



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

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

June 14, 2017

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, 2016.

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 expressed an unqualified opinion on the fairness of the presentation of the financial statements of the Corporation.

Although an unqualified opinion is issued by the Auditor, there are significant audit observations that were noted in the audit. These, together with the audit recommendations are presented below:

Other Financial and Compliance Issues

1. The accuracy and reliability of the P18.188 billion year-end balance of account Due to National Treasury which represents Advances by the National Government thru the Bureau of the Treasury on NEA's foreign loans could not be determined due to the existence of an unidentified reconciling item amounting to P3.836 billion per confirmation schedule received from BTr and unreconciled variance of individual old and new loan accounts per NEA's books by the same total amount.

Recommendations:

- a. *Inquire with the BTr the noted unidentified reconciling item on the interest of advances under old loans amounting to P3,836,006,287.21 for its further analysis and identify to which particular loan account should be recorded;*
- b. *Discuss with the BTr the noted unreconciled individual loan accounts so that necessary adjustments can be made by either NEA or BTr in the respective books of accounts; and*

- c. Cause the settlement of the outstanding obligations to the BTr, should the request for conversion be not granted.*
2. Overstatement of P452.501 million and understatement of P520.357 million or a net variance of P67.856 million were found existing between the year-end balance of Loans Receivable amounting to P9.445 billion (current and long-term) and the results of confirmation from Electric Cooperatives (ECs) totaling 5.487 billion. The variance was attributed mainly to loans not included in ECs confirmation, difference in net amount of loans, unrecorded amortization, and advance interest in NEA's books

Recommendations:

- a. Analyze and identify all possible causes of variances between book balance and ECs confirmed balances;*
 - b. Reconcile variances and upon acceptance by both parties, immediately make the necessary adjustments in the books and/or the ECs records to present the actual outstanding loan balance as of reporting date; and*
 - c. Conduct regular reconciliation of loans receivable with the ECs to thresh out differences in the accounts.*
3. Of the total outstanding Miscellaneous Receivables amounting to P56.098 million (net) as of December 31, 2015, only P4.107 million or 7.32 percent was collected at the year-end and the amount of P52.079 million remain unsettled and outstanding in the books for more than 10 years with remote possibility of collection.

Recommendations:

- a. Exhaust all possible remedies to collect the receivables from the debtors and the employees who are no longer connected with NEA; and*
 - b. Expedite the evaluation and reconciliation of all overdue accounts to determine its proper disposition and make the necessary adjustment in the books or request for write-off, if warranted.*
4. NEA continuously granted various PRAISE incentives to its officials and employees totalling P21.503 million without approved budget from the Department of Budget and Management (DBM) and supporting computation of monetary savings generated out of superior accomplishments and other personal efforts, as required in Section 15 of Executive Order 518 and Civil Service Commission (CSC) Resolution No. 010112 and CSC Memorandum Circular No. 01 s. 2001.

Recommendations:

- a. Stop the grant of PRAISE incentives without an approved budget, and for future grant thereof, provide corresponding budget/allocation in the COB for DBM approval;*

- b. Submit proof and justification that the superior accomplishments and other personal efforts by individuals or groups have resulted in monetary savings and that PRAISE incentives did not exceed 20 percent of the monetary savings generated; and*
 - c. Cause the refund to NEA the PRAISE incentives granted to the employees.*
- 5. Grant of monetary retirement award amounting to P2.180 million to honor retiring officials and employees for CYs 2013 to 2016 was not in accordance with the CSC Memorandum Circular No. 7, series of 1998 and Section 28 (b) of Commonwealth Act No. 186 as amended by Republic Act (RA) No. 4968 or the Teves Retirement Law.

Recommendations:

- a. Stop the grant of monetary retirement award to retiring employees; and*
 - b. Require the retired/separated employees who received the monetary retirement award to refund the said amount in compliance with the General Provisions of GAA – Use of Appropriations for Retirement Gratuity and Terminal Leave.*
- 6. Various asset and liability accounts recorded in the subsidiary ledgers were not effectively monitored, resulting in abnormal negative balances amounting to P12.894 million.

Recommendations:

- a. Require the Accounting Division to review, analyze the accounts and identify all abnormal debit/negative balances that remain unreconciled/unadjusted;*
 - b. Determine the nature of transaction and reason for the error that caused the abnormal balance and prepare the necessary adjusting entries to correct the account balance; and*
 - c. Require the Accounting personnel in charge of monitoring the accounts to regularly monitor the accounts recorded in the subsidiary ledger to avoid incurrence of abnormal negative balances.*
- 7. No Report of Physical Count of Inventory (RPCI) for supplies and spare parts was prepared and submitted to COA as required in Section 122 of PD 1445;

Stock ledgers maintained by the Accounting Division for Inventory items showed negative balances totaling P12.440 million.

Recommendations:

- a. Require the Senior Supply/Property Officer to prepare and submit Physical Inventory Report of supplies by type as at a given date, showing the balance of all inventory items per count, in compliance with the provision of Section 122, Chapter 3 of PD 1445;*
 - b. Designate a dedicated accounting personnel to analyze the 36 Inventory items to determine the causes of the negative balances and make the necessary adjustments, if*

warranted; submit explanation why there is existence of negative balances for the 36 inventory items.

8. Loan granted to Philippine Rural Electric Cooperatives, Inc. (PHILRECA) in October 1991 amounting to P10 million which was disallowed in September 1992 due to lack of legal bases remained unsettled for more than 20 years and recorded under account Loans Receivable – Others instead of Receivables – Disallowance/Charges.

Recommendations:

- a. *Reclassify the account Loans Receivable from PHILRECA to Receivables – Disallowance and Charges amounting to P7,816,719.00; and*
- b. *Take appropriate legal action to compel PHILRECA to settle its long outstanding account and determine the propriety of charging interest and surcharges on the said loan taking into account the COA disallowance.*

Subsidy Fund Releases to Electric Cooperatives

9. SEP/BLEP Projects funded out of subsidy releases totaling P5.928 billion have been completed/implemented, but said amount remained unliquidated as of December 31, 2016. The year-end balance of account Due from NGOs/POs amounting to P6.897 billion could have been reduced had prompt liquidation been strictly observed pursuant to Section 2 of COA Circular No. 2012-001 and Sections 3 and 4 of the MOA between ECs and NEA.

Recommendations:

- a. *Discontinue the grant of subsequent releases to ECs with unliquidated subsidy balances and enforce Section 2 of COA Circular No. 2012-001 by requiring full liquidation of prior releases; and*
 - b. *Require ECs to immediately submit all the necessary documents to liquidate the subsidy balances to facilitate the closing out of the books of both NEA and the ECs pertaining to the subsidy fund.*
10. Unexpended balance of YRRP funds amounting to P274.445 million was realized which have not been returned to NEA pursuant to Sections 2 and 7 of the MOA.

Also, various disbursements were found improperly charged against YRRP Fund due to:

- a. Payroll salaries of regular employees for several months;
- b. Unutilized materials charged against the subsidy fund;
- c. Materials Charge Tickets (MCTs), labor and overhead expenses beyond the issuance of the Certificate of Final Inspection and Acceptance (CFLA);
- d. Payment of Honorarium for Task Force Kapatid without NEA's approval;
- e. Cash advances not supported with liquidation documents;
- f. Expenses not directly related to YRRP project;
- g. Unutilized Materials; and

h. Undocumented/Unsubmitted disbursement documents.

Further, deficiencies were noted on Materials Charge Tickets (MCTs), As Built Staking Sheets, Bill of Materials and Fuel Stock Requisition and Issuance Slip.

Also, the amount of P4.5 million was utilized for the purchase of vehicles and construction of building in CELCO which was not allowed under the NEA Guidelines on YRRP Implementation and Release of Funds to ECs.

Electric Cooperatives with subsidy deficit (excess disbursements over the subsidy receipts) totaled P35.624 million to be covered with the release of the remaining balance up to the actual amount of disbursements allowed in audit.

Recommendations:

- a. Require the concerned ECs to return/refund to NEA the unexpended/ unutilized balance of the subsidy received in accordance with Sections 2 and 7 of the MOA and other NEA Memoranda on the proper use of subsidy funds, furnishing immediately the COA Office a photocopy of the official receipt, for monitoring purposes;*
- b. Require the ECs to request approval from NEA for any deviations from the MOA and furnish COA Office of the approved copy, if any;*
- c. Ensure compliance on the submission of documentary requirements required under NEA Memorandum dated Nos. 2013-022 and 2013-023 and YRRP Memorandum Guidelines dated February 20, 2014;*
- d. Compel the NEA audit team to conduct examination of the liquidation of documents as required in the NEA guidelines for YRRP; and*
- e. Require the ECs to make a thorough review of the Accounting of Funds to ensure accuracy/correctness of the reports submitted.*
- f. Refrain from charging to the YRRP funds expenses that are not within the coverage of the YRRP Memorandum Guidelines, otherwise, charge these expenses to EC's General Fund;*
- g. Charge only actual materials utilized per MCTs and not the total materials purchased;*
- h. Require the EC to return immediately to NEA the amount of P4.5 million used in the purchase of vehicles and construction of a new building, etc. as these are not valid expenses pursuant to Section 7 of the MOA; and*
- i. For ECs with subsidy deficit, release the remaining balance but only up to the amount allowed in the audit.*

11. Unallocated/Unobligated Disbursement Acceleration Program (DAP) Funds as of December 31, 2016 amounting to P434,249 remained in NEA's books of account and not returned to the Bureau of the Treasury (BTr) in violation of COA Circular No. 94-013.

Likewise, the remaining balance or 10 percent retention of DAP subsidy funds for implemented and liquidated projects totaling P82.056 million had not been returned to BTr.

Recommendation:

- a. *Return to the BTr the additional unallocated subsidy fund totaling P434,249.15 and the remaining unreleased balance for projects already implemented and liquidated totaling P82,055,991.67.*
12. DAP Funds released for Rural Electrification under the 2011 OPAPP/TISP, OVLP/LGSF and 2012 SEP Funds totaling P194.544 million remain unliquidated as of December 31, 2016 in violation of Item No. 2 of COA Circular No. 2012-001 and Sections 3 and 4 of the MOA between NEA and ECs. Likewise, 97 ECs with substantial amount of unutilized/unexpended balances have not returned nor requested for realignment of sitios allied to the projects.

Recommendation:

- a. *Require the ECs to immediately liquidate the subsidy receipts to facilitate the closing of the books. And for ECs with substantial amount of unexpended balances, expedite the request for realignment to other sitios, otherwise, return the unutilized balance to facilitate the closing of the books of both ECs and NEA.*
13. EC's inclusion of Input Value Added Tax (VAT) in the presentation of subsidy Accounting of Funds amounting to P145.688 million pursuant to NEA Memorandum No. 2015-036 resulted in the overstatement of the charges made in the Accounting of Funds and reduced the government revenue as ECs VAT remittance to the Bureau of Internal Revenue (BIR) included the subsidy funded Input VAT.

Recommendations:

- a. *Require the aforementioned 14 ECs and other ECs that have not been audited yet to return to NEA the input VAT and any Input VAT charged to the liquidated subsidy funds as indicated in the AOF upon the effectivity of the NEA Memorandum No. 2015-36 and furnish COA Office of the Official Receipts on the remittance; and*
 - b. *Revisit NEA-Memorandum No. 2015-36 and consider revising the provisions to exclude Input VAT in the Accounting of Subsidy Fund so that proper Input VAT will be remitted to the BIR.*
14. The required posting of Performance Security on the subsidy fund released to the Electric Cooperatives (ECs) remain unenforced, thus, posing risk of non-compliance with project implementation within the prescribed completion date and not in conformity with COA Circular No. 2007-001.

Recommendations:

- a. Enforce the ECs to post performance security to guarantee completion of projects funded out of government subsidy within 90 days as required under Section 4.5.7 of COA Circular No. 2007-001; and
- b. Include a provision in the MOA between NEA and ECs requiring the mandatory posting of performance security by the latter and no release of subsidy should be made unless the performance security is presented to NEA.

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 May 23, 2017 are discussed in detail in Parts II and III of the report.

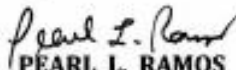
We respectfully request that the recommendations contained in Part II of the report be implemented and that this Commission be informed of the actions taken by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date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


PEARL L. RAMOS
Director III
Officer-in-Charge

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
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CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

June 14, 2017

MR. EDGARDO R. MASONGSONG

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



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COMMISSION ON AUDIT

By:



PEARL L. RAMOS
Director III
Officer-in-Charge

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