

## PART III

### STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
<b>Fully Implemented</b>			
<p>1. Several Acknowledgment Receipts for Equipment (ARE) were not renewed/reissued after three years from date of issue which is contrary to the instructions under Appendix 53 of the NGAS Manual, Volume II.</p> <p>We recommended and Management agreed to direct the Property Officer/Storekeeper to renew/reissue all AREs which were issued three years back from 2014 to comply with the aforementioned NGAS instruction.</p>	Annual Audit Report CY 2014	<p>Fully Implemented.</p> <p>All PARs were re-issued / renewed as recommended.</p>	<p>Fully Implemented.</p> <p>PARs were already renewed.</p>
<p>2. Properties owned by the Water District with an insurable value of P50.420 million are not insured with the General Insurance Fund of the Government Service Insurance System (GSIS) as required under R.A. No. 656 and reiterated in Administrative Order Nos. 33 and 141. Under this circumstance, the Water District is denied of adequate and reliable protection against any damage to, or loss of their properties due to fire, earthquake and other risks from forces of nature.</p> <p>We recommended and management agreed to insure their insurable properties and interests with the General Insurance Fund of the GSIS in compliance with the provisions of R.A. No. 656, as reiterated in AO</p>	Annual Audit Report CY 2013	<p>Fully Implemented.</p> <p>The insurance coverage of the administrative building includes contents. Thus, the IT/Office Equipment under GL 207 and Furniture and Fixtures under GL 226 are adequately insured. Also, the Reservoirs, Pumping Stations and Chlorine Houses are duly covered by the GSIS insurance.</p> <p>In so far as the Utility Plant in Service (UPIS), management has still to verify with GSIS if they will cover these assets.</p>	<p>Considered Fully Implemented.</p>

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Nos. 33 and 141, and for the protection of the interests of the government.			
<p>3. The cash deposited for Debt Service Reserve and Operation and Maintenance Reserve is still very much below the requirement under the loan agreement with LWUA. This situation is not only an "event of default" under the loan contract but may also deprive the water district of adequate/ready cash resources for extraordinary repairs and replacement of facilities.</p> <p>We recommended and management agreed to secure from LWUA the signed contracts for the four loan availments to enable the water district to accurately allocate/deposit the cash for the reserve requirements.</p>	Triennium Audit Report CYs 2010-2012	<p>The loans obtained from LWUA were refinanced by the Development Bank of the Philippines (DBP) in 2015.</p> <p>As at December 31, 2015, the Joint Savings Account (JSA) with LWUA, at the Land Bank of the Philippines (LBP), is still for closure and has a balance of P3,006,584.05.</p>	<p>Considered Fully Implemented.</p> <p>The audit recommendation was overtaken by new events.</p>
<b>Partially Implemented</b>			
<p>4. The Accounts Receivable – Trade (A/R) and Metered (Water) Sales accounts were each overstated by P315,502.65 due to a system generated change of the previously recorded water sales of January 2014, which matter was not detected during the closing of the books of accounts. If not immediately resolved/corrected, this amount will add on to the unsubstantiated Accounts Receivable of previous years which still have a balance of P375,309.01 as of December 31, 2014, making the A/R balance not reliable.</p> <p>We recommended that management direct the Accounting Division, Finance Services Department, to</p>	Annual Audit Report CY 2014	<p>The corresponding adjustments have been made under JV Nos. 15-02-0056 and 15-02-0061 to correct the account balances that were affected due to programming errors.</p> <p>Management has still noted instances of programming errors but they are closely monitoring the account balances to avoid similar erroneous balances in the future.</p> <p>This subject matter has also been brought to the programmer but still to be resolved.</p>	<p>Considered Partially Implemented.</p> <p>As discussed in Audit Observation No. 4.a, two adjustments were drawn to correct the overstatement noted in 2014 which subsequently caused an understatement in the A/R balance of 2015.</p>

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<p>draw a Journal Entry Voucher (JEV) for the adjustments that will correct the errors noted. Thereafter, we recommended a monthly reconciliation of the GL Balance of the Accounts Receivable (A/R) with the related Aging of Accounts Receivable for early detection and resolution of differences.</p> <p>We likewise recommended that management review the access controls and the rights given to edit information previously entered in the computer systems to prevent unauthorized data changes.</p>			
<p>5. Payments for supplies and services totaling P239,207.50 were made to appear as "reimbursement" to certain employees when in fact CWD checks were issued either during or days before the scheduled activity. This decision may result in a financial statement carrying unreliable information and is a violation of Section 172 of GAAM, Volume I. Further verification of the transactions disclosed that: (a) Taxes were not withheld from the gross amounts due the suppliers, and (b) All purchases were not supported with canvass of prices which is a requirement under the Government Procurement Reform Act.</p> <p>We recommended that all payments be made thru check to be issued in the name of the supplier concerned pursuant to Section 172 of GAAM, Volume I. Moreover, we recommended that management require the Finance Services Department to withhold from the gross amounts due the suppliers the</p>	<p>Annual Audit Report CY 2014</p>	<p>The practice cannot be totally eliminated due to urgency of some expenses.</p> <p>Management gave assurance that as much as possible, payment of expenses shall go through the prescribed process.</p>	<p>Considered Partially Implemented.</p>

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<p>required withholding taxes under various BIR Revenue Regulations and to remit the same to the BIR within the deadline set.</p> <p>We also reiterated our previous year's audit recommendation for Management to comply with the Implementing Rules and Regulations of RA 9184 to ensure that all procurement activities will result in the most advantageous price/terms for the Water District.</p>			
<p>6. Several government regulations on foreign travel were not complied with either during the release of the travel cash advance or at the time of the liquidation thereof, as follows:</p> <ul style="list-style-type: none"> <li>Foreign travels of three officials with a total cost of P53,795.88 were not supported with the approved Authority to Travel Abroad, a requirement under Section 2.d of LWUA Memorandum Circular No. 010-10.</li> <li>All the officials who were on foreign travel have not submitted a report on the forums attended though required under Section 16 of Executive Order No. 298 and reiterated in Memorandum Circular No. 7, s. 2010, issued by the Office of the President on November 19, 2010.</li> <li>The liquidation reports for the Vietnam trip were not supported completely with the required documents, making it difficult to determine the correct DSA due the employees.</li> </ul>	<p>Annual Audit Report C Y 2014</p>	<p>Management committed to abide by the rules on foreign travel.</p>	<p>Considered Partially Implemented.</p> <p>Management no longer allows foreign travels without authority from LWUA, but they were not able to secure the "after the fact" approval for the foreign travels already undertaken.</p>

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<ul style="list-style-type: none"> <li>One official was paid the full Daily Subsistence Allowance (DSA) even if the invitation was inclusive of air fare and accommodation.</li> </ul> <p>We recommended that management require the officials concerned to:</p> <p>(a) Secure from LWUA an "after the fact" approval of their foreign travels; (b) Render and submit a report on the foreign travels undertaken as required under Section 16 of EO 298 and Memorandum Circular No. 7, s. 2010 of the Office of the President; (c) Refund the DSA granted for the Malaysia trip since the accommodation was paid by the sponsoring organization; and (d) Submit the Statement on the Travelling Expenses and Allowances shouldered by the sponsoring organization of the VietWater 2014 Forum with the Certificate of Participation as these documents will be the basis to attest the propriety of the expenses claimed in the Liquidation Report.</p> <p>Thereafter, see to it that all regulations on foreign travel are complied with prior to the grant of the cash advance for said official travel.</p>			
<p>7. There is no assurance that the year-end balance of the Accounts Receivable in the amount of P4.874 million was stated at its estimated realizable value, due to the following conditions:</p>	<p>Annual Audit Report CY 2013</p>	<p>Management has been abiding with the percentages for setting up of the Allowance for Doubtful Accounts (ADA) as provided in the NGAS Manual.</p>	<p>Considered Partially Implemented.</p> <p>The issues raised in the CY 2013 AAR are reiterated in this report.</p>

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<ul style="list-style-type: none"> <li>• The adequacy of the Allowance for Doubtful Accounts in the amount of P1,558,449.13 has not been reviewed/adjusted since CY 2004. Thus, the balance at year-end did not reflect the current status of the accounts.</li> <li>• The audit recommendation to identify the causes of the recurring differences between the General Ledger Balance and the Aging Schedule of Accounts Receivable and to effect the necessary adjustments in either books are considered not implemented since a difference of P376,551.23 still exists at year-end. The GL balance was still higher, which situation will not enable the agency to collect the accounts because the debtors were not identified.</li> </ul> <p>We recommended and management agreed to review the adequacy of the Allowance for Doubtful Accounts using the accounting policy adopted under the New Government Accounting System (NGAS). We also reiterated our previous year's audit recommendation for the Billing Division to send collection letters to all customers under the "inactive status" as this will determine the collectability of their accounts which is one factor to be considered in the review of the Allowance.</p> <p>We further reiterated our previous year's audit recommendation for the Accounting and Billing Divisions to identify the causes of the difference of P376,551.23 between the GL Balance and the Aging Schedule so that appropriate adjustments can</p>		<p>Management will review the adequacy and collectability of Accounts Receivable especially the inactive accounts.</p>	<p>The updated ADA for CY 2015, however, was not adequate to present the AR balance at its estimated realizable value.</p>

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either be effected or a request for write-off be initiated.			
<p>8. The purchase of the various software to automate the operating processes of the Water District was contrary to existing government procurement regulations, as follows:</p> <ul style="list-style-type: none"> <li>The procurement for the computerization of the water district's various processes/operations which amounted to P380,000.00 was done without the benefit of public bidding or any of the alternative methods of procurement, a decision which is contrary to Sections 10 and 48 of the Implementing Rules and Regulations (IRR) of RA 9184. Moreover, this procurement transaction was not posted in the PhilGEPS bulletin board which is a requirement under Section 8.2.1 (a) of the aforementioned IRR. Thus, there was neither an assurance that the most advantageous price for the government was obtained nor was there a concrete basis to ascertain the technical capability of the firm/supplier.</li> <li>The Memorandum of Agreement (MOA) contained a provision for the payment of fifty percent (50%) of the contract amount which is not in conformity with the instructions under Item 4.3, Annex D, IRR of RA 9184.</li> <li>The agreement did not include a provision on liquidated damages which is also a requirement under Section 68 of the IRR.</li> </ul>	Annual Audit Report CY 2013	<p>As of December 31, 2015, the Water District is still using the programs developed by JM K IT Solutions. Unfortunately, there are still unresolved issues which were not addressed by the programmer.</p> <p>The WD is still holding a portion of the payment for the contract amounting to P63,333.26 as at December 31, 2015.</p>	<p>Considered Partially Implemented.</p> <p>Several of the issues on procurement that was raised in this audit observation are reiterated in the herein Audit Report.</p>

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<ul style="list-style-type: none"> <li>The MOA further contains a provision for CWD to refund all expenses incurred by the contractor during the travel to the Water District such as transportation, board and lodging, per diems of Php 800.00/day which is considered a disadvantageous stipulation because said expense was not time-bounded nor was supported with a list of personnel authorized to travel and the purposes for said travels. As it is, this particular expense may considerably add to the cost of the project but may not be noticed by the Water District.</li> <li>The Disbursement Vouchers (DVs) for the monthly installments were not supported with a Certificate of Acceptance from the Water District on the work items accomplished, a practice which is not in keeping with the rules and regulations of an effective internal control system.</li> </ul> <p>We recommended that Management require strict compliance of the Implementing Rules and Regulations of RA 9184 so that all procurement activities will result in the most advantageous price/terms for the Water District. We further recommended that Management validate the accomplishments of JMK IT Solutions to serve as basis in the computation of the liquidated damages that shall be imposed on the supplier. Thereafter, we recommended that all liquidated damages be deducted from any money due or may become due to the supplier pursuant to Item 3.2 of</p>			



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<p>Annex D, IRR of RA 9184.</p> <p>We also recommended that Management use as reference COA Circular No. 2012-001 dated June 14, 2012 on the subject: Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions, when effecting payment to employees, suppliers and other parties.</p>			
<p>9. The government counterpart for the BODs contribution to the Provident Fund is without legal basis since Section 5.1.1 of DBM Budget Circular No. 2008-3 limits the membership to the Fund to only the incumbents of positions, whether permanent, casual or contractual in nature. Accordingly, the subject expense is considered an irregular expenditure.</p> <p>We recommended that management secure from the Department of Budget and Management (DBM) an authority to provide a government counterpart for the BODs contribution to the Provident Fund.</p> <p>If such authority will not be granted, direct the Provident Fund to return to the Water District the government shares remitted from CY 2009 up to the present. In the meantime, we recommended the suspension of this particular benefit.</p>	<p>Triennium Audit Report C Y s 2010-2012</p>	<p>Carcar Water District (CWD) no longer provides a government counterpart for the BODs contribution to the Provident Fund.</p> <p>CWD has sent a letter to the DBM Secretary for the approval of the government counterpart in the provident fund contributions of BOD members but as of December 31, 2013, the Water District has only received an acknowledgement letter informing that the letter-referral is for evaluation.</p>	<p>Considered Partially Implemented.</p> <p>The government counterpart covering the following periods, January to March 2011 and January to December 2012, in the total amount of P108,596.25 has not yet been returned to the Water District.</p>
<p>10. The balance of the Land account in the amount of P2.748 million cannot as yet be fully relied upon for the following reasons:</p>	<p>Triennium Audit Report C Y s 2010-2012</p>	<p>Processing of the documents to establish legal ownership of lands in question is on-going.</p>	<p>Considered Partially Implemented.</p>

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<ul style="list-style-type: none"> <li>• Eleven parcels of land with an approximate area of 1,239.50 square meters are still not titled in the name of C W D, a situation which exposes the Water District to possible adverse claims from third parties. Accordingly, the financial statement assertion on "rights and obligations" has not yet been fully established.</li> <li>• Two parcels of donated land with an approximate area of 83.5 square meters are without recorded value.</li> <li>• The land area of two parcels of land as contained in the Deeds of Donation differed with that stated in the Report of the Physical Count of Utility Plant In Service (UPIS) as of December 31, 2012.</li> <li>• The physical inventory report carried an information that the land where the office building is located has an encumbrance but without clear explanation.</li> <li>• The water district paid the Real Property Tax (RPT) of a parcel of land covered by Tax Declaration No. 36260 from 2008 up to the present even if the Deed of Sale of said property was not consummated. Said parcel of land cannot be traced to the books of accounts nor in the inventory report.</li> </ul> <p>For the above audit observations, we recommended and management agreed to implement the following courses of action:</p>			<p>The issues on land titling and valuation are reiterated in this report.</p>

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<ul style="list-style-type: none"> <li>• Closely monitor the titling of the properties donated and/or purchased by the Water District. If needed, require the IRDO to submit a quarterly status report on the titling of CWD acquired lots to enable top management and the Board to consider other alternatives that will fast track the titling process.</li> <li>• Seek assistance from the Office of the City Assessor for the valuation of lots without recorded value.</li> <li>• Direct the Industrial Relations Development Officer (IRDO), the person in charge of land titling, to review the documents pertaining to the lands acquired but with differences in land area as appearing in either the TD or in the Deed of Sale / Donation and the Saducas lot.</li> <li>• Update the remarks column in the Report of the Physical Count of Utility Plant In Service to either correct or expand the explanatory notes.</li> </ul>			
<p>11. The expenses that were capitalized and treated as reforestation project do not qualify as an asset of the water district under paragraphs 49 (a), 89 and 90 of the Framework for the Preparation and Presentation of Financial Statements. Moreover, the expenses incurred by Barangay Guadalupe in the amount of P150,000.00 which formed part of the account balance are regular operating expenses of the Barangay and not for a watershed management program. Also, the financial</p>	<p>Triennium Audit Report CYs 2010-2012</p>	<p>The Water District is still coordinating with the officials of Barangay Guadalupe regarding the 2<sup>nd</sup> audit recommendation</p>	<p>Considered Partially Implemented.</p> <p>The financial assistance has still to be properly liquidated. This is still outstanding in the books of accounts under Due from Local Government Units (GL 125).</p>

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<p>assistance of P150,000 was erroneously recorded as Advances to Officers and Employees.</p> <p>We recommended that management direct the Department Manager C – Finance to close the asset account, Reforestation by way of Prior Period Adjustments to Retained Earnings. Henceforth, we recommended strict compliance of the provisions on the recognition of assets as set forth in the Framework for the Preparation and Presentation of Financial Statements.</p> <p>Furthermore, we recommended that management require Barangay Guadalupe to replenish the P150,000 that was erroneously used by the Barangay so that the funds can be used for watershed management programs as agreed upon in the MOA.</p> <p>On the accounting aspect, we recommended the use of GL Account Code 125, Due from Local Government Units, for moneys transferred to local government units that are subject for liquidation.</p>			
<b>Not Implemented</b>			
<p>12. The account balance of the Property, Plant and Equipment (PPE) still cannot be fully relied upon because the difference between the physical count and the combined Subsidiary Ledger (SL) balances of five major PPE sub-accounts increased by P3,370,580.68 or approximately 179.13% if compared with the difference of P188,159.93 in CY 2013. The difference, which has not been fully resolved at the time of</p>	<p>Annual Audit Report CY 2014</p> <p>Annual Audit Report CY 2013</p>	<p>Management listed seven (7) transactions that could resolve the variance noted in the CY 2014 audit.</p>	<p>Considered Not Implemented.</p> <p>This issue is reiterated in this report.</p> <p>The seven (7) transactions were already reflected in the Annual Audit Report (AAR) of</p>

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<p>audit, could either be errors in the recording of transactions by both the Accounting Division and the Supply Unit, differences in the valuation of certain items or in extreme case loss of properties.</p> <p>We recommended that management require the Accounting Division and the Supply Unit to reconcile the results of the physical count of CY 2014 with the related accounting and property records, preferably within the first semester of the ensuing year, so that all identified differences can be disposed of / adjusted by year end.</p>			<p>CY 2014 and only three (3) were reported as adjusted in 2015.</p>
<p>13. The misstatement in the Construction in Progress account remained unresolved as the account still carried the costs of completed projects and transactions for adjustments which totaled P7.862 million or approximately 82.15% of the year-end balance of P9.571 million. The delay in the transfer of the completed projects which totaled P6.881 million to the appropriate PPE accounts has consequently misstated the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation as well as the depreciation expense for the year. Hence, until corrected, this circumstance will repeatedly overstate the reported income at the end of the year.</p> <p>We reiterated the following audit recommendations, with minor revisions, to ensure the reliability of the Construction in Progress (CIP) account balance in the ensuing year:</p>	<p>Annual Audit Report CY 2014</p>	<p>In a written reply, management stated the following:</p> <p><i>"The district is continuously exerting efforts to close completed projects to UPIS. However, due to manpower constraints and availability of source documents, some completed projects were not closed.</i></p> <p><i>Henceforth, we commit to hasten the closing of completed projects to UPIS and charge the corresponding amount of depreciation expenses. We have recently added technical manpower to speed up the preparation of as-built plans of completed projects."</i></p>	<p>Considered Not Implemented.</p> <p>A similar issue is reiterated in this report.</p>

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<ul style="list-style-type: none"> <li>• Direct the Department Manager B – Finance Services Department to draw the Journal Entry Vouchers (JEVs) for the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts. Thereafter, require the computation of the monthly depreciation expense using as reference the guidelines set forth in COA Circular No. 2004-003 dated October 4, 2004.</li> <li>• Improve the coordination between the Finance Services Department (FSD) and the Operations and Maintenance (O &amp; M) Division with regards to the Construction in Progress transactions. As an initial step, require the O &amp; M Division to furnish FSD all the papers pertaining to completed projects within one (1) month after the date of completion to regularly adjust the CIP account particularly on projects undertaken during the year.</li> <li>• Review the year-end schedules supporting the CIP accounts so that the needed adjustments can be effected before the closing of the books of accounts.</li> </ul>			
<p>14. Abnormal and dormant balances, including one erroneous subsidiary account balance which was an outcome of the inappropriate accounting treatment of the covering transaction, still formed part of the year-end account balance of various asset and liability accounts, a condition which may mislead users of the financial statements in making sound economic decisions. This</p>	<p>Annual Audit Report CY 2014</p> <p>Triennium Audit Report CYs 2010-2012</p>	<p>Management stated, in a written reply, that all efforts have been exhausted to trace the supporting documents of these dormant accounts but to no avail. This was due to the office transfers the Water District had undergone which resulted in the loss of some files.</p>	<p>Not Implemented.</p> <p>Management is planning to ask permission/approval from COA to write off the dormant account balances.</p>

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<p>situation also suggests that the Finance Services Department has not regularly monitored the disposal of these cases that resulted in the carry-over of the above-mentioned balances in the next accounting period.</p> <p>We recommended that Management require the Finance Services Department to set a timetable for the re-verification/analysis of the abnormal and dormant account balances including the errors noted with a deadline for drawing the adjustments on these deficiencies. We also reiterated our previous years' audit recommendation requiring a semestral review of the composition/details of account balances so that dormant items / abnormal balances contained therein can immediately be acted upon.</p>		<p>With the above concern, the management considers presenting to the Board their proposal to initiate the process of writing off these accounts.</p>	
<p>15. The Gender and Development (GAD) Plan and Budget for CY 2014 was not submitted to the Philippine Commission on Women for approval and endorsement as required under Section 8.0 of PCW - NEDA-DBM Joint Circular No. 2012-01. Thus, without PCWs review, there is no assurance that all the listed GAD activities are addressing women concerns and gender issues. Moreover, the amount allocated for GAD activities was less than the mandated 5% of the approved Corporate Operating Budget.</p> <p>We recommended that Management request from PCW a "post-approval" of their CY 2014 GAD Plan and Budget so that the expense incurred can be appropriately post audited.</p>	<p>Annual Audit Report CY 2014</p>	<p>The Water District has submitted its 2016 GAD Budget to the LWUA.</p>	<p>Considered Not Implemented.</p> <p>This subject matter is reiterated in this report.</p>

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Henceforth, we recommended that Management strictly comply with the instructions on the preparation of the GAD Plan and Budget and the GAD Accomplishment Report as enumerated in PCW-NEDA-DBM Joint Circular No. 2012-01 and its Annexes.			
<p>16. The Board of Directors was granted in CY 2011 a Year-End Financial Assistance and Cash Gift without approval from the President as required under Section 8 (d) of Executive Order No. 24 dated February 10, 2011.</p> <p>We recommended that management require the concerned members of the Board of Directors to refund the Year-End Financial Assistance and Cash Gift granted in CY 2011.</p> <p>We further recommended that management strictly comply with the instructions contained in Section 3 of Executive Order No. 65 dated January 2, 2012 when granting allowances and other benefits to the members of the Board of Directors.</p>	Triennium Audit Report CYs 2010-2012	Financial benefits for the members of the Board of Directors (BODs) aside from "per diems" have been suspended since January 2012 up to the present.	<p>Considered Not Implemented.</p> <p>The concerned BODs have not refunded the benefits granted though without the approval of the President.</p> <p>For issuance of Notice of Disallowance.</p>