



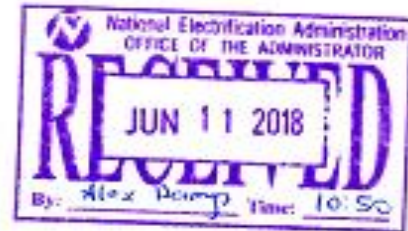
Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities



June 8, 2018

Mr. EDGARDO R. MASONGSONG
Administrator
National Electrification Administration
57 NEA Building, NIA Road, Government Center
Diliman, Quezon City



Dear Mr. Masongsong:

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, 2017.

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

The auditor rendered an unqualified opinion on the fairness of presentation of the financial statements of NEA for calendar year 2017.

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:

1. Payment of differentials on salary, mid-year bonus, year-end bonus and monetization of leave credits to NEA officials and employees for CY 2016 totaling P11,710,575.69, was not in accordance with Executive Order (EO) No. 36.

Recommendations:

1. Cause the refund by the NEA officials and employees of the payments made on differentials of salary, mid-year bonus, year-end bonus and monetization of leave credits computed under the first tranche of SSL 4 amounting to P11,710,575.69 to avoid issuance of Notice of Disallowance.
2. Payment of Collective Negotiation Agreement (CNA) Incentive for CY 2016 amounting to P7.054 million was not in accordance with Paragraph 4 of Department of Budget and Management (DBM) Budget Circular No. 2016-7 dated December 1, 2016 and COA Circular No. 2012-003 dated October 29, 2012.

Recommendations:

Provide a validated and agreed performance scorecard by the GCG as basis for the grant of the CNA incentive for CY 2016, otherwise, this will be disallowed in audit.

3. The accuracy and reliability of the year-end balance of Loans Receivable amounting to P10.472 billion (current and long-term) is doubtful as the results of confirmation from Electric Cooperatives (ECs) disclosed material net overstatement variance amounting to P136.570 million, attributed mainly to exclusion of loans, capitalized interest, unpaid amortization and excess payments in the EC confirmation. Likewise, inclusion of interest/surcharge and advance payment for interest in the EC confirmation and payments not posted in NEA's books as of audit date renders the balance of loans receivable per NEA books overstated.

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;*
 - c. *Conduct regular reconciliation of loans receivable with the ECs to thresh out differences in the accounts; and*
 - d. *Prepare journal entries to adjust the incorrect posting of payments in the subsidiary ledgers of ROMELCO, INEC, CANORECO, CASURECO II, NEECO II-Area 2 and NEECO II.*
4. Deposits to NEA bank accounts made by ECs amounting to P42.751 million were not recorded in NEA's books as of December 31, 2017 due to late recording of collections by the concerned Collecting Officers, thus, understating the Cash in Bank account by the same amount.

Likewise, unclaimed/unreleased checks amounting to P93.545 million as of December 31, 2017 were not reverted/adjusted in the books, thus, understating the Cash in Bank and Accounts Payable accounts.

Recommendations:

- a. *Prepare adjusting entry to record the unrecorded deposits and unclaimed/stale checks amounting to P42,751,407.41 and P93,544,796.01, respectively, as of December 31, 2017 for proper presentation of Cash in Bank account in NEA's financial statements;*
- b. *Identify the P5.190 million collections for issuance of official receipts and posting in the corresponding subsidiary ledgers;*
- c. *Monitor collections regularly and ensure that all collections are recorded and official receipts are issued;*
- d. *Require Electric Cooperatives to submit thru fax or electronic mail scanned copy of deposit slips upon payment thru bank deposits for immediate identification, recording and issuance of official receipts; and*

- e. *Review the reconciling items in the bank reconciliation statements and examine items which have been outstanding for more than one month and prepare journal entries to adjust/correct the book balance.*
5. Subsidy releases for the Sitio Electrification Program (SEP), Barangay Line Enhancement Program (BLEP), Pantawid Kuryente: Katas ng VAT (PKKV), Transition Investment Support Plan – Autonomous Region for Muslim Mindanao (TISP-ARMM), Yolanda Recovery and Rehabilitation Plan (YRRP) and other calamity grants totaling P1.695 billion remained unliquidated as of December 31, 2017, which is not compliant with Section 4 of the MOA as agreed by NEA with various ECs.

Also, the accuracy of the subsidy fund due for liquidation as reported in the Aging Schedule of Due from NGO/POs as of December 31, 2017 cannot be ascertained due to improper aging of subsidy fund releases to various ECs.

Recommendations:

- a. *Strictly comply with Section 4 of the MOA as agreed by NEA and ECs; and*
- b. *Require the concerned ECs to immediately liquidate the subsidy funded completed projects by submitting all the required liquidation documents such as Accounting of Funds with its supporting documents to validate the charges made to the subsidy fund; Certificate of Final Inspection and Acceptance (CFIA) and such other documents to facilitate the closing of the books of both NEA and the EC's.*
6. The Accounting of Funds (AF) for liquidated subsidies under SEP/BLEP with reported unexpended/unutilized balance totaling P29.289 million were not demanded by NEA for immediate return, hence not in conformity with Section 7 of the MOA, thereby deprived the government of funds to utilize for other projects.

Likewise, expenses not related to the projects or without documentation were not considered, hence, the reported unexpended balance of P29.289 million per AF have increased to P63.378 million (net of amount already returned) and the same was not refunded/remitted to NEA contrary to Section 4.5.6 of COA Circular No. 2007-001 and NEA Memorandum No. 2013-023.

Further, EC's with subsidy deficit totaling P44.980 million is to be covered with the release of the 10-30 percent remaining/retention balance but not to exceed the actual disbursement pursuant to Section 4 of the MOA.

Moreover, unexpended balance amounting to P93.924 million for projects audited in CYs 2014 – 2016 remained in the possession of the ECs.

Recommendations:

- a. *Require the 10 EC's audited in CY 2017 for the return/refund of the unexpended balances amounting to P63.378 million;*
 - b. *Direct the ECs that only related/allowed expenses are charged in the AF;*
 - c. *Require the concerned EC's to submit the required documents for the release of the remaining balances amounting to P44.980 million but not to exceed the actual disbursements pursuant to Section 4 of the MOA;*
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- d. *Require the EC's to submit the required documents to validate the charges made in the AF together with the supporting schedule of the previous and the revised AF, for verification and adjustment of the total unexpended balances, otherwise, return to NEA the total amount of P93.924 million;*
 - e. *Monitor the timely return of the unexpended balance based on the AF submitted by EC on their liquidation; and*
 - f. *Ensure that the submitted liquidation documents are tallied/verified with the reported amounts in the AF and the disbursements made was in accordance with the MOA to avoid rising of unexpended/unutilized fund.*
7. The accomplished 34,209 sitios under 2011-2016 Sitio Electrification Program (SEP) were not among the 32,441 sitios priority as identified in the Inventory as of December 31, 2016, which criteria were not strictly complied pursuant to NEA Memorandum No. 2011-021.

Likewise, of the 8,268 sitios or 25.49 percent implemented from the 32,441 SEP priority, 708 sitios were not energized as of December 31, 2017, thus, depriving the intended prioritized beneficiaries of the electrification program that could uplift their social and economic living.

Further, the total allocated cost of P18.47 billion for the 32,441 sitios was not reliable since only 7,403 were covered with allocated cost of P6.270 billion of which 24 sitios were duplicate amounting to P22.615 million.

Recommendations:

- a. *Strictly comply with the criteria on selection and prioritization of SEP project and give priority to sitios/puroks that are specifically identified in the target list, so as not to deprive the beneficiaries of the electrification program that could uplift their social and economic living;*
 - b. *Require ECs to energize the 708 sitios completed projects so as to maximize the benefits of the program and encourage prospective program beneficiaries to have their household energized;*
 - c. *Conduct immediate inspection of the 82 sitios completed subsidized funded projects which will serve as the basis of EC's liquidation and closed-out of books of both NEA and EC's; and*
 - d. *A thorough review of the report is enjoined to ensure reliability of the information/data reported.*
8. The status of project implementation of the approved realignment of funds of various electric cooperatives (ECs) from CYs 2013-2017 aggregating P225.338 million was not monitored and inspected contrary to Items 5.1 and 5.2 of COA Circular No. 2017-001 and Item 6, Section 4 of P.D. No. 1445. Further, no terms and conditions were provided in the Memorandum issued to the ECs pertaining to the realigned subsidy funds.

Recommendations:

- a. *Create a system for the monitoring and inspection on the status of implementation of realigned projects such as keeping and maintaining a sub account to ensure accountability and transparency;*
- b. *Require the ATEO to conduct inspection of the realigned projects to ensure existence and serve as basis for liquidation;*
- c. *Require the 57 ECs to submit the Accounting of Funds and the necessary liquidation documents for the 104 projects with a total realigned project cost of P225,338,448.68 and the three ECs – CENECO, BOHECO II and NORECO II; and*
- d. *Henceforth, include in the Memorandum a provision on the terms and conditions for the approved realigned project to include the time frame within which the project are to be undertaken and other conditions necessary in the monitoring of the realigned project.*

In a letter of even date, we requested the NEA'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 this report.

Very truly yours,

COMMISSION ON AUDIT

By:


LEILA S. PARAS
Director IV

Copy furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
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