



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

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

May 31, 2016

The Board of Administrators
National Electrification Administration
NIA Road, Government Center, Diliman, Quezon City



Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the National Electrification Administration (NEA) for the year ended December 31, 2015.

The report consists of the Independent Auditor's Report, the Audited Financial Statements, the Audit Observations and Recommendations, and the Status of Implementation of Prior Year's Audit Recommendations.

The auditor rendered a qualified opinion on the fairness of the presentation of NEA for calendar year 2015, for reasons stated below:

- a. As a result of the confirmation made with the Bureau of the Treasury (BTr), a huge variance of P12.110 billion was found existing between the P8.137 billion reported year-end balance of account, *Due to National Treasury*, representing Advances of the National Government (NG) through the Bureau of the Treasury (BTr) on NEA's foreign loans, and the P20.247 billion balance confirmed by the BTr.
- b. Of this noted variance, the amount of P6.499 billion or 54 percent pertained to NEA's unrecognized interests on NG Advances charged by BTr covering 1971 to 1989 foreign loans under the Bail-out Program, while the amount of P5.611 billion or 46 percent remained unreconciled as at year-end.

In addition to the audit observations which were considered in rendering a qualified opinion, below are the other significant audit observations with audit recommendations, which details are discussed in Part II of this Report.

Subsidy Fund Releases to Electric Cooperatives

1. Unliquidated subsidy releases to the 117 electric cooperatives aggregating P8.848 billion could have been significantly reduced and the year-end balance of account, *Due from NGOs/POs* amounting to P16.999 billion should have been diminished as at year-end, had NEA not allowed subsequent releases to the ECs until the previous fund releases have been fully liquidated.

Recommendations:

- a. *Refrain from granting subsequent releases to ECs with unliquidated subsidies;*
 - b. *Expedite the inspection of completed and energized projects and the issuance of CFIA, a necessary document to be submitted by the EC for the final liquidation of the subsidy pursuant to Section 4 of the MOA; and*
 - c. *Require the ECs to immediately submit the liquidation report to facilitate the closing of the books of both ECs and NEA pertaining to the subsidy fund and reflect the accurate amount in the financial statements.*
2. Of the P3.929 billion subsidy funds received in CY 2014 from the National Government for the Yolanda Rehabilitation and Restoration Program (YRRP), (a) the amount of P344.558 million remained unallocated to the intended electric cooperatives; (b) the amount of P334.979 million pertained to the excess of allocated funds for ECs over the subsidy funds actually released to ECs; and the remaining balance of P584.355 million of the allocated subsidies remained unreleased to intended ECs as of December 31, 2015.

Recommendations:

- a. *Speed up allocation of the subsidy funds of P344.558 million and release of allocated subsidies of P584.355 million to the intended ECs;*
 - b. *Seek approval from DBM for the disbursement or release of subsidy funds in excess of the allocated amount to the ECs amounting to P334.979 million; and*
 - c. *Return to BTr the unreleased amount allocated to BOHECO 1 amounting to P1 million.*
3. Implementation of projects for the construction of distribution lines subsidized by the National Government under SEP/BLEP was delayed for five projects totaling P263.188 million, while two projects with aggregate cost of P6.462 million were not implemented, in violation of Section 3 of the MOA between NEA and ECs.

Recommendations:

- a. *Require the ECs to strictly comply with the timeline as stated in Section 3 of the MOA, and to request NEA for the grant of extension with sufficient justification and approval from the EC Board, before the expiration of the timeline;*
- b. *Request realignment of fund allied to the project in accordance with NEA Memoranda for unimplemented projects;*
- c. *Implement a strict and consistent monitoring scheme on the status of project implementation by the ECs; and*
- d. *Require the ATEO personnel to provide data on the conduct of analysis of EC's implementation performance and assessment of their capacity to implement projects*

simultaneously at given period of time and provide basis for awarding numerous projects to a particular EC.

Grant of Allowances and Benefits to NEA Personnel

4. Various incentives aggregating P43.943 million for CY 2015 were granted under NEA's PRAISE to NEA officials and employees without approved budget and without prior approval from the DBM and Civil Service Commission (CSC), in violation of Section 15 of Executive Order 518 and CSC Memorandum Circular No. 01, s. 2001.

Recommendations:

- a. *Require refund of PRAISE incentives unless a post-facto approval from the DBM and approved funding for the subject PRAISE incentives are obtained/provided; and*
 - b. *Submit proof/justifications that the superior accomplishments or demonstration of exemplary behavior and other personal efforts by the individuals or groups have resulted in monetary savings and that it did not exceed 20 percent of the savings generated.*
5. Payment of rice and medical allowances to NEA employees amounting to P20.738 million and P1.220 million, respectively, or a total of P21.958 million in CYs 2013 - 2015 lacked legal basis and was not included in the NEA COB for the same period.

Recommendations:

- a. *Require the immediate refund of rice and medical allowances unless a post-facto approval from the Office of the President (OP) on the grant of subject rice and medical allowances is obtained;*
 - b. *Discontinue immediately the grant of unauthorized rice and medical allowances to all employees, unless authority is obtained from the OP; and*
 - c. *Henceforth, strictly comply with the provisions of RA 6758 and its implementing rules and regulations under Corporate Compensation Circular (CCC) No. 10.*
6. Payment of Performance-Based Incentive (Mid-Year Incentive) totaling P2.932 million for CY 2015 which was improperly anchored under NEA's PRAISE lacked legal basis as it violated Joint Resolution No. 4 (Salary Standardization Law III) and Executive Order (EO) No. 80.

Recommendations:

- a. *Stop the grant of PBI (Mid-Year Incentive) to all employees; and*
- b. *Require the refund of the PBI amounting to P2.932 million granted to officers and employees.*



Other Financial and Compliance Issues

7. Bank Interest income earned for CYs 2005 – 2015 totalling P63.758 million on bank deposits of subsidy fund received from the National Government (NG) for the implementation of electrification projects was not remitted to the BTr, contrary to the provisions of Section 65 of PD 1445 and Executive Order 338.

Also, the unexpended balances of subsidy accounts amounting to P10.669 million were not returned to the Department of Energy (DOE) in violation of COA Circular No. 94-013; and the amount transferred to Administrative accounts which represents service income exceeded the actual service income earned from CYs 2005 – 2015 amounting to P137.223 million, contrary to Section 84 PD 1445.

Further, funds transferred from Barangay Electrification Fund (BEF) to Special Savings Deposit (SSD) and subsequently deposited to Administrative accounts totaling P423.137 million were not in accordance with Section 4 of PD 1445 and EO 338.

Recommendations:

- a. *Remit the remaining interest earned on bank deposits of subsidy fund for CYs 2005 – 2014 amounting to P43.545 million including the interest earned for CY 2015 amounting to P20.213 million or a total of P63.758 million to the BTr pursuant to Section 65 of P.D. 1445 and EO No. 338;*
 - b. *Return to DOE the unexpended balance of CARE and EREPP projects amounting to P10.669 million and submit explanations/justifications on the excess transfer of fund to the Administrative accounts (two LBP accounts);*
 - c. *Return to BEF the amount transferred to SSD account and Administrative accounts amounting to P423.137 million; and*
 - d. *Return to BEF the excess fund transferred to Administrative accounts amounting to P137.223 million pertaining to service income and submit explanation/justification on the excess fund transfers.*
8. Liability for Corporate Income Tax covering CY 2007 amounting to P13.476 million remained unpaid/outstanding to the Bureau of the Internal Revenue (BIR) at year-end in violation of Section 27 (A) and (C) of the National Revenue Code of 1997 or Republic Act 9337.

Recommendations:

- a. *Remit/pay immediately to the BIR the unpaid Corporate income tax covering CY 2007 amounting to P13,476,274.20 to avoid further incurrence of penalties, interest and surcharges that would be imposed by the BIR, if warranted; and*
- b. *Strictly observe and comply with the provisions of Section 27 (A) and (C) of the NIRC.*



The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on April 27, 2016 are discussed in detail in Parts II and III of the Report.

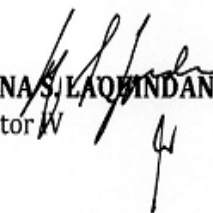
In a letter of even date, we requested the Corporation's Administrator to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


RUFINA S. LAOBINDANUM
Director

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
The Presidential Management Staff, Office of the President
The UP Law Center
The National Library



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CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

May 31, 2016

MS. EDITA S. BUENO

Administrator
National Electrification Administration
NIA Road, Government Center, Diliman, Quezon City



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The other audit observations, together with the recommended courses of action which were discussed by the Audit Team with concerned Management officials and staff during the exit conference conducted on April 27, 2016 are discussed in detail in Parts II and III of the report.

We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of the report.

Very truly yours,

COMMISSION ON AUDIT

By:


RUFINA S. LAQUINDANUM
Director

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