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

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CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

June 11, 2019

National Electrification Administration
OFFICE OF THE ADMINISTRATOR
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JUN 11 2019
By: Alex 5:45

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

Dear Administrator 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 National Electrification Administration (NEA) for the year ended December 31, 2018.

The report consists of three Parts: I – the Independent Auditor's Report and the Audited Financial Statements, II – the Audit Observations and Recommendations and III – the Status of Implementation of Prior Years' Audit Recommendations.

The Auditor rendered an unmodified opinion on the fairness of the presentation of the financial statements of NEA for calendar year 2018:

Although an unmodified opinion is issued by the Auditor, following are the significant audit observations with recommendations that need immediate action:

1. The accuracy and reliability of the year-end balance of Loans Receivable - ECs amounting to P11.205 billion (current and long-term) is doubtful as the results of confirmation from Electric Cooperatives (ECs) disclosed net understatement variance amounting to P45.388 million, attributed mainly to inclusion of interest/surcharge, advance payment for interest, and paid amortization in the EC confirmation, excess payments not deducted in EC's confirmation, and loans and capitalized interest not recorded in NEA books. Likewise, advance payment included/excluded in EC's confirmation, unpaid amortization per NEA's books, and loans not included in EC's confirmation renders the balance of loans receivable per NEA books overstated, affecting the fair presentation of accounts affected which is not in conformity with paragraph 27 of PPSAS 1.

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 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.

2. The accuracy and reliability of the year-end balance of Loans Receivable – Others (PSALM) amounting to P2.155 billion is doubtful as the results of confirmation from PSALM disclosed material variance amounting to P369.652 million, overstating the Loans Receivable - Others – PSALM, contrary to one of the qualitative characteristic of financial reporting which is reliability of information under Appendix B of PPSAS 1.

   Recommendations:

   a. Reconcile with PSALM the P369.652 million discrepancy and identify the causes for consideration of settlement;

   b. Analyze the P2.22 billion collection covering June 27, 2001 to March 3, 2003 to establish legitimacy; and

   c. Adjust as necessary and enforce settlement of any unpaid balance.

3. The advance payment of loans consisting of principal and interests by Electric Cooperatives (ECs) amounting to P99.579 million and P58.148 million, respectively, or a total of P157.727 million for CY 2018 were recognized as credits to Loans Receivables and Interest Receivables, respectively, instead of credits to Deferred Credits and Other Unearned Income, respectively, contrary to COA Circular No. 2015-010, thereby understating the year-end balance of both Loans Receivables and Interest Receivables.

   Recommendations:

   a. Make the necessary adjustments in the books to reflect the correct balance of the affected accounts; and

   b. Record future advance payments of principal to Other Deferred Credits and future advance payments on interest to Other Unearned Revenue for proper presentation in the financial statements pursuant to COA Circular No. 2015-010.

4. The accuracy and reliability of the year-end balance of Property, Plant and Equipment (PPE) amounting to P201.019 million is doubtful due to:

a. Inclusion of unidentified items described as "For Adjustment" in the PPE Schedule and Subsidiary Ledger maintained by Accounting Division costing P36.454 million contrary to paragraphs 13, 26 and 27 of PPSAS No. 17;

b. Over provision of depreciation of some items with an aggregate cost of P5.510 million by P185,727.43;

c. Overstatement of Accumulated Depreciation by P6.109 million and understatement of Retained Earnings by same amount due to over depreciation by P4.963 million of some unidentified PPE costing P11.295 million and provision of depreciation by P1.145 million of PPE with no cost; and

d. Variance between Subsidiary Ledger (SL) and Lapsing Schedule balance for IT Equipment and Software amounting to P36,279.41 was noted.

Recommendations:

a. Require the Accountant and Property Officer to coordinate and reconcile Accounting and Property records, respectively, to be able to identify the PPE items with no specific descriptions. If such PPE items do not really exist with proper documentation, make the necessary adjustments in the books for proper presentation in the financial statements;

b. Require the Accountant to review and ensure that provision of depreciation of PPE should not exceed the residual value to avoid over depreciation. Effect the accounting adjustments in the books to reflect the correct balance of the account; and

c. Analyze and reconcile the variance noted on the balance of IT Equipment and Software and make the necessary adjustments in the books.

5. Employees who retired/resigned were given terminal leave benefits in CY 2018 totaling P2.936 million without complying with the prescribed documentary requirements under Section 5.13 of COA Circular No. 2012-001 and GSIS Memorandum Circular No. 003, s. 2015, hence the amount paid cannot be ascertained.

Moreover, NEA paid monetization of leave credits to employees without observing the required accumulated fifteen (15) days vacation leave (VL) credits, minimum ten (10) days and at least five (5) days retained after monetization which is not in accordance with Section 22 of Omnibus Rules on Leave.

Recommendations:

a. Require the Human Resource and Management Office (HRMO) to submit the lacking documents pursuant to Section 4.6 of PD No. 1445;

b. Require the HRMO and Accountant to closely monitor leave credit balances of the employees to ensure that only employees with accumulated fifteen (15) *days VL should be allowed to monetize the minimum ten (10) days and at least five (5) days is retained after monetization; and*

c. *Henceforth, strictly comply with the documentary requirements under COA Circular No. 2012-001 and GSIS Memorandum Circular No. 003, s. 2015 on the payment of terminal leave benefits and observe the rules on monetization of leave provided under Section 22 of Omnibus Rules on Leave.*

6. The subsidy balance ranging from 1 to 56 percent totaling P2.499 billion pertaining to the 1,773 liquidated SEP/BLEP/PAMANA projects remained unreleased to the concerned ECs as of December 31, 2018, contrary to Section 4.5.3 of COA Circular No. 2007-001, hence, casts doubt on the reliability of the evaluated project cost.

   Recommendations:

   a. *Review the evaluation of project cost to determine the right amount to release based on the causes of unreleased funds ranging from 1 to more than 50 percent for more efficient budget allocation of subsidized projects and to maximize the use of funds released by the National Government (NG) thru the BTr;*

   b. *Evaluate thoroughly the ECs request for subsidy in accordance with the evaluated project cost and to release only what is required; and*

   c. *Conduct confirmation/inspection of the reported potential household/population unenergized as per Barangay Certification.*

7. The 90 percent initial release of subsidy fund to electric cooperatives (ECs) in CY 2018 for the implementation of electrification projects totaling P1.479 billion (gross) was found to be excessive which is not in accordance with Item 4.2 of COA Circular No. 2007-001.

   Forty-two ECs were released with subsidy funds for 2018 SEP projects amounting to P1.208 billion even if there were subsidy balances totaling P529 million that were not yet fully liquidated, contrary to Section 2 of COA Circular No. 2012-001.

   Also, subsidy for the construction of distribution lines were released to 40 ECs simultaneously with the release of subsidy for the installation of kwhr meters, duplex service drop wires and housewiring materials which is not in conformity with Section 2 of COA Circular No. 2012-001.

   Recommendations:

   a. *Stop the grant of 90 percent initial release of subsidy fund to ECs in conformity with COA Circular No. 2007-001;*

   b. *Process only request for subsidy releases which previous subsidy balances are fully liquidated;*

c. *Demand the concerned ECs to immediately liquidate the completed and energized projects pursuant to COA Circular No. 2012-001 and the MOA between NEA and ECs; and*

d. *Release subsidy funds for the installation of kwhr meters, duplex service drop wires and housewiring materials, after partial liquidation of construction of distribution lines by EC's submission to NEA the Certification of Construction of Completed (COCC) projects duly certified by the Barangay Chairman of the respective sitios and the authorized officials of ECs.*

8. Unliquidated subsidy balance amounting to P23.903 billion covering the period from CYs 2011-2018 for the SEP, BLEP, PKKV, TISP-ARMM, YRRP and other calamity grants projects was reduced to P1.052 billion, however, remained unliquidated as of December 31, 2018, which is not in conformity with Section 2 of COA Circular No. 2012-001 and Section 4 of the Memorandum of Agreement (MOA) between NEA and ECs.

Recommendations:

a. *Require ECs to:*

   i. *liquidate all subsidy releases that are already due for liquidation by submitting all the required liquidation together with Accounting of Funds with its supporting documents to validate the charges made to the subsidy fund; and*

   ii. *return the unliquidated funds of all completed projects from prior years considering that the projects are already more than three years since its inception;*

b. *Refrain from releasing additional subsidy until ECs fully liquidation of prior releases; and*

c. *Comply strictly with Section 4 of the MOA as agreed by NEA and ECs.*

9. The Accounting of Funds (AFs) submitted by some ECs for 170 liquidated subsidies under Regular Subsidy, SEP, BLEP, YRRP and Calamity Grant with reported unexpended/unutilized balance totaling P43.684 million were not returned/remitted immediately upon liquidation due to NEA's non enforcement of Section 7 of the MOA, hence, deprived the government of funds to utilize for other projects.

Deficiencies/discrepancies were noted on the ECs' supporting documents, resulting in the increase of the reported unexpended balance of P43.684 million per AFs to P94.660 million (net of amount already returned) and the same was not returned/remitted to NEA contrary to Section 4.5.6 of COA Circular No. 2007-001 and Sections 2 and 7 of the MOA and NEA Memorandum No. 2013-023.

ECs with subsidy deficit of P19.232 million is to be covered with the release of the 49-50 percent remaining/retention balance but not to exceed the actual disbursement under Section 4 of the MOA.

Unexpended balance amounting to P105.247 million remained unreturned for projects audited in CYs 2014 – 2017.

Liquidated subsidies were not reversed and unexpended subsidy balances per audit were not recognized in NEA's books contrary to Section 112 of PD No. 1445. Hence, the reliability of the account Due from NGOs/POs was doubtful.

Recommendations:

a. Require the 11 ECs audited in CY 2018 to return/remit the unexpended balances amounting to P94.660 million;

b. Ensure that only related/allowed expenses are charged in the AF;

c. Inform the concerned EC's to submit required documents for the release of the remaining balances amounting to P17.779 million but not to exceed the actual disbursements pursuant to Section 4 of the MOA only after the unexpended balances have been settled, if any;

d. Refund to CENPELCO and ISELCO I the excess returns/remittances amounting to P300,204.84;

e. Require the EC's to submit the required documents to validate the charges made in the AFs together with the supporting schedule of the previous and the revised AFs, for verification and adjustment of the total unexpended balances, otherwise, return to NEA the total amount of P105.247 million;

f. Prepare the necessary accounting entries in NEA's books to reflect the correct amount of Due from NGOs/POs account and to be able to monitor the status/movement of the unexpended/unutilized subsidy balances pursuant to Section 112 of PD No. 1445; and

g. Strictly enforce the provision of Section 7 of the MOA on the return/remittance of unutilized funds.

10. The Disbursements Acceleration Program (DAP) under 2011 OPAPP/TISP, OVLP/LGSF and 2012 Subsidy Funds allocated for rural electrification totaling P102.565 million remained unreleased as of December 31, 2018 and not returned to the Bureau of the Treasury (BTr) in violation of Section 83 of the General Provisions of General Appropriation Act of 2018.

    Likewise, the DAP funds released to Electric Cooperatives (ECs) totaling P31.767 million remained unliquidated as of December 31, 2018, in violation of Section 4.5.6 of COA Circular No. 2007-001 and Sections 3 and 4 of the MOA between NEA and ECs.

Recommendations:

a. Immediately return to the Bureau of the Treasury the unreleased subsidy fund amounting to P102.565 million in compliance with Section 83 of the General Provisions of General Appropriation Act of 2018 and the Supreme Court decision;

b. Stop the practice of granting subsidies to ECs without liquidating first the previous subsidy granted in compliance with the MOA and Section 4.5.6 of the COA Circular No. 2007-001;

c. Strictly require the concerned ECs to immediately liquidate subsidy funds received pursuant to Sections 3 and 4 of the MOA, with attached schedule or summary to support the charged disbursements properly arranged and labeled to facilitate the closing of the books of both ECs and NEA; and

d. Direct the ECs to strictly comply with the agreed provisions specifically Sections 3 and 4 of the MOA.

11. Obligated/Allocated SEP and/or BLEP projects aged two to seven years totaling P70.135 million remained unreleased as of December 31, 2018 which is not in accordance with Section 2 of P.D. No. 1445, thus, deprived the intended beneficiaries of the unenergized sitios of much-needed funds for electrification.

Recommendations:

a. Submit explanation/justification on the non-release of obligated/allocated subsidy funds to 12 ECs for more than two to seven years and the unreleased subsidy funds for ALECO;

b. Re-evaluate thoroughly the ECs' requested subsidy funds, if any, and expedite the obligation allocation and release of the said request to ECs specifically sitios that are in dire need of the energization; and

c. Return the funds if no longer needed.

The foregoing 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 22, 2019 are discussed in detail in Parts II and III of the report.

We respectfully request that the recommendations contained in Part II and III 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.

We acknowledge the support and cooperation that the NEA Management extended to the Audit Team, thus facilitating the completion of the 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 UP Law Center
The National Library