construction period;</p>	Partially implemented
<p>c. Exert extra efforts to compile turnover documents, inventory of project assets, project completion reports, as well as all other supporting documents pertaining to completed projects, like reports of the Engineering Department or of those who conducted the inventory of completed projects; and</p>	Partially implemented
<p>d. Allocate/Transfer the management fee and general engineering and administrative expenses entered in the CIP-Central Office account to the corresponding regional office's completed projects or CIP where they were recorded.</p>	Not implemented Reiterated in part II.A, Observation and Recommendation No. 1 of the current report.
<p>3. The accuracy and validity of the year-end balance of Cash-in-Bank accounts stated at P5,875.884 million were not established due to: a) unreconciled discrepancy of P124.524 million between book and bank balances; b) non-maintenance of subsidiary ledger for each bank account; c) existence of abnormal sub-account balances totaling P2.830 million; and d) non-translation of foreign currency bank accounts to the agency's reporting currency at BSP closing rate.</p>	Previously reported/reiterated in the AAR for the past 14 years.

Observations and Recommendations	Actions Taken/Comments
We reiterated our prior years' recommendations that Management:	
a. Strictly adhere to Section 74 of PD No. 1445 and prepare Monthly Bank Reconciliation Statements for all bank accounts promptly;	Partially Implemented
b. Coordinate with servicing depository banks for the timely release of bank statements and other supporting documents covering bank transactions;	Implemented
c. Maintain and update subsidiary ledgers, and reconcile the total of their balances with the balance of the controlling account;	Partially Implemented
d. Reconcile the variance noted in the results of bank confirmations, and immediately adjust the books;	Partially Implemented
e. Investigate and account for the foreign currency fund transferred to the Corporate Fund; and	Implemented
f. Adhere to PAS No. 21 - Paragraphs IN13 and 21 by translating bank accounts denominated in foreign currencies to the reporting currency using the BSP-prescribed closing rates as of balance sheet date; and exert extra efforts to secure the supporting documents for the long outstanding reconciling items; and analyze the account to reconcile the peso balance per GL with the equivalent peso value of the US\$ amount recorded in SL.	Implemented Reiterated in Part II.A, Observation and Recommendation No. 2 of the current report.
4. Balances of Cash-in-Bank accounts for completed foreign-assisted projects in the total amount of P12.019 million were transferred to NIA Corporate Operating Budget (Fund 501) Bank Accounts and were not returned to the Bureau of the Treasury, contrary to Section 37 of PD No. 1177, Section 4(3) of PD No. 1445 and Paragraph 6.7 of COA Circular No. 94-013.	Previously reported/reiterated in the 2010 AAR and 2011 AAR.
We reiterated our prior year's recommendation that Management	Partially Implemented

Observations and Recommendations	Actions Taken/Comments
<p>immediately refund the unexpended cash balance of the trust fund with the corresponding interest by returning the same to the Bureau of the Treasury.</p>	
<p>5. Funds from Cash-in-Bank – Modified Disbursement Scheme (MDS) in NIA Regional Offices were transferred to Cash-in-Bank Local Currency, Current Account of NIA Field Offices and Regional Office and to other funds, contrary to Section 74 of General Appropriation Act for FY 2011 (RA No. 10147), Section 3.6 of DBM Budget Circular No. 523, Section 3.1.3 of DBM Circular Letter No. 2008-11 and Section 3.1 of National Budget Circular No. 488.</p>	<p>Previously reported/reiterated in the 2010 AAR and 2011 AAR.</p>
<p>We reiterated our prior year's recommendation that Management strictly comply with the aforesaid laws, rules and regulations pertaining to the Modified Disbursement Scheme (MDS) and immediately return to the Bureau of the Treasury the unencumbered cash balance.</p>	<p>Not Implemented</p>
<p>We further recommended and Management agreed to carefully plan their Monthly Cash Program (MCP) in order to request fund release as needed and to minimize lapsing of the unutilized funds.</p>	<p>Not Implemented Reiterated in Part II.A, Observation and Recommendation No. 7 of the current report.</p>
<p>6. The accuracy and validity of Payables in the amount of P2,644.191 million were doubtful due to lack of necessary documents to support the claims and existence of abnormal balance of Inter-Agency Payable amounting to P1.577 million.</p>	<p>Previously reported/reiterated in the AAR for the past 14 years.</p>
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>a. Comply with laws, accounting rules and regulations applicable to liabilities and analyze the entries made in recording these payables in order to properly reverse undocumented Accounts Payable;</p>	<p>Implemented</p>

Observations and Recommendations	Actions Taken/Comments
b. Book up only those claims that are supported with proper documentation for them to be considered valid;	Not implemented
c. Prepare schedule of accounts payable and maintain subsidiary ledgers for each creditor to support the amount stated in the general ledger; and	Partially Implemented
d. Analyze and investigate periodically the balances of payables especially those with abnormal balances and accounts pertaining to completed projects and make appropriate adjustments as warranted.	Partially Implemented Reiterated in Part II.A, Observation and Recommendation Nos. 3 and 4 of the current report.
7. Cash advances totaling P14.678 million under accounts Cash Disbursing Officer and Due from Officers and Employees remained outstanding and unliquidated as of December 31, 2011, contrary to Section 89 of PD No. 1445, and COA Circular No. 97-002.	Previously reported/reiterated in the AAR for the past 14 years.
We reiterated our prior years' recommendation that Management strictly adhere to the provisions of Section 89 of PD No. 1445, and Sections 5.8 and 5.9 of COA Circular No. 97-002 by undertaking the following courses of action:	
a. Require the concerned officers and employees with unliquidated cash advances to immediately liquidate them, otherwise withhold their salaries as prescribed in COA Circular No. 97-002; and for those officers and employees who are no longer in the service, exert efforts to collect from them the unliquidated amounts;	Partially Implemented
b. Stop granting additional cash advances if the previous cash advance has not yet been liquidated;	Partially Implemented
c. Remind the officers and employees with unliquidated cash advances with the penal provision in Section 128, PD No. 1445, on violation of the limitations on cash advance cited in Section 89 of the same law and the administrative disciplinary	Implemented

Observations and Recommendations	Actions Taken/Comments
action prescribed in Section 127 of the same law; and	
d. Maintain subsidiary ledger for each grantee for purposes of monitoring of the granting and liquidation of cash advances and their proper accounting.	Implemented Reiterated in Part II.A, Observation and Recommendation No. 10 of the current report.
8. Advances granted to Local Government Units (LGUs) and National Government Agencies (NGAs) totaling P349.725 million for the restoration/rehabilitation/repair of irrigation systems and implementation of foreign-assisted projects which were released to LGUs and NGAs since 1999 remained unliquidated contrary to the Memorandum of Agreement executed between the contracting parties.	Previously reported/reiterated in the 2010 AAR and 2011 AAR.
We reiterated our previous years' recommendation that Management communicate with the concerned LGUs and NGAs and request immediate liquidation of their advances in strict compliance with the provisions of the MOA.	Implemented
We further recommended that Management:	
a. Strictly adhere to COA Circular No. 94-013 and ensure that releases of funds are in accordance therewith, and succeeding fund releases are made only if the previous fund transfers had been liquidated;	Implemented
b. Demand immediately the liquidation of the long outstanding funds transferred without any liquidation reports submitted and take appropriate action to impose NIA's rights provided in the MOA in case of breach in its execution; and	Partially Implemented
c. Improve the monitoring/ supervision control on fund transfers for the implementation of projects to include:	Partially Implemented
c.1 The responsibility of actual	Reiterated in Part II.A, Observation and Recommendation No. 9 of the current report

Observations and Recommendations	Actions Taken/Comments
<p>supervision and reporting by NIA personnel on the status of implementation of the projects; and</p> <p>c.2 The responsibility of securing the required documents for liquidation, and of coordinating and exerting joint efforts by and among the Provincial Irrigation Management Offices, the Systems Management Division, and the Finance Department relative to the completion of the documents necessary to take up liquidation/utilization of funds.</p>	
<p>9. The year-end balance of the Advances to Contractors account at the NIA Central Office of P876.427 million still included accounts with abnormal balance of P52.158 million and advances pertaining to contracts/projects that had been long completed in the negative amount of P8.864 million.</p>	<p>Previously reported/reiterated in the 2010 AAR and 2011 AAR.</p>
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>a. Strictly comply with RA No. 9184 and ensure that advance payments or mobilization fees are repaid by the contractor by deducting the same from its periodic progress payments;</p>	<p>Implemented</p>
<p>b. Analyze the balance to determine valid unrecouped advances from contractors with projects that were already completed and immediately demand payment; and</p>	<p>Partially Implemented</p>
<p>c. Adjust the books for any error discovered in recording.</p>	<p>Partially Implemented</p> <p>Reiterated in Part II.A, Observation and Recommendation No. 4 of the current report.</p>
<p>10. The General Fund's Statement of Cash Flows (SCF) for the year ended December 31, 2011 was not fairly presented as the additions to the Construction-in-Progress</p>	

Observations and Recommendations	Actions Taken/Comments
<p>(CIP) in this statement differed from those stated in the Balance Sheet, the variance amounting to P2,730.780 million.</p>	
<p>We reiterated our prior year's recommendations that Management:</p>	
<p>a. Adhere to PAS No. 7 for fairness of presentation of the Statement of Cash Flows;</p>	Implemented
<p>b. Submit computation/working papers to explain the deficiencies noted above; and</p>	Not Implemented
<p>c. Submit working papers showing the cash transactions involved that resulted in the net difference of each Trial Balance account.</p>	Not Implemented
<p>11. The accuracy and fair presentation of the Statement of Changes in Government Equity was doubtful due to the absence of complete accounting records to support the adjustments in PPE-Public Infrastructure in the amount of P5,090.944 million. Moreover, the presentation of the SCGE did not conform to Philippine Accounting Standard No. 1.</p>	Previously reported/reiterated in the 2010 AAR and 2011 AAR.
<p>We reiterated our prior year's recommendation that Management adhere to PAS No. 1 in the preparation of SCGE, by presenting the changes during the period for each item of the SCGE and submit documents supporting the adjustments of P5,090.944 million.</p>	<p>Not Implemented</p> <p>Reiterated in Part II.A, Observation and Recommendation No. 6 of the current report.</p>
<p>12. Management fee, as administration and engineering overhead charge was paid by the Fund to NIA based on the allotment released by the DBM for the implementation of locally-funded projects and not on the total cost of implemented and completed projects, contrary to existing law and government rules and regulations. Moreover, the management fee paid by the Fund in the amount of P480.296 million was P52.052 million</p>	Previously reported/reiterated in the 2009 to 2011 AARs.

Observations and Recommendations	Actions Taken/Comments
<p>higher than the prescribed rate of five per cent of the cost of projects undertaken.</p>	
<p>We reiterated our previous year's recommendations that Management:</p>	
<p>a. Adhere to the existing laws, rules and regulations and correctly claim the five per cent management fee after rendition of the required services, support the claim with project documents, and compute it based on total actual project cost as implemented/completed or on the percentage of accomplishment; and</p>	Not Implemented
<p>b. Remit to the Bureau of the Treasury the noted over-payment of management fee amounting to P52.052 million and P18.015 million for CYs 2011 and 2010, respectively.</p>	<p>Not Implemented</p> <p>Reiterated in Part II.A, Observation and Recommendation Nos. 11 and 13 of the current report but on the isolated project only, because the GAA for 2012 did not provide budget for payment of general engineering and administrative expense.</p>
<p>13. Expenses not related to the implementation of various locally funded irrigations projects in the amount of P48.498 million were charged to project funds and recorded as Construction-in-Progress (CIP), contrary to existing laws, rules and regulations.</p>	
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>a. Strictly comply with the existing laws, rules and regulations covering the use of trust funds and charge only project-related expenses against Fund 101; and</p>	Partially Implemented
<p>b. Immediately collect from the Corporate Fund the amount paid for the CNA incentives and the aforesaid expenses, and return the same to the Bureau of the Treasury.</p>	<p>Not Implemented</p> <p>Reiterated in Part II.A, Observation and Recommendation Nos. 11 and 13 of the current report.</p>

Observations and Recommendations	Actions Taken/Comments
<p>14. The cost of the consultancy services procured by NIA in CY 2011 in the total contract price of P60.237 million from NIA Consult, Inc. through Agency-to-Agency Agreement was not in accordance with the rates for computing consultancy cost prescribed by the GPPB's Manual of Procedures for the Procurement of Consulting Services, resulting in higher contract cost by P7.024 million.</p>	<p>Previously reported/reiterated in the 2010 AAR and 2011 AAR.</p>
<p>We reiterated our prior years' recommendations that Management:</p>	
<p>a. Comply strictly with the GPPB's Manual of Procedures for the Procurement of Consulting Services in computing the cost of consultancy service for approval (Approved Budget for Contract); and</p>	<p>Not Implemented</p>
<p>b. Submit supporting documents for the payment of remuneration to NIA officers, justification and supporting documents for the vehicle rental and purchase of equipment.</p>	<p>Not Implemented</p>
<p>We further recommended that Management review before paying the reimbursable expenses being billed by NIA CONSULT, Inc. to determine whether these are valid and in accordance with the Government Procurement Manual.</p>	<p>Not Implemented Reiterated in Part II.A, Observation and Recommendation No. 12 of the current report.</p>
<p>15. No copies of contracts/purchase orders were submitted to the COA Auditor within five days after its perfection and the COA Auditor was not notified of the deliveries of procured items within 24 hours from the date of acceptance, contrary to COA Circular No. 2009-001.</p>	<p>Previously reported/reiterated in the 2009 to 2011 AARs</p>
<p>We reiterated our previous years' recommendation that Management comply with COA Circular No. 2009-001, inviting attention to the administrative disciplinary action prescribed in Section 127 of PD No. 1445, in case of non-compliance with any requirement imposed by the Commission on Audit as authorized by this Code.</p>	<p>Partially Implemented</p>

Observations and Recommendations	Actions Taken/Comments
<p>16. In four NIA Regional Offices, alternative modes of procurement were resorted to in most of the agency's purchases totaling P12.589 million despite non-existence/occurrence of the conditions set by RA No. 9184 and its Revised IRR, thus rendering the procurements irregular.</p>	<p>Previously reported/reiterated in the 2009 to 2011 AARs</p>
<p>We reiterated our previous years' recommendation that Management strictly adhere to RA No. 9184 and subject all procurements into public bidding.</p>	<p>Partially Implemented.</p>
<p>17. Unreasonable delays in the implementation of Irrigation Projects resulted in increasing accumulation of unutilized project funds deposited in banks totaling P5,181.110 million, non-optimization of the use of government funds and delay in the delivery of services to the farmers.</p>	
<p>We recommended that Management:</p>	
<p>a. Monitor the project implementation and ensure that the project is on schedule and, if necessary, issue a suspension once the slippage is more than negative 15 per cent;</p>	<p>Partially Implemented</p>
<p>b. Ensure the strict observance of the contract period stipulated in the contracts and Notice to Proceed;</p>	<p>Partially Implemented</p>
<p>c. Take over the implementation of the long overdue projects in accordance with the provisions of the contract and with RA No. 9184;</p>	<p>Not Implemented</p>
<p>d. Optimize the utilization of the funds received for the implementation of the project thru timely undertaking of the whole procurement process from preparation of ABC to awarding of contract;</p>	<p>Not Implemented</p>
<p>e. Carefully prepare the Cash Program such that the funds requested and received were used as programmed;</p>	<p>Not Implemented</p>
<p>f. Strictly adhere to the provisions of</p>	<p>Not Implemented</p>

Observations and Recommendations	Actions Taken/Comments
<p>RA No. 9184 and its IRR and those of the contract in the evaluation and granting of contract time extensions and submit complete documents to support the extension granted in the implementation of Sta. Josefa Project by the NIA Central Office and Irrigation Projects in Region 5;</p> <p>g. Validate reports made by the contractor and PMO against independent reports to ensure that evaluation of the granting of extension is based on claims that are true and correct; and</p> <p>h. Take remedial action and seek assistance from the LGUs in resolving the problem of right of way and unworkable submerged areas in Maridagao RIS.</p>	<p>Partially Implemented</p> <p>Partially Implemented</p> <p>Audit Observations for the same issues but different projects were individually reported in Audit Observation and Recommendation No. 8 of the current report</p>
<p>18. Transfer Certificates or Torrens Title in the name of NIA for the acquisition of Land-Right of Way in NIA-Malitubog Maridagao Irrigation Project Stage I valued at P19.497 million were not secured by NIA MMIP Management Office in violation to Section 30 (2) of PD No. 1445.</p> <p>We reiterated our prior years' recommendation that Management give priority in working out for the acquisition of Torrens Title of the land purchased in order to secure the ownership over it and the protection from any possible legal impediments arising therefrom.</p>	<p>Partially Implemented</p>
<p>19. Contract cost of the infrastructure projects implemented by NIA-CAR in Abra and Benguet in the amount of P17.578 million exceeded the reasonable price prescribed in COA Resolution No. 91-52 by P3.208 million.</p> <p>We recommended that Management take necessary actions for the immediate settlement/correction of the deficiencies noted in the contract cost.</p>	<p>Implemented.</p>

Observations and Recommendations	Actions Taken/Comments
<p>20. Deficiency was noted on the reported cost of works and materials inventory in the suspended project “Libmanan-Cabusao Diversion Dam and Appurtenant Structure” Contract No. R5-LCDPN-C1 in the amount of P65.380 million. Inventory with an estimated amount of P47.227 million could not be accounted for and inventory items on site were exposed to elements resulting to its deterioration. Moreover, Management had not acted on the return of the remaining/unexpended balance of the 15 per cent mobilization fee of P105.116 million paid in 2009.</p>	<p>Previously reported/reiterated in the 2010 AAR and 2011 AAR.</p>
<p>We reiterated our previous years’ recommendations that Management:</p>	
<p>a. Conduct physical inventory of the supplies and materials to be witnessed by COA representatives to determine the actual existence and present condition of the inventory reported;</p>	<p>Partially Implemented</p>
<p>b. Submit duly prepared and signed reports to COA for validation of the actual accomplishment and supplies inventory such as:</p>	<p>Not Implemented</p>
<p>b.1 Documents enumerated in Section 3.1.2. of COA Circular No. 2009-001;</p>	
<p>b.2 Physical Accomplishment as of December 31, 2009 duly signed, reviewed and approved; and</p>	
<p>b.3 Revised computation of unexpended portion of advances to contractors taking into considerations the aforementioned double take up, the unworked reported accomplishments, the possible liquidation damages for the delay in the installation of steel sheets and steel gates assembly.</p>	
<p>We further recommended that Management:</p>	
<p>a. Investigate why the reinforcing</p>	<p>Partially Implemented</p>

Observations and Recommendations	Actions Taken/Comments
<p>steel bars were still accepted after the contract was already suspended and submit corresponding report of the investigation; and</p>	
<p>b. Take appropriate action to prevent further corrosion of the steel pipes and steel bars on the site.</p>	<p>Partially Implemented</p> <p>Reiterated in Part II.A, Observation and Recommendation No. 14 of the current report.</p>
<p>21. NIA Regional Office No. I paid the cost of 1,042 pieces of HDPE pipes of P9.733 million in 2009 of which 760 pieces costing P7.250 million were not delivered and the 282 pieces delivered remained unutilized, junked and deteriorating, resulting in loss of government money.</p>	
<p>We recommended that Management:</p>	
<p>a. Conduct immediate investigation to identify persons responsible for the misuse of fund and take appropriate action to file case, if warranted; and</p>	<p>Appeal was filed in COA Regional Office No. I for the Notice of Disallowance issued.</p>
<p>b. Take immediate and appropriate action for the proper disposition of the junked pipes to minimize loss of government funds.</p>	