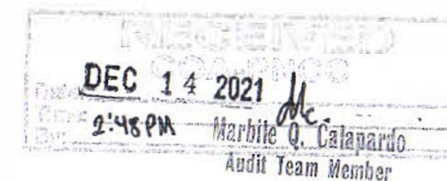


PHILIPPINE NATIONAL CONSTRUCTION CORPORATION
AGENCY ACTION PLAN and
STATUS of IMPLEMENTATION
Audit Observations and Recommendations
For the Calendar Year 2020
As of December 15, 2021



Ref. No.	Observation	Recommendation	AGENCY ACTION PLAN				Status of Implementation	Reason for Partial/ Delay/Non-Implementation, If applicable	Action Taken/ Action to be Taken
			Action Plan/Remarks	Person/Dept. Responsible	Target Implementation Date				
					From	To			
1	The financial statements of PNCC remained materially misstated due to the continued recording of the unconverted debts as equity, instead of liability, in the total amount of P5.552 billion.	Recognize as liability, instead of equity, in the books of accounts of PNCC the unconverted debts of P5.552 billion, together with the interests and other charges thereof amounting to P63.255 billion as of December 31, 2020. Further, follow-up the status of the pending appeal with the OP.	Management maintains its long time position that the account/amount shall be treated as equity and not as liability (inclusive of interest and penalty charges). PNCC started to carry this account in 1987, the second year of COA's examination of PNCC's financial transactions. PAS 32, Financial Instruments: Presentation defines(1) financial liability as any liability that is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial	Office of the President of the Republic of the Philippines, Legal and Controllership.	-	-	Not Implemented	Management maintains its position that the account shall be treated as equity. Pending decision of the Office of the President of the Republic of the Philippines.	PNCC will continue to treat the account as equity in the books as the Company awaits the decision of the office of the President of the Republic of the Philippines. To do otherwise would be tantamount to pre-empting the authority of the President.

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			<p>liabilities with another entity under conditions that are potentially unfavorable to the entity and (2) equity instrument as any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.</p> <p>By virtue of LOI 1295, PNCC is of the position that the account/amount meets the definition of an equity instrument and not a financial liability.</p> <p>In addition, Management reiterates its responses to COA AOM No. 17-004 (2016) dated March 13, 2017 and COA AOM No.16-01 (2015) dated January 20, 2016, which present exhaustively all the points raised by PNCC supporting its position that the</p>						

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			unconverted debts should be treated as equity. Hence, to this date even as the case (OP-Case No. 15-G-186) awaits the decision of the Office of the President of the Republic of the Philippines, which if adverse will be elevated to the Supreme Court, PNCC will continue to treat the account as equity in its books.						
2	The accuracy of PNCC's 10 per cent revenue share amounting to P112.322 million and P160.216 million for Calendar Years (CYs) 2019 and 2020, respectively, remitted by the Joint Venture (JV) Companies operating the SLEX, NLEX and Skyway, cannot be ascertained due to the absence of verifiable data/information as basis in the computation	Continue its efforts to make representation with the JV Companies to obtain pertinent documents used as the basis for the computation of 10 per cent revenue share of PNCC and validate the same and furnish the Audit Team with the said documents including the results of validation.	Representation with the JV companies is on-going. They have provided initial documents to show basis for the computation of the 10 percent revenue share of PNCC.	Controllershship/ Legal/ Treasury/	Dec. 2021	Jun. 2022	On-going		Review/evaluation of the documents submitted by the JV companies is on-going.

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	of such share.								
3	Variances between the balance per books and confirmed balances of P113.270 million; non-provision of allowance for impairment losses of P14.310 million; and negative balances of P0.822 million, render the validity and reliability of the Receivable account aggregating P128.402 million doubtful.	<p>a) Analyze and reconcile the variances and negative balances and provide allowance for impairment loss for long outstanding receivables;</p> <p>b) Send demand letters to debtors which are still existing and operational; and</p> <p>c) Effect the necessary adjusting journal entries in the books, if warranted, so that</p>	<p>Request for the breakdown of the confirmed balances by the Joint Venture company needed for reference in the analysis of variances/ preparation of reconciliation of account were already requested thru e-mail.</p> <p>Will follow COA recommendation.</p> <p>Further, analysis is being made on accounts with negative balances and accounts to be provided with allowance for impairment loss.</p> <p>Will follow the recommendation of COA.</p> <p>Necessary adjusting journal entries will be effected accordingly.</p>	Controllershship/ Legal	Dec. 2021	Mar. 2022	On-going	Obtaining the rest of the remaining copies of the disbursement voucher from NLRC to support the dropping in the books of PNCC of the receivables pertaining to the bonds which were already released by NLRC was hampered by the on-set of the pandemic.	<p>Sent another follow-up e-mail to concerned JV companies to request for more detailed information of the account transactions as the earlier received data/information were insufficient.</p> <p>Review of the documents already obtained is on-going.</p>
					Dec. 2021	Mar. 2022	On-going		
					Dec. 2021	Mar. 2022	On-going		

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		reliable information is presented in the financial statements.							
4	<p>The accuracy, existence and reliability of Property and Equipment (PE) accounts with carrying amount of P46.005 million as of December 31, 2020 is doubtful due to:</p> <p>Non-submission of complete and reliable Report on Physical Count of Property, Plant and Equipment (RPCPPE) and absence of reconciliation report on the balance per physical count and balance per books. Semi-expendable properties costing P13.863 million with carrying amount of P0.586 million form part of the PE account.</p>	<p>a) Instruct the GSD to submit a complete RPCPPE with acquisition cost per unit of PE and reconcile PE balances per count and per books; and</p> <p>b) Instruct the Controllorship Department to reclassify the semi-expendable properties to its appropriate account and observe the minimum capitalization threshold of P15,000 in recognizing/recording tangible assets pursuant to COA Circular No. 2016-006 dated December 29, 2016.</p>	<p>The copy of the report of GSD was already submitted to the COA last June 2, 2021.</p> <p>The minimum capitalization threshold of P15,000 in recognizing/recording tangible assets is already being observed and in effect.</p>	<p>General Services/ MIS/ MMD-TFAD/ Controllorship</p>	<p>Dec. 2021</p> <p>Dec. 2021</p>	<p>Mar. 2022</p> <p>Mar. 2022</p>	<p>Partially implemented</p> <p>Partially Implemented</p>		<p>The reconciliation of balances per count and per books is on-going.</p> <p>Reclassification of the semi-expendable properties is on-going.</p>
5	Fourteen (14) service vehicles costing P10.082 million, with aggregate carrying	a) Conduct verification from the Toll Regulatory Board on the existence of the	Representation with the TRB was already made. Out of the four (4) service vehicles	General Services/ Legal/ MMD/ Controllorship	Dec. 2021	Jun. 2022	On-going		

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	amount of P54,158 are still recorded in the books despite the Corporation's lack of control and inability to provide proof of ownership casting doubt on the legal ownership and existence of the vehicles and accuracy of the balance of Utility Vehicles account.	assigned vehicles and discuss with the Management of that Office to jointly resolve the issue on the lack of documents for the transfer of vehicles by executing Invoice-Receipt for Property (IRP) and eventually drop the subject vehicles from PNCC's books;	previously unaccounted, only one (1) still remained unlocated and being traced.						
		b) Locate the Certificates of Registration of the recorded service vehicles;	Best effort by the concerned departments to locate the COR will be made.		Dec. 2021	Jun. 2022	On-going		
		c) Obtain documents pertinent to the disposed service vehicles as basis for dropping from the books and make the necessary adjusting journal entries;	Effort to obtain pertinent documents by the concerned departments is on-going.		Dec. 2021	Jun 2022	On-going		
		d) Initiate action to recover the service vehicle under the custody of the former Chairman of the Board of Directors. If	Efforts to recover the service vehicle were already made but to no avail. Follow-up action will be made by the concerned		Dec. 2021	Jun. 2022	On-going		

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		necessary, institute legal action against him.	department						
		e) Reduce the carrying amounts of the remaining four service vehicles to P1 for accountability purposes and to present fairly the value of utility vehicles account while not yet dropped from the books; and	Adjustment will be effected accordingly. Also, see remarks/comments on Item 4.a		Dec. 2021	Jun. 2022	On-going		
		f) Reconcile regularly the balance of service vehicles in the books with the physical inventory report and its supporting documents.	See remarks/comments on Item 4.a		Dec. 2021	Jun. 2022	On-going		
6	The accuracy and reliability of the Inventories account with an aggregate cost of P6.769 million as of December 31, 2020 is doubtful due to: Unreconciled variance amounting to P286,217 between the recorded	a) Instruct the GSD, MMD and Controllership to reconcile the variance of the Inventories account; b) Require the Controllership and GSD to maintain supply ledger cards	Reconciliation of variance of the Inventory account between per count and per books is on-going. The acquisition of a computerized accounting system software is being	General Services/ MMD/ Controllership	Dec. 2021	Mar. 2022	On-going		
					Dec. 2021	Jun. 2022	On-going		

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	balance per books and balance per Report on Physical Count of Inventories (RPCI). Inventories were insufficiently provided with allowance for impairment loss due to obsolescence, resulting in the overstatement of Inventory account by P1.007 million.	and stock cards, respectively, to monitor closely the purchases and issuances of inventories and to facilitate reconciliation of variances. c) Prepare adjusting entry to record the additional allowance for impairment on inventories; and d) Conduct assessment of net realizable value of inventories every reporting period to accurately measure the value of inventories.	studied that likewise will also address the monitoring of inventories in lieu of supply ledger cards and stock cards. Adjusting entries will be prepared subsequent to the completion of the above-mentioned reconciliation of variances. Obsolete Inventories declared for disposal were being appraised for valuation and bidding purposes.			Dec. 2021	Mar. 2022	On-going		
7	The faithful representation of the balance of Customer Deposit account amounting to P125.549 million could not be established due to continuous recognition of expired security	a) Determine the propriety of the recorded security deposits and if found in order, inform the former lessees to claim their security deposits within a reasonable period of	Documentation made by the Realty Department for the application/forfeiture of the security deposit is being reviewed by the Accounting Department.	Realty / MMD-TFAD/ Controllership	Dec. 2021	Mar. 2022	On-going			

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	deposits from lessees with no legal cases totaling P2.357 million and bid deposits already due for recognition as income amounting to P240,019, contrary to the Conceptual Framework for General Purpose Financial Reporting (GPFR) by Public Sector Entities.	<p>time, after which if no reply is received, the same shall be forfeited in favor of PNCC;</p> <p>b) Reclassify to miscellaneous income or any appropriate account the unapplied and unclaimed long outstanding bid deposits;</p> <p>c) Document and account for the bid deposit of Golden Construction and effect the necessary adjustments in the books, if warranted; and</p> <p>d) Henceforth, conduct periodic monitoring of the conditions/status of expired lease contracts relative to the refund of security deposits and settlement of winning bidders of their accounts related to the disposed assets</p>	<p>Documentation made by the MMD in support for the reclassification is being reviewed by the Accounting Department.</p> <p>Obtaining pertinent documents remained futile as the account was already more than 20 years. Best effort will be exerted by the concerned Department to locate pertinent/ related document.</p> <p>Will follow the recommendation of COA</p>		Dec. 2021	Mar 2022	On-going		
					Dec. 2021	Mar. 2022	On-going		
							Implemented		

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		applying the bid deposits against their payments.							
8	The 9.9-hectare portion of PNCC's Financial Center Area (FCA) property located in Pasay City was idle and/or unutilized to its maximum potential for three years, depriving PNCC of opportunity income of about P1.543 billion annually contrary to Section 2 of Presidential Decree (PD) No. 1445.	a) Make representation with the Department of Finance (DOF) regarding the letter of the Deputy Executive Secretary for General Administration of the OP dated March 6, 2020, referring PNCC's request for comment and approval on its plan to bid out the lease and development of the subject property and the corresponding TOR, for DOF's comment and recommendation; and b) Immediately proceed with the bidding activities once approval thereof is obtained.	The PMO in its letter to PNCC dated 26 July 2021 issued its comment on the PNCC proposal to lease lease of the 9.9 hectares FCA property through public bidding. PNCC is still waiting the action of Office of the President in our letter-request for approval	Realty Dept.	-	-	Partially Implemented		
9	The permit applied for and obtained by Tokagawa Global Corporation (TGC) in	Inform TGC of its non-compliance with the provision of the Lease Contract and DENR	Quarry operation of TGC on a particular portion of the leased properties is not	Realty Dept.			Partially Implemented		

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	the sand quarrying operations was not in accordance with Section 8 of the Lease Contract executed by and between PNCC and TGC and Item b, Section 8 of the DENR Department Order 210-21 dated June 28, 2010.	Department Order No. 210-21 on permit application and request for immediate corrective actions.	irregular considering the reasons/explanations as mentioned in our reply to COA AOM No. 21-014 (2020) In addition, we also informed TGC in our letter dated 13 July 2021 regarding the AOM, but we have yet to receive their reply.						
10	Communication expenses reimbursed by members of the Board of Directors of PNCC amounting to P185,970 are considered unreasonable pursuant to Section 10.2(b) of GCG Memorandum Circular No. 2016-01 dated May 10, 2016, and the same expenses amounting to P244,128 were not supported with complete documents as required under Section 4 of Presidential Decree 1445 and Section 6.2 of COA Circular No. 2012-001 dated June 14, 2012.	a) Prepare/develop policy/guidelines on the proper reimbursement of communication expenses with the end view of ensuring reasonableness, economy and propriety of expenses reimbursed; b) Consider the issuance of cellphone with fixed postpaid plan offered by major telecommunication networks with	During the meeting of the Board of Directors on June 23, 2021, the Board issued a resolution which will serve as an interim policy of the members of the BOD due to abnormal circumstances because of Covid-19 allowing the members of BOD to avail of the amount of P5,000 as communication expenses. The management and the Board may no longer consider issuance or availment of new fixed postpaid plan. Most of the	Board Of Directors /Controllership /Treasury			Implemented 		

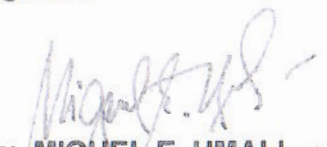
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		unlimited text and call features for all networks;	Board Members have already an existing postpaid plan while others might not consider it due to the required lock in period of at least two (2) years. Since the National election is less than a year, the new administration might appoint new members of the Board who might opt not to accept or continue the postpaid plan that will result to cancelation/penalty expenses for PNCC.						
		c) Discontinue the reimbursement on the payment of installment cost of the cellular phone in postpaid plan, unless the unit will be surrendered to PNCC at the end of the contract;	Will comply				Implemented		
		d) Require the concerned members of the BOD to submit the lacking documents such as ORs and SOAs/billings on their	Considering the lapse of time after the subject reimbursement, the concerned members of the Board shall				On-going		

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		claims for communication expenses; and e) Instruct the Accounting and Treasury Departments to review thoroughly the supporting documents of the claims for reimbursements and ascertain the reasonableness of reimbursements on communication expenses before payment.	exert their best effort to locate and submit lacking documents on their claims for communication expenses. The Management has already instructed the Accounting and Treasury Departments on the matter.				Implemented		
11	PNCC continuously incurred expenses for salaries and benefits of three project employees, rental and other incidental costs totaling P1.391 million despite the cessation of operations and service contracts with Philippine Phosphate Fertilizer Corporation (Philphos) in Isabel, Leyte, contrary	a)Instruct the Head-Administration Department to immediately facilitate the transfer of the two serviceable vehicles and the remaining undisposed equipment and inventory items to PNCC Main Office. If immediate transfer is still not feasible due to restrictions brought by	The transport of the two (2) vehicles from Isabel, Leyte to Batangas port by means of RORO will be handled by the project employees in Isabel Leyte. Then from Batangas port, GSD personnel will take-over the transport to PNCC Main Office. Allowing	Philphos Project Employees /MMD /GSD/ HR	Dec. 2021	Jun. 2022	On-going		

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	to Section 2 of Presidential Decree No. (PD) No. 1445 and considered unnecessary expenditures pursuant to Section 4.1 of COA Circular No. 2012-03 dated October 29, 2012.	the COVID-19 pandemic, allow only one personnel to serve as caretaker of the remaining equipment and inventory items for the mean time; and b) Immediately terminate the remaining project employees in Isabel, Leyte.	only one (1) personnel to serve as caretaker of the remaining equipment and inventory items will be effected after the transport of the aforementioned vehicles. Will follow the recommendation of COA.		Dec. 2021	Jun. 2022	On-going		
12	The grant and liquidation of cash advances (CAs) to PNCC employees were not adequately controlled/monitored resulting in the accumulation of unliquidated cash advances aggregating P481,881 as of December 31, 2020, contrary to the provisions of COA	a) Require the concerned employees to immediately liquidate the outstanding CAs. If liquidation is still not made within the prescribed period, cause the withholding of their salaries and apply to their unliquidated CAs; b) Adhere to the	Of the P481,881 unliquidated cash advances, P433,280 were already liquidated. (Refer to the attached for details) Monitoring of grant	Concerned employees / Controllership	Dec. 2021	Jan. 2022	Partially Implemented This is being		

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	Circular No. 97-002 dated February 10, 1997 and Section 89 of Presidential Decree (PD) No. 1445.	pertinent provisions of COA Circular No. 97-002 dated February 7, 1997 on the proper grant and liquidation of CA; and c) Take necessary corrective actions to strengthen the internal control system on the grant, utilization and liquidation of CAs.	and liquidation of CA were already being done. Same comment in item No. 12.b.				implemented already. Implemented		
13	A temporary cash advance (TCA) drawn from the Revolving Fund amounting to P60,000 granted on February 27, 2020 was still unliquidated as of cash count date on October 12, 2020, contrary to Sections 4.1.3 and 5.1.3 of COA Circular No. 97-002 dated February 10, 1997.	We recommended that: a) The Accountable Officer require the grantee to liquidate immediately the said cash advance; and b) The grantee/s strictly observe the prescribed period of liquidating cash advance for travel as required under Sections 5.1.3 of COA Circular No. 97-002 dated February 10, 1997.	P46,056 of the P60,000 was liquidated on February 2, 2021. Will comply	Head Treasury, Executive Assistants of OC	Dec. 2021	Jan. 2022	Partially Implemented	Official Receipt for the flight ticket could not be located for the P 13,124.	Re-issuance of Official Receipts are being requested from the airlines. Will Comply

Agency sign-off:


Atty. MIGUEL E. UMALI
President and CEO ✓

DEC 14 2021
Date

Note: Status of implementation may either be (a) Fully implemented, (b) Ongoing, (c) Not implemented, (d) Partially implemented, or (e) Delayed.