

## PART II

### OBSERVATIONS AND RECOMMENDATIONS

1. The balance of the Property, Plant and Equipment (PPE) account still cannot be relied upon due to the: (a) unresolved differences between the GL balance, the lapsing schedule and the results of the physical count and (b) carry-over of completed projects in the CIP account.

The following audit exceptions, which had been brought to the attention of management in previous audit reports, are reiterated in the current year's report as these conditions materially affect the fair presentation and reliability of the Property, Plant and Equipment (PPE) account balance as at December 31, 2015.

- a. The General Ledger (GL) account balances of five PPE accounts cannot be relied upon since their balances had not been reconciled with the lapsing schedule and the results of the physical inventory count.

The following tables show comparisons between the PPE balances of five PPE accounts per General Ledger (GL), the lapsing schedule and the results of the physical inventory count (PC).

**Table I Comparison Between the Balances in the General Ledger (GL) and Lapsing Schedule**

GL Code	Description	Per GL	Per Lapsing Schedule	Difference
203	Plant (UPIS)	101,739,148.48	100,036,945.38	P 1,702,203.10
204	Buildings and Other Structures	8,958,279.77	8,489,928.94	468,350.83
207	Office Equipment	3,517,925.60	3,475,843.65	42,081.95
225	Other Machinery and Equipment	9,661,690.76	8,998,300.34	663,390.42
226	Furniture and Fixtures	1,122,982.43	1,204,644.57	(81,662.14)
	<b>TOTAL</b>	<b>125,000,027.04</b>	<b>122,205,662.88</b>	<b>P 2,794,364.16</b>

A lapsing schedule also serves as a subsidiary record and as such, the totals thereof, must reconcile with the general ledger (GL) balance. In the case of Carcar Water District, only the lapsing schedule for the Land Transportation Equipment tallied with the GL balance.

**Table II Comparison Between SL Balances and Physical Count (PC) – Test Basis**

SL Code	Description	Per SL	Per Count	Difference
	<b>GL 203 (Plant - UPIS)</b>			
203-04	Wells	8,070,882.73	7,985,837.73	P (85,045.00)
203-09	Transmission and	62,643,953.94	61,922,364.35	(721,589.59)

SL Code	Description	Per SL	Per Count	Difference
	Distribution Mains			
203-12	Meters (Flow meters)	1,988,504.97	1,852,402.33	(136,102.64)
203-13	Meter Installations	15,877,950.65	15,720,546.01	(157,404.64)
203-14	Fire Hydrants	373,683.03	53,924.97	(319,758.06)
203-17	Water Meters (1/2 Insert)	250,601.86	251,578.84	976.98
	<b>Sub-Total</b>	<b>89,205,577.18</b>	<b>87,786,654.23</b>	<b>(1,418,922.95)</b>
	<b>GL 204 – Buildings and Other Structures</b>			
204-03	Water Treatment Structures and Improvement	1,075,726.11	1,075,763.71	37.60
204-05	Administrative Structures and Improvement	7,765,116.03	7,296,727.60	(468,388.43)
	<b>Sub-Total</b>	<b>8,840,842.14</b>	<b>8,372,491.31</b>	<b>(468,350.83)</b>
	<b>GL 207 – Office Equipment</b>			
207-01	IT Equipment	1,586,973.70	1,530,743.00	(56,230.70)
207-04	Calculators	9,115.00	5,990.00	(3,125.00)
207-07	Canon Photocopier	82,000.00	0.00	(82,000.00)
207-08	Canon Digital Camera	210,187.00	182,187.00	(28,000.00)
	<b>Sub-Total</b>	<b>1,888,275.70</b>	<b>1,718,920.00</b>	<b>(169,355.70)</b>
	<b>GL 225 – Other Machinery and Equipment</b>			
225-01	Power Production Equipment	1,136,963.46	1,122,645.46	(14,318.00)
225-02	Pumping Equipment	412,768.19	347,094.19	(65,674.00)
225-03	Water Treatment Equipment	1,344,430.00	982,420.00	(362,010.00)
225-04	Stores Equipment	3,000.00	49,620.00	46,620.00
225-05	Communications Equipment	379,729.20	409,519.00	29,789.80
225-06	Power Operated Equipment	1,805,699.97	1,617,147.17	(188,552.80)
225-07	Tools, Shop and Garage Equipment	1,300,112.55	1,270,161.07	(29,951.48)
225-09	Acoustic Leak Sounding System	432,487.50	521,146.56	88,659.06
225-10	Sound System	143,850.00	138,570.00	(5,280.00)
225-15	Power Generator	2,545,440.00	2,484,940.00	(60,500.00)
	<b>Sub-Total</b>	<b>9,504,480.87</b>	<b>8,943,263.45</b>	<b>(561,217.42)</b>
	<b>GL 226 – Furniture and Fixtures</b>			
226-01	Office Furniture and Fixtures	240,148.48	323,091.62	82,943.14
226-02	Electric Fan/Aircon	480,910.00	458,570.00	(22,340.00)
226-04	Chairs	213,723.00	227,313.00	13,590.00
226-06	Office Tables	46,187.50	44,883.50	(1,304.00)
	<b>Sub-Total</b>	<b>980,968.98</b>	<b>1,053,858.12</b>	<b>72,889.14</b>
	<b>TOTAL</b>	<b>P 110,420,144.87</b>	<b>P 107,875,187.11</b>	<b>P (2,544,957.76)</b>
<b>Note:</b> The shaded figures are the same as that reported in the AAR of CY 2014.				

The difference is a strong indication that the Accounting Division and the Supply Unit has not yet reconciled their related records on Property, Plant and Equipment though this matter had already been brought to the attention of management in the Annual Audit Reports of CYs 2013 and 2014. Reconciliation of the results of the physical count, the

subsidiary records and the related GL balances is a control measure to ensure a reliable PPE account balance.

We reiterated our audit recommendation for management to direct the Accounting Division and the Supply Unit to reconcile the results of the physical count with the related accounting and property records, preferably before the end of the ensuing year, so that all identified differences can be disposed of/adjusted at the latest during the closing of the books of accounts of the said year.

In the exit conference, management stated that they are aware of the discrepancies between the GL balances and the physical count and lapsing schedule but still they could not identify/trace the cause of the difference. They committed to coordinate with the concerned divisions for the appropriate actions to be taken on this regard.

b. Completed projects costing P5.212 million are still carried in the Construction in Progress account, a condition that has not been fully addressed by management. In consequence, the following audit exceptions remained unresolved: (a) misstated Plant (UPIS) and Buildings and Other Structures account balances and their related Accumulated Depreciation; (b) understated depreciation expense for the year and (c) overstated income.

An extensive discussion on the same subject matter is contained in the Annual Audit Reports of CYs 2013 and 2014. In the current year's audit, a similar condition was again noted in the analysis of the Construction In Progress Account (GL 243 and GL 244).

In a certification issued by the In-Charge of Projects of the Carcar Water District (CWD), the following projects that are still carried in the Construction In Progress (CIP) accounts were already completed/finished as of December 31, 2015:

**Table III Completed Projects/ Items For Adjustments Still in the CIP Account**

SL Account Code	Project Title	Date Completed	Amount	Remarks
243-13	New Distribution Lines	01.31.2009	P 26,872.32	Same amount in the 2013 and 2014 Annual Audit Reports (AAR). Dormant balance since February 2009.
243-17	Pipeline Extension 161 M (Bonsai, Bolinawan)	04.02.2012	(4,547.50)	For adjustment; Same amount in the 2014 AAR.
243-38	Pipeline Extension – Dandan , Upper Cogon	06.29.2012	11,332.91	Same amount in the 2013 and 2014 AAR.
243-39	Lateral Pipeline Ibabao, Perrelos	08.30.2012	349,532.35	Same amount in the 2013 and 2014 AAR.

SL Account Code	Project Title	Date Completed	Amount	Remarks
243-43	CW D Fire Hydrant – CW D Bldg.	110.6.2013	40,048.78	Same amount in the 2013 and 2014 AAR.
243-57	Proposed Booster Pump – Caipilan	04.19.2013	188,139.28	Same amount in the 2013 and 2014 AAR.
243-58	Pipeline Extension – Mahayahay, Liburon	06.16.2014	450,604.37	Same amount in the AAR of CY 2014.
243-61	Liburon Pumping Station (2013)	05.10.2013	302,339.88	Same amount in the 2013 and 2014 AAR.
243-63	Pipeline Extension – Lumbia, Can-asujan (2013)	09.30.2013	284,165.72	Same amount in the 2013 and 2014 AAR.
243-64	Dist. Line Improvement – Perrelos (2013)	08.23.2013	56,120.19	Same amount in the 2013 and 2014 AAR.
243-72	Pipeline Rehabilitation – Theotokos	09.30.2013	130,256.19	Same amount in the 2013 and 2014 AAR.
243-73	Pipeline Extension – Kalindoy, Liburon	09.13.2013	112,133.57	Same amount in the 2013 and 2014 AAR.
243-74	Pipeline Extension – Oliveros, Can-asujan	10.18.2013	203,349.45	Same amount in the 2013 and 2014 AAR.
243-87	Watershed Management Program		979,562.13	For adjustment; Same amount in the 2014 AAR.
243-92	Pipeline Extension – Dandan	12.06.2013	76,697.70	Same amount in the 2013 and 2014 AAR.
243-93	Pipeline Extension – Bantayan 2013	12.05.2013	238,002.45	Same amount in the AAR of CY 2014.
243-94	Additional Water Source – Ibabao, Perrelos (2013)	07.10.2014	1,915,016.39	Same amount in the AAR of CY 2014.
243-95	Clustering Transfer of Meters – Liburon (2014)	03.07.2014	47,313.51	Same amount in the AAR of CY 2014.
243-96	Brass Water Meter Repair		2,990.00	(1)
243-98	Clustering/Transfer of Meters – Baesije	04.02.2014	57,385.33	Same amount in the AAR of CY 2014.
243-101	400m Pipeline Rehabilitation – Liburon 2014		55,762.72	(2)
243-103	Clustering/Transfer of Meters – Dapdap 2014	07.02.2014	35,321.90	Same amount in the AAR of CY 2014.
243-105	4 Units Stall – Mainit, Guadalupe	07.15.2014	55,721.68	Same amount in the AAR of CY 2014.
243-108	Fabrication of 7" Mechanical Sleeve Type Coupling – Poblacion Areas and Cambutan, Bolinawan	09.24.2014	32,041.00	Same amount in the AAR of CY 2014.
	<b>Sub - Total</b>		<b>P 5,646,162.32</b>	
244-01	Motorpool (Cogon)		P 261,238.42	Same amount in the 2013 and 2014 AAR.
244-02	Construction (Office Workshop)		123,814.60	Same amount in the 2013 and 2014 AAR. Dormant balance since October 2008.
244-05	Partition Shelves and Benches (CW D Commercial)		48,548.93	Same amount in the 2013 and 2014 AAR.

SL Account Code	Project Title	Date Completed	Amount	Remarks
				Dormant balance since July 2009.
244-09	Repair of Service Vehicle (SD-8610) – for adjustment		70.00	Same amount in the 2013 and 2014 AAR.
244-10	Repair of Service Vehicle (SD 8647) – for adjustment		2,048.35	Same amount in the 2013 and 2014 AAR. Dormant balance since September 2009.
244-11	Repair of Service Vehicle (SD 8656) – for adjustment		1,361.00	Same amount in the 2013 and 2014 AAR. Dormant balance since August 2009.
244-18	Watershed Management Program 2010	12.30.2010	(456.00)	Same amount in the 2013 and 2014 AAR. For adjustment.
244-22	Improvement of Warehouse	05.22.2012	2,215.00	Same amount in the AAR of CY 2014.
244-28	Proposed Comfort Room – CWD Bldg.	12.07.2013	105,766.53	Same amount in the AAR of CY 2014.
	<b>Sub-Total</b>		<b>P 544,606.83</b>	
	<b>Grand Total</b>		<b>P 6,190,769.15</b>	

The table above shows, that except for two projects (shaded portions), all the others had already been identified by management as either completed or for adjustments since 2013. In particular, the repairs of service vehicles that were included under the CIP – Buildings and Other Structures account are for adjustments.

As of December 31, 2015, The Construction In Progress (CIP) accounts of CWD had a total balance of P14,816,274.24, details shown in the table below. Of the total, P5,212,731.17 (P4,671,147.69 plus P541,583.48) pertain to the costs of completed projects.

**Table IV CIP Account Summary**

GL Code	Account Description	Balance (12.31.2015) <b>A</b>	Cost of Completed Projects / for Adjustments <b>B</b>	Percentage <b>B / C</b>
243	Construction in Progress – Plant	P 14,269,354.42	P 4,671,147.69	39.57
244	Construction in Progress – Buildings and Other Structures	546,919.82	975,014.63	
			541,583.48	99.58
			3,023.35	
	<b>TOTAL</b>	<b>P 14,816,274.24</b>	<b>P 6,190,769.15</b>	<b>41.78</b>
<b>** For adjustments</b>				

As was emphasized in the CY 2013 and CY 2014 Annual Audit Reports, the delay in the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts has misstated the balances of the UPIS and the Buildings and Structures accounts. In consequence, the depreciation expense for the year and the corresponding accumulated depreciation of said PPEs were understated which eventually overstated the reported income for the same period.

We recommended that management direct the Division Manager – OIC Finance to locate the documents for the aforementioned completed projects so that the appropriate adjustments can be drawn before the closing of the books of accounts in 2016. 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.

Also, we reiterated our audit recommendation requiring a year-end review of the schedules supporting the CIP accounts so that the needed adjustments can be effected before the closing of the books of accounts.

Close coordination between the Finance Services and the Operations and Maintenance Divisions is needed for a thorough review of the year-end schedules supporting the CIP accounts. From our test verification, we noted differences in the cost recorded by the Finance Services and that reflected in the Quarterly Report on Government Projects/Programs/Activities (QRGPPA) as submitted by management to the Commission On Audit for the Fourth Quarter of CY 2015. The following were the results of the comparison.

**Table V Comparison of the Recorded Costs with the Costs per QRGPPA**

SL Code	Project Description	As Recorded Per Books	As Reported Per QRGPPA	Difference
243-110	Watershed Management Program 2014	302,850.79	302,850.49	P .30
243-123	Guadalupe Water System Improvement	3,751,760.75	3,716,020.75	35,740.00
243-131	Installation of 110 units W M at Buenavista	98,129.48	178,129.48	(80,000.00)
243-132	Installation of 52 units Water Meter (Guimbaliwan)	45,314.99	93,960.99	(48,646.00)
243-133	Well Drilling – Tapal, Guadalupe	5,000.00	5,000.00	.00
243-134	Well Drilling – Relis, Cambuntan	5,000.00	5,000.00	.00
	<b>TOTAL</b>	<b>4,208,056.01</b>	<b>4,300,961.71</b>	<b>P (92,905.70)</b>

During the exit conference, management commented that some of the balances pertain to old projects but could not be reclassified to the PPE account due to lack of supporting documents while the others were really for reclassification but were missed out. They assured that the appropriate reclassification entry shall be done when all the documents to support the adjustments can be located.

2.a A parcel of land acquired in 2015 with an area of 100 square meters was paid even if the disbursement voucher was not supported with the necessary documentary requirements as enumerated under Sections 13.1 and 13.2 of COA Circular No. 2012-001. This circumstance is not only a violation of Section 4(6) of PD 1445 but may also lead to delay in the titling of the land in the name of the Water District.

Section 4(6) of PD 1445, known as the Government Auditing Code of the Philippines directs that: "*Claims against government funds shall be supported with complete documentation.*"

COA Circular No. 2012-001 dated June 14, 2012 treats on the subject: Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions. Section 13.1 enumerates the documentary requirements for the acquisition of land, and we quote:

Documentary Requirements common to both Negotiated Purchase and Payment by Court Decision

- Project parcellary survey plan showing that said lot and structures are within the boundaries of the right-of-way;
- Structural Mapping Plan of the lot affected;
- Certification from the Head of the Implementing Office that there is no previous pending claim and previous payment on subject property;
- Environmental Clearance Certificate (ECC) as required under Section 8 of RA No. 8974;

Additional Documentary Requirements

- Independent Appraisal Report/Regional Committee Resolution indicating the valuation of the land. Valuation should be based on the provisions of RA No. 8974;
- Applicable BIR Zonal Value;
- Deed of Absolute Sale registered with the Register of Deeds (now Land Registration Authority) where the land is located;
- Certified Photocopy of Tax Clearance from Assessor's Office where the land is located
  - Certificate Authorizing Registration (CAR)
  - Capital Gains Tax (CGT)
  - Documentary Stamp Tax (DST)
  - Transfer Tax
- If unregistered land
  - Certified photocopy of TD in the name of the procuring entity or previous owner with **annotation of sale** (Emphasis Supplied)
  - Notarized affidavit of Ownership

- Certification from the City/Municipal Treasurer that the claimant is the sole entity paying the taxes of the property for the past five years
- Notarized joint affidavit of two adjoining landowners or Barangay/Local Officials concerned attesting to the ownership of land
- Such other documents deemed necessary for the auditorial review and in the technical evaluation thereof

During the year, the Carcar Water District acquired a parcel of land containing an approximate area of 100 square meters located at Tapal, Guadalupe, Carcar City, to be developed as additional water source, as per Board Resolution No. 46, Series of 2015, dated November 23, 2015. The following were the information gathered from the review of the disbursement voucher (DV) for said purchase.

Type of Document (original copies with Management)	Remarks
1. Check	LBP Check No. 353660 in the amount of P27,500.00 dated <b>December 9, 2015</b> was payable to Everett B. Cui and Haidee C. Alesna.
2. Disbursement Voucher	Disbursement Voucher (DV) No. 15-12-1168 in the name of Everett B. Cui and Haidee C. Alesna dated <b>December 9, 2015</b> in the amount of P27,500.00 was duly certified by Ms. Sheille Marie A. Alicaba, Division Manager – OIC Finance and approved by Engr. Edward L. Remo, General Manager (GM) with the payees affixing their signatures on the “Received Payment” portion of the DV.
3. Deed of Absolute Sale	Entered into between the vendors, Everett B. Cui and Haidee Cui Alesna and the vendee, Carcar Water District, represented by GM Edward L. Remo, duly executed and notarized on <b>December 11, 2015. A supporting document to the paid DV.</b>
4. Board Resolution No. 46 (Series of 2015)	This Resolution dated November 23, 2015 is entitled: “A Resolution Authorizing the General Manager of Carcar Water District to Buy a Lot in Tapal Guadalupe a Portion of One Hundred (100) Square Meters in the Amount of Twenty Seven Thousand Five Hundred Pesos (P27,500.00)”. <b>A supporting document to the paid DV.</b>

From the above table, it can clearly be seen that management has allowed the payment of said lot acquisition even if the basic documents required for the transaction have not yet been submitted/completed. This is a breach of one of the fundamental principles governing financial transactions of government as set forth in Section 4(6) of PD 1445. To reiterate, this Section states that: “*Claims against government funds shall be supported with complete documentation.*”

It shall be relevant to mention that the disbursement voucher with the check was made two days earlier than the execution of the Deed of Absolute Sale.



We recommended that management secure the required documents to validate the purchase transaction, which papers will simultaneously fast track the titling of the acquired lot in the name of the Water District.

Management, during the exit conference, informed that they have yet to obtain the documents mentioned in the second paragraph.

**2.b Four donated lots with a total land area of 282 square meters have not yet been recorded in the books of accounts because of lack of valuation.**

The audit of the “land” account was last highlighted in the Triennium Audit Report covering Calendar Years 2010-2012. In the current year’s audit, we found additional parcels of land that were donated after 2012 but have not yet been taken up in the books of accounts as well as in the physical inventory report of CY 2015. The details are:

DONOR / Lot Description	Area (in sq.m.)	Year Donated	Auditor’s Observations / Remarks
<p>1. Spouses Esperanza Bacus Empasis and Teodoro Empasis</p> <p>This lot is a portion of a parcel of land designated as Lot 3023 covered with Tax Declaration No. 25949 situated in Ibabao, Perrelos, Carcar City, Cebu, consisting of an area of 1,770 square meters more or less.</p>	52	2013	<p>This donation was covered with a Deed of Donation dated October 14, 2013, executed by the spouses and the water district, represented by its General Manager, Engr. Edward L. Remo. The document was notarized on the same day.</p> <p>Tax Declaration (TD) No. 25949 which covers the mother lot to which the portion has been donated to the water district is under the name of Bacus, Esperanza &amp; Empasis, Doro.</p> <p>Management has to reconcile the name appearing in the TD with that of the Deed of Donation by securing the following: the NSO Birth Certificate of Teodoro Empasis; the Marriage Certificate of Teodoro Empasis and Esperanza Bacus and affidavit of two disinterested persons attesting that “Doro Empasis” and “Teodoro Empasis” is one and the same person.</p> <p>Clarification is also needed for the surname. In the TD it was</p>

D O N O R / Lot Description	Area (in sq. m.)	Year Donated	Auditor's Observations / Remarks
			spelled as "Empacis" while in the Deed of Donation, it was "Empasis"
<p>2. Felipe S. Gaviola, Jr.</p> <p>The donated lot is a portion of Lot 3695-Q under TCT No. CT-10054 located in Can-asujan, Carcar City, Cebu.</p>	100	2014	<p>The Deed of Donation was executed between the donor and the water district, represented by its General Manager, Engr. Edward L. Remo, on August 26, 2014.</p> <p>In addition to the conditions cited in the paragraph after this table, the Deed of Donation specifically included the following: <i>"That the water supplied by the deep well/pumping station will prioritize the reservoir in Saay, Can-asujan, particularly located adjacent to the property of the DONOR before the same will be distributed to the households in the neighboring areas or elsewhere."</i></p>
<p>3. Josefa Salvacion Nacua Manugas</p> <p>The donated lot is a portion of a parcel of land designated as Lot 4418-F with an area of 4,349 square meters more or less situated in Cogon, Poblacion I, Carcar City, Cebu, with the donor as one of the co-owners.</p>	50	2015	This donation was covered with a Deed of Donation dated August 19, 2015, executed by the donor and the water district, represented by its General Manager, Engr. Edward L. Remo. The document was notarized on the same day.
<p>4. Catalino Bardinas</p> <p>This lot is a portion of Lot No. 2443-F representing his share of TCT-3196 under Tax Declaration 43125.</p>	80	2015	This donation was covered with a Deed of Donation dated December 11, 2015, executed by the donor and the water district, represented by its General Manager, Engr. Edward L. Remo. The document was notarized on the same day.
<b>TOTAL</b>	<b>282</b>		

As indicated in the Deeds of Donation, the lots donated shall be used for the purpose of augmenting the sources of potable water which include the construction of a

water reservoir/pumping station/deep well drilling, thereby ensuring abundant source of water for the City of Carcar. Provided that in case Carcar Water District will no longer need the use of the said land, ownership will be reverted back to the Donor. In the case of the donation of M r. Felipe S. Gaviola, Jr., the return will be reverted back to the donor or his successors in interest.

All of the above-mentioned donated lots have not yet been recorded in the books of accounts, thus understating the assets of the water district for the year. As explained by Finance Services Department, the Water District cannot record the property for lack of monetary value.

Philippine Accounting Standard (PAS) 16 which treats on Property, Plant and Equipment (PPE) states in paragraph 7 that: *"The cost of an item of property, plant, and equipment shall be recognized as an asset if, and only if (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) the cost or fair value of the item can be measured reliably."* The same provision is contained in paragraph 14 of the Philippine Public Sector Accounting Standard (PPSAS) 17.

PPSAS 17 further states the following: Paragraph 26. *"An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost."* Paragraph 27. *"Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition."*

The above parcels of land are in addition to the unrecorded lots mentioned in the Triennium Audit Report covering Calendar Years 2010-2012.

**We recommended that management request the Carcar City Appraisal Committee or the Cebu Provincial Appraisal Committee to appraise all the donated lots so that the Water District will have a reliable basis for the costing and recording of the transactions in the books of accounts.**

Management has noted the recommendation during the exit conference.

**2.c Ownership of sixteen parcels of land which were either donated to or purchased by the Water District with a total approximate land area of 1,621.5 square meters has not yet been absolutely established as these properties are still not titled in the name of the Water District.**

The following table summarizes the lots that were acquired by the water district either thru purchase or donation but have not yet been titled in the name of Carcar Water District:

Lot No. / TD #	Mode of Acquisition	Year Acquired	Location	Area	Remarks
1155-A-2-P TD # 23823	1. Purchase	1993	Ocaña	240 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
9835-Part, Cad. 30-D TD # 23829; replaced by TD # 49454 and TD # 5892	2. Donation	1995	Ocaña	100 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
3357-B TD # 18206	3. Purchase	1995	Liburon	120 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
3341-B-1-Part TD # 41290	4. Donation	2005	Liburon	100 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
3739 TD # 19033	5. Donation	2005	Liburon	80 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
4436 TD # 35108	6. Purchase	2005	Poblacion I	16 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
1757-I TD # 35758	7. Donation	2005	Perrelos	10.5 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012.  In the inventory report of CY 2015, there is a notation that this lot has been returned to the owner but no papers were available at the time of audit to confirm the transaction.
1542-A TD # 33396	8. Donation	2006	Valladolid	73 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
Lot No. not indicated TD # 21280	9. Donation	2006	Napo	80 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012
6-Part TD # 44446	10. Donation	2010	Can-asujan	100 m <sup>2</sup>	Included in the Triennium Audit Report (TAR) of CYs 2010-2012

Lot No. / TD #	Mode of Acquisition	Year Acquired	Location	Area	Remarks
TD # 13182	11. Purchase	2010	Can-asujan	320 m <sup>2</sup>	Documents on this lot had not been seen during the current year's audit. Based on the TAR of CYs 2010-2012, the registered owners were Paulina / Eleuteria Semense.  In the inventory report of CY 2015, the land was used for a pumping station and covered with TD # 13182.
3023 TD # 25949	12. Donation	2013	Perrelos	52 m <sup>2</sup>	Not yet recorded in the books; No monetary value.
3695-Q-Part TCT No. CT-10054	13. Donation	2014	Can-asujan	100 m <sup>2</sup>	Not yet recorded in the books; No monetary value.
2443-F-Part TD # 43125	14. Donation	2015	Carcar City	80 m <sup>2</sup>	Not yet recorded in the books; No monetary value.
4418-F-Part TD # 35039	15. Donation	2015	Poblacion I	50 m <sup>2</sup>	Not yet recorded in the books; No monetary value.
5869-Part	16. Purchase	2015	Guadalupe	100 m <sup>2</sup>	An unregistered land
<b>TOTAL</b>				<b>1,621.5 m<sup>2</sup></b>	

We wish to remind management that untitled lands can pose a disadvantage to the water district and any government office as this circumstance exposes the entity to possible adverse claims from third parties. Without a Transfer Certificate of Title (TCT) in the name of the Carcar Water District (CWD), it can neither claim absolute ownership of the properties nor fully attest the financial statement assertion on "rights and obligations".

We reiterated our previous years' audit recommendation for management to closely monitor the titling of the lots donated and/or purchased by the Water District to certainly establish ownership.

As was reported in the Triennium Audit Report of CYs 2010-2012, only four (4) parcels of land are titled under the name of CWD, as follows:

TCT NO.	Date Issued	Place Issued	Area	Facilities Constructed
T-133918	6/02/2005	Cebu City	375 sq. m.	Tawog Reservoir I
T-109079	5/27/1999	Cebu City	419 sq. m.	Tawog Reservoir II

T C T N O .	D a t e I s s u e d	P l a c e I s s u e d	A r e a	F a c i l i t i e s C o n s t r u c t e d
T - 1 2 9 6 2 8	3 / 1 9 / 2 0 0 4	C e b u C i t y	6 7 1    s q . m .	C W D O f f i c e B u i l d i n g
T - 1 2 9 6 2 7	3 / 1 9 / 2 0 0 4	C e b u C i t y	7 0 5    s q . m .	C W D O f f i c e B u i l d i n g
		<b>T O T A L</b>	<b>2 , 1 7 0    s q . m .</b>	

In a written reply, management stated that the Water District has been working on the transfer and titling of the lots in its name.

3.        **The variances between the results of the physical inventory count and the balances appearing in the Stock Cards, Supplies Ledger Cards and General Ledger for three inventory accounts were not explained/resolved at year end, which condition affects the reliability of the account balance and indicative of a breakdown in the internal controls over inventories. A difference of P 646,298.35 was noted between the G L balance and the physical count.**

An internal control system consists of control features built into and made an integral part of an organization's processes to regulate and guide its operations to ensure that the following objectives are attained: **safeguard assets; check the accuracy and reliability of accounting data;** adhere to managerial policies; comply with laws and regulations; and ensure effective, efficient, ethical and economical operations [Philippine Government Internal Audit Manual (PGIAM) issued under DBM Circular Letter No. 2011-5 dated May 19, 2011]. (Emphasis Supplied)

Under the New Government Accounting System (NGAS), the Perpetual Inventory Method shall be adopted for inventories. Among others, the following are the features of this method as spelled out in the NGAS Manual:

- ❖ Purchase of supplies and materials for stock, regardless of whether or not they are consumed within the accounting period, shall be recorded as Inventory account. An inventory control account is maintained in the General Ledger (GL) on a current basis.
- ❖ Regular purchases shall be recorded under the Inventory account and issuance thereof shall be recorded based on the Report of Supplies and Materials Issued.
- ❖ The Accounting Unit shall maintain perpetual inventory records such as the Supplies Ledger Cards (SLC) for each inventory stock. The subsidiary ledger cards shall contain the details of the General Ledger accounts.
- ❖ For check and balance, the Property and Supply Office/Unit shall maintain Stock Cards (SC) for inventories. The balance in quantity per SC should always reconcile with the ledger cards of the Accounting Unit.

Reconciliation of the SLC and SC to the respective control account shall be done at the end of each month as required under Section 12 of the NGAS Manual, Volume II. It shall be emphasized that in any reconciliation, all differences have to be verified and resolved.

- ❖ An inventory report shall be prepared every six months in three (3) copies and shall be certified correct by the Inventory Committee and approved by the Head of the Agency.

The above prescribed procedures are done at Carcar Water District except that the differences noted between the results of the physical inventory count and the balances appearing in the General and Subsidiary Ledgers as of December 31, 2015 were not fully explained/resolved nor the balances reconciled, as shown in the following tables.

**Table I Comparison of the Balances per General Ledger (GL) and Physical Count (PC)**

Inventory Accounts	Balance Per General Ledger	On Hand Per Count	Variance
<b>Other Inventories (GL 169)</b>	<b>P 4,136,823.22</b>	<b>P 3,493,961.99</b>	<b>P (642,861.23)</b>
Water Meter (GL 169-01)		40,664.10	
Volumetric Meter (GL 169-02)		217,603.94	
Other Supplies and Materials (GL 169-03)		3,235,693.95	
<b>Maintenance Supplies Inventory (GL 159)</b>	<b>56,695.35</b>	<b>46,454.23</b>	<b>(10,241.12)</b>
Sub-Total	P 4,193,518.57	P 3,540,416.22	P (653,102.35)
<b>Office Supplies Inventory (GL 151)</b>	<b>187,549.46</b>	<b>194,353.46</b>	<b>6,804.00</b>
<b>TOTAL</b>	<b>P 4,381,068.03</b>	<b>P 3,734,769.68</b>	<b>P (646,298.35)</b>
<b>Note:</b> The data per <b>PC</b> as of December 31, 2015 were arrived at using a "work backward" procedure since the physical count was done in January 2016.			

**Table II Comparison of the Balances per Stock and Supplies Ledger Cards and Physical Count [data on Stock and Supplies Ledger Cards taken from the comparison prepared by the Inventory Committee titled "RECONCILED BALANCE" (to be referred to as RB for brevity)]**

Inventory Accounts	Balance Per CARD ***	On Hand Per Count (PC)	Variance
<b>Other Inventories (GL 169)</b>	<b>P 3,539,887.54</b>	<b>P 3,493,961.99</b>	<b>P (45,925.55)</b>
Water Meter (GL 169-01)	40,664.10	40,664.10	
Volumetric Meter (GL 169-02)	217,603.94	217,603.94	
Other Supplies and Materials (GL 169-03)	3,281,619.50	3,235,693.95	
<b>Maintenance Supplies Inventory (GL 159)</b>	<b>70,724.11</b>	<b>46,454.23</b>	<b>(24,269.88)</b>
<b>Office Supplies Inventory (GL 151)</b>	<b>240,634.78</b>	<b>194,353.46</b>	<b>(46,281.32)</b>
<b>TOTAL</b>	<b>P 3,851,246.43</b>	<b>P 3,734,769.68</b>	<b>P (116,476.75)</b>
<b>***</b> Referred to as Balance Per Stock and Ledger in the "RB"; GL 169-03 and GL 151 with adjustments for the materials presented without cost and mathematical errors			

Differences were also noted when the quantity per SLC (kept by the Accounting Division) and the SC (maintained by the Property Unit) were compared. Another variance were also noted when the information in the two cards were compared with the physical inventory count and those reflected in the statement on “Reconciled Balance” as prepared by the Inventory Committee. The samples taken were:

**Table III Comparison of the Balances in Quantity per Supplies Ledger Cards (SLC) and Stock Cards (SC)**

Inventory Description	As of December 31, 2015		Difference
	Per Supplies Ledger Card (SLC)	Per Stock Card (SC)	
<b>Other Inventories</b>			
Chlorine Dioxide	169	199	30
G.I. Pipe 75mm (3 x 20 ft.) Sch.40	76	56	(20) **
Mech. Elbow 100mm (4x90°)	8	9	(1)
Mech. Sleeve Type Coupling 100mm (4)	15	17	2
Mech. Sleeve Type Coupling 150mm (6)	16	16	0
Paint – EZ Coat Gloss Latex White	12	11	(1)
Rep. Piece Union-Coup (Plastic) ½ ”	209	206	(3)
Rep. Piece Union-Coup (Plastic) 1”	55	54	(1)
TeflonTape ¾	973	997	24
Tie Wire # 16	83	82	(1)
Volumetric Meter ½	132	134	2
<b>Maintenance Supplies Inventory</b>			
Shock Absorber	3	1	(2)
** Requisition and Issue Slip (RIS) No. 5024 dated 10/08/2015 not reflected in SLC			

**Table IV Comparison of the Balances in Quantity per Supplies Ledger Cards (SLC) and Per Physical Count (PC)**

Inventory Description	As of December 31, 2015		Difference
	Per Supplies Ledger Card (SLC)	Per Physical Count (PC)	
<b>Other Inventories</b>			
Chlorine Dioxide	169	139	(30)
G.I. Pipe 75mm (3 x 20 ft.) Sch.40	76	20	(56)
Mech. Elbow 100mm (4x90°)	8	8	0
Mech. Sleeve Type Coupling 100mm (4)	15	28	13
Mech. Sleeve Type Coupling 150mm (6)	16	23	7
Paint – EZ Coat Gloss Latex White	12	0	(12)
Rep. Piece Union-Coup (Plastic) ½ ”	209	179	(30)
Rep. Piece Union-Coup (Plastic) 1”	55	41	(14)
TeflonTape ¾	973	893	(80)



Inventory Description	As of December 31, 2015		Difference
	Per Supplies Ledger Card (SLC)	Per Physical Count (PC)	
Tie Wire # 16	83	0	(83)
Volumetric Meter ½	132	134	2
<b>Maintenance Supplies Inventory</b>			
Shock Absorber	3	2	(1)

*Table V Comparison of the Balances in Quantity per Stock Cards (SC) and per Physical Count (PC)*

Inventory Description	As of December 31, 2015		Difference
	Per Stock Card (SC)	Per Physical Count (PC)	
<b>Other Inventories</b>			
Chlorine Dioxide	199	139	(60)
G.I. Pipe 75mm (3 x 20 ft.) Sch.40	56	20	(36) $\mu$
Mech. Elbow 100mm (4x90°)	9	8	(1)
Mech. Sleeve Type Coupling 100mm (4)	17	28	11
Mech. Sleeve Type Coupling 150mm (6)	16	23	7
Paint – EZ Coat Gloss Latex White	11	0	(11)
Rep. Piece Union-Coup (Plastic) ½ ”	206	179	(27)
Teflon Tape ¾	997	893	(104) $\neq$
Tie Wire # 16	82	0	(82)
Volumetric Meter ½	134	134	0
<b>Maintenance Supplies Inventory</b>			
Shock Absorber	1	2	1
$\neq$ may represent undetected losses			
$\mu$ could be unrecorded transactions			

*Table VI Comparison of the Balances in Quantity per statement on Reconciled Balance (RB), Per Supplies Ledger Card, Per Stock Card and per Physical Count (PC)*

Inventory Description	As of December 31, 2015			
	Per RB (Stock & Ledger)	Per SLC	Per SC	Per PC
<b>Other Inventories</b>				
Chlorine Dioxide	215 $\emptyset$	169	199	139
G.I. Pipe 75mm (3 x 20 ft.) Sch.40	56	76	56	20
Mech. Elbow 100mm (4x90°)	6	8	9	8
Mech. Sleeve Type Coupling 100mm (4)	17	15	17	28
Mech. Sleeve Type Coupling 150mm (6)	16 *	16	16	23
Paint – EZ Coat Gloss Latex White	11	12	11	0
Rep. Piece Union-Coup (Plastic) ½ ”	205	209	206	179
Rep. Piece Union-Coup (Plastic) 1 ”	54	55	54	41

Inventory Description	As of December 31, 2015			
	Per RB (Stock & Ledger)	Per SLC	Per SC	Per PC
Teflon Tape ¾	973	973	997	893
Tie Wire # 16	82	83	82	0
Volumetric Meter ½	134	132	134	134
<b>Maintenance Supplies Inventory</b>				
Shock Absorber	4 Ø	3	1	2
<p>* The balance per SLC should have been 15[ending balance as of 10/26/15 of five (5) plus ten (10) pcs. purchased on 11/27/2015]</p> <p>Ø A clear samples of a breakdown in the controls over inventories. In four (4) related records, the balance in quantity was not the same. <b>As reflected in the inventory report, there is a shortage of 76 kilos (215 less 139) of Chlorine Dioxide which is equivalent to P49,400.00.</b></p>				

The variances presented in the six (6) tables above are strong manifestations of breakdowns in the controls over inventories which affect the reliability of the account balances and, if not addressed, may even result in late detection of losses/lost inventory items. From the overall results, it would appear that there are shortages to be explained by the Property Unit. It shall be stressed that, unless with an approved relief from property accountability to be issued by the Commission on Audit, all lost inventory items shall be exacted from the persons responsible for the loss.

Errors in recording, releasing of inventory items without an approved Requisition and Issue Slip (RIS) and undocumented return of items to the Property Unit were among the reasons given for the variance. As an example, we noted that the balance in both SC and SLC for the Checkered Plate (14 x 4 x 8) as of December 31, 2015 was two (2) pieces with a value of P6,430.66 but the result of the physical inventory count was zero. The matter was initially treated as a shortage but on July 28, 2016 the Property Unit claimed that there was actually an issuance of said item in 2015. In order to effect the issuance, RIS No. 2016-07-04478 was issued to cover the difference. In another case, 20 pieces of G.I. Pipe 75mm (3x20), Sch. 40, was issued and covered with RIS No. 5024 dated October 8, 2015 but was not reflected in the Supplies Ledger Card (SLC). This kind of scenario prevents timely/accurate recording of inventory issuances which can cause discrepancies in the GL balance and in the inventory subsidiary records, the SLC and PC.

Hence, until and unless the differences found are resolved, the inventory account balances at year end cannot be relied upon, which condition may affect the decisions of the users of the said financial data.

On the other hand, there were obsolete office supplies totaling P34,726.00 which was sold by the water district at P1,780.00 on December 9, 2015 without recognizing the loss of P32,946.00 from the sale of said items. Instead, the sale was recorded as Other Business and Service Income which circumstance is another indication of a breakdown in the internal control system for inventories. The above items were still carried in the

column “Balance Per Card” in the **R B** but with the notation “disposed after the inventory count. The details of the supplies sold are:

<b>Description</b>	<b>Unit Cost</b>	<b>Quantity</b>	<b>Amount</b>	<b>Remarks</b>
Computer Printer Ink HP 21	655.00	12	P 7,860.00	Sold to Melfred Mainit
Computer Printer Ink HP 22	825.00	5	4,125.00	for P1,780.00 on
Computer Printer Ink HP 45B	1,825.00	7	12,775.00	December 9, 2015 under
Computer Printer Ink HP 27	891.00	2	1,782.00	OR No. 25357.
Computer Printer Ink HP 78C	1,610.00	3	4,830.00	
Computer Ink HP 901 Colored	1,118.00	3	3,354.00	
<b>Total</b>			<b>P 34,726.00</b>	

We recommended that management require the Accounting Division and the Property Unit to reconcile, at the end of each month, the balances appearing in the GL, SLC and PC to facilitate identification of the causes for variances, if any. Thereafter, effect the necessary adjustments to correct either records.

The following are the recommended “general” procedures for the reconciliation of inventory balances:

- a) See to it that the Accounting Division and the Property Unit are using the same source documents for recording inventory transactions, such as:

<b>Transaction</b>	<b>Posting Document / Instructions</b>
Purchases	Duly Accomplished Inspection and Acceptance Report with the Supplier's Invoice
Issuances to End Users	<p>Duly Approved Requisition and Issue Slip (RIS)</p> <p>All RISs issued during the month are to be summarized in a monthly Report of Supplies and Materials Issued (equivalent to the MSIJ) which is the basis for the Journal Entry Voucher (JEV)/Journal Voucher (JV) to take up the supplies consumption for the month.</p> <p><b>Direct the Property Unit to release inventory items only upon presentation of an approved RIS.</b></p>
Adjustments	Duly approved JEVs/JVs with the supporting documents

- b) Require the Accounting Division to update postings to the Supplies Ledger Cards (SLC) and the Property Unit their Stock Cards (SC).
- c) At the end of the month, require the Accounting Division to prepare a statement comparing the quantity on hand per SLC and SC. Take

note of differences and identify the causes. Then, effect the necessary adjustments to correct either records.

- d) Require the Accounting Division to prepare, at the end of each month, a separate statement on inventories on hand (per inventory class) which shall contain at least the following data: Description of Item; Quantity On Hand; Weighted Cost Per Item and Total Value. Compare the total value per statement with the inventory control account balance in the General Ledger. Identify the cause/s of variances, if any, and effect the necessary corrections.
- e) Require the Stock Custodian to conduct a test count every end of the month to ensure that all recorded items are on hand. In case of overage or shortage, require an immediate investigation.
- f) Instruct the Inventory Committee to conduct the physical count, preferably before the end of the fiscal year, so that the results thereof can be compared with the related records kept by the Accounting Division and Property Unit. Differences/Variances noted have to be resolved before the closing of the books of accounts.
- g) At the end of the year, require the Supply Unit to submit a list of obsolete/expired items still to be disposed of so that these matters can be brought to the attention of management. This condition is indicative of over requisitions of supplies which is an uneconomical practice.

Also, require the Supply Unit to submit an annual report of sold obsolete/expired inventory items to serve as basis in counterchecking the accounting entries made for sales during the year.

In a written reply, management stated that a Corrective Action Report (CAR 16-10-007) has been issued to the Administrative Division, the results of which will be presented to top management for appropriate action. Likewise, covered in the same CAR is the formulation of a process to be followed in the issuance of materials on non-working days.

In the exit conference, management narrated some of the flaws in the handling of inventory items which they themselves have identified. They committed to improve/correct the existing processes/practices on the matter and agreed to undertake a monthly reconciliation of the inventory records to be done by the Accounting Division and Supply Unit.

**4.a The balance of the Accounts Receivable-Trade of P4.866 million was understated by P353,739.51 due mainly to simple errors in the recording of transactions/adjustments. This condition could have been corrected had the Accounting Division drawn the necessary adjustments for the identified reconciling items seen during the reconciliation of Accounts Receivable.**

In the Annual Audit Report (AAR) of CY 2014, we recommended a monthly reconciliation of the General Ledger (GL) balance of the Accounts Receivable (AR) with the related Aging of Accounts Receivable for early detection and resolution of differences. This audit recommendation was only partially implemented since no adjustments were drawn for the identified reconciling items seen during the reconciliation process.

As was stated in the CY 2014 AAR, the Water District is utilizing two systems that affect the AR-Trade account, namely: the Full Utilities Billing and Collection System for the billing and collection and the Accounting System for the recording of transactions in the books. Though the two systems had been linked in order to facilitate faster operation, regular reconciliation of the outputs of the two systems is necessary for timely detection, investigation and correction of discrepancies.

In the current year's audit, we found that the balance of the AR-Trade in the amount of P4,866,646.88 was understated by P353,739.51 due mainly to simple errors in the recording of transactions/adjustments, as summarized below:

**Table 1 Details of the Transactions That Caused the Understatement**

<b>Month</b>	<b>Amount</b>	<b>Remarks</b>
January 2015	P 156.00	Total collections was taken up as P5,214,155.94 instead of P5,213,999.94.
April 2015	2.00	Total billings was taken up as P5,933,042.45 instead of P5,933,044.45
August 2015	315,502.65	Double posting of the correcting entry for the overstatement of AR in CY 2014 ( <b>Audit Observation No. 1 in the CY 2014 AAR</b> ). The 1 <sup>st</sup> adjustment was made in February 2015 and the 2 <sup>nd</sup> in August 2015.
October 2015	8,299.31	Total billings was taken up as P5,115,695.46 instead of P5,123,994.77
December 2015	29,779.55	Total billings was taken up as P5,158,154.51 instead of P5,187,934.06
<b>Total</b>	<b>P 353,739.51</b>	

Except for the error noted in January 2015, all the other discrepancies/errors had been corrected through JV No. 16-06-0157 dated June 30, 2016.

As of December 31, 2105, the following were the AR balances as appearing in the books of accounts (General Ledger) and in the Aging of Accounts Receivable:

**Table II Comparison of the AR Balance Per General Ledger and Aging Schedule**

General Ledger		Aging Report		Discrepancy	
P	4,491,337.87**	P	4,835,895.72**	P	344,557.85
<p>** Balance Per Books of P4,866,646.88 less P375,309.01, the unsubstantiated ARs under GL Code 111-02.</p> <p>** Total of the positive balances in the amount of P4,851,081.26 less advance payments of P15,185.54 equals P4,835,895.72.</p>					

Using the data from the preceding table, it is obvious that there is an understatement in the AR balance as recorded in the books of accounts. The variance of P344,557.85 shall be reduced by P353,739.51 (See Table I) thereby leaving an unexplained difference of P9,181.66. This recurring difference between the GL and SL balances still has not been fully addressed in the current year.

We recommended and management agreed to closely monitor the AR balance thru the preparation of a monthly reconciliation statement of Accounts Receivable, immediate adjustment of the identified reconciling items and semestral review of the GL postings.

We wish to emphasize that management and the other users of the financial statements of the Water District must be provided with an accurate AR balance considering that its actual revenue is primarily generated from collections of accounts receivable. Hence, errors and variances must be corrected/resolved before the closing of the books of accounts.

Also, thru the preparation of a monthly reconciliation statement of Accounts Receivable (a comparison of the GL Balance and the Aging of Accounts Receivable) and semestral review of the GL postings, the reliability of the computer systems used by the Water District can be indirectly assessed.

**4.b The Allowance for Doubtful Accounts in the amount of P149,651.91 is considered not adequate to fairly present the estimated realizable value of the Accounts Receivable (AR) since a total of P2,102,901.65, which is approximately 43.21% of the AR balance of P4,866,646.88, pertains to inactive accounts with doubtful collectibility. This condition, if not corrected, affects the reliability of the AR balance at year end.**

The Manual on the New Government Accounting System provides that trade receivables shall be valued at their face amounts minus, whenever appropriate, allowance for doubtful accounts. Bad Debts expense and/or any anticipated adjustments, which in the

normal course of events will reduce the amount of receivables from the debtors to estimated realizable values, shall be set up at the end of the accounting period.

An allowance for doubtful accounts is a contra-asset account that records the portion of a company's receivables, **which it expects may not be collected** ([www.investopedia.com](http://www.investopedia.com) - Emphasis Ours).

Analysis of the aged customers' accounts for CY 2015, under GL 111-01, showed the following composition:

**Table I Status of Accounts [Per Aging Schedule of Accounts Receivable (AR)]**

Active accounts	Inactive Accounts	Total AR
P 2,748,179.61	P 2,102,901.65	<b>P 4,851,081.26</b>
56.65 %	43.35 %	<b>100.00 %</b>

**Table II Age of the Inactive Accounts**

Age	Amount	%
1 - 60 days	P 31,574.89	1.50
61 - 180 days	105,948.58	5.04
181 days - 1 year	112,914.79	5.37
More than 1 year	1,852,463.39	88.09
<b>TOTAL</b>	<b>P 2,102,901.65</b>	<b>100.00</b>
*** Inactive accounts are the unpaid bills of concessionaires whose water service connections had already been disconnected at year end.		

From the above data, it can reasonably be concluded that the present Allowance for Doubtful Accounts is not adequate to present the Accounts Receivable (AR) balance at its estimated realizable value. As computed, the Allowance for Doubtful Accounts in the amount of P149,651.91 is only 7.12% of the total inactive accounts of P2,102,901.65. In addition, the AR balance of P4,866,646.88 (GL 111-01 in the amount of P4,491,337.87 plus GL 111-02 totalling P375,309.01) includes the unsubstantiated Accounts Receivables of prior years totaling P375,309.01 (GL 111-02) which has to be considered in determining the Allowance to be set up at the end of year.

As further noted, the number of inactive accounts had increased by 68, from 835 in 2014 to 903 in the current year. Simultaneously, the amount increased to P2,102,901.65, an unfavorable increase of P216,967.93 or approximately 11.50% from that of 2014 which was P1,885,933.72.

From our review, the Allowance set up was solely based on the percentages provided for under Section 66 of the NGAS Manual Volume I. On this regard, we wish to stress that the policy on the setting up of the Allowance shall also take into consideration the collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experiences of the agency, expected loss experiences and identified

doubtful accounts. To recall, this subject matter was also discussed in the Annual Audit Report of CY 2013.

**We recommended that management send collection/demand letters to all concessionaires under the inactive accounts and those active accounts aged more than 1 year so that the Accounting Division will have a reliable basis for the setting-up of the Allowance for Doubtful Accounts.**

In a written reply, management stated the following and we quote: *“The management has been abiding with the percentages for setting up of Allowance for Bad Debts as provided in the NGAS Manual.”* and *“Based on this recommendation, management will review the adequacy and collectability of Accounts Receivable especially the inactive accounts.”*

On this regard, we reiterate that the application of the percentages as provided for under Section 66 of the NGAS Manual has to be supplemented with identification of doubtful accounts, a “must” factor for inactive A/R balances since their water service connections had already been disconnected.

**5.a Three reconciling items in the submitted bank reconciliations statements were not properly reviewed/erroneously posted which resulted in an incorrect adjusted cash balance at year end. Misinterpretation of certain provisions of GAFMIS Circular Letter No. 2002-001 dated December 16, 2002 is considered one the causes for the erroneous classification of issued checks.**

The form of the Bank Reconciliation Statement (BRS) being prepared by Carcar Water District is where both bank and book balances are reconciled to a correct cash balance. However, our audit disclosed that the BRSs for two bank accounts were not correctly prepared which resulted in an incorrect adjusted cash balance at year end. The reconciling items that were not properly reviewed/erroneously posted pertains to the unreleased checks, outstanding checks and deposits in transit (**see shaded areas**) as shown in the following tables.

**Table I DBP CA# 0736-024365-030 Bank Reconciliation Statement**  
**(as prepared by the Accounting Division)**

Transaction	Balance Per General Ledger	Balance Per Bank	Difference
Balance as of December 31, 2015	P 2,833,040.46	P 2,931,977.68	P 98,937.22
Add (Deduct) Adjustments			
Interest Income as of December 31, 2015	2,418.78		
Unreleased Checks	(106,438.36)		
Outstanding Checks		(202,956.80)	
<b>Reconciled Book/Bank Balance</b>	<b>P 2,729,020.88</b>	<b>P 2,729,020.88</b>	



The above reconciliation statement did not result in a correct adjusted cash balance due to the erroneous adjustments. The unreleased checks, in the instant case, is not a reconciling item for this bank account since the Accounting Unit has properly reverted to the cash balance these checks (JV No. 15-12-0338 dated 12/29/2015) as required under GA FM IS Circular Letter No. 2002-001 dated December 16, 2002. We quote, for clarity, a simple explanation on the rationale for the adjustment of the Cash in Bank balance due to unreleased checks at year end (p. 37, Chapter 2, Intermediate Accounting based on PFRS/IFRS, Volume 1, Nenita S. Robles/Patricia M. Empleo, 2007 Edition):

*“Undelivered or unreleased checks are the company’s checks drawn and recorded but are not actually issued or delivered to the payees as of the balance sheet date. Technically, checks drawn by a company should not be deducted from the company’s cash balance until they have mailed or otherwise delivered. Therefore, these checks should be reverted to the cash balance. As a result, liabilities that the checks are intended to liquidate still exist and should be reported as current payables.”*  
(Emphasis Supplied)

Further verification disclosed that the amount reported as unreleased checks was more by P3,000.00, as shown below (in red ink):

**Table 11 Details of the Unreleased Checks**

Date	Payee	Check No.	Amount As Recorded	Should Be Amount
9/10/15	Wacker Machines Supply	50763329	P 5,156.25	P 5,156.25
11/20/15	Lauron Refrigeration	50763506	<b>6,062.50</b>	<b>5,062.50</b>
12/02/15	Perseus Safety & Security	50763539	16,049.30	16,049.30
12/15/15	Perseus Safety & Security	50763555	29,453.91	29,453.91
12/23/15	Cebu Agua Lab	50763576	7,968.75	7,968.75
12/28/15	Yale Hardware Corp.	50763578	<b>8,293.74</b>	<b>6,293.74</b>
12/28/15	Perseus Safety & Security	50763586	29,453.91	29,453.91
12/29/15	St. Catherine of Alexandria	50763589	4,000.00	4,000.00
<b>TOTAL</b>			<b>P 106,438.36</b>	<b>P 103,438.36</b>

Also, the unreleased checks were erroneously included in the outstanding checks that were deducted from the bank balance. Thus, after applying the correct reconciling items, the adjusted cash balance shall be P2,832,459.24. Shown on the next page is the corrected Bank Reconciliation Statement for the DBP account.

**Table III DBP CA# 0736-024365-030 Bank Reconciliation Statement**  
**(as corrected)**

Transaction	Balance Per General Ledger	Balance Per Bank	Difference
Balance as of December 31, 2015	P 2,833,040.46	P 2,931,977.68	P 98,937.22
Add (Deduct) Adjustments			
Unrecorded Interest Income as of December 31, 2015	2,418.78		
Error in the "total" of the reported unreleased checks (See Table II)	(3,000.00)		
Outstanding Checks		99,518.44	
<b>Reconciled Book/Bank Balance</b>	<b>P 2,832,459.24</b>	<b>P 2,832,459.24</b>	

On the other hand, the correct adjusted cash balance for LBP Account No. 3502-1001-56 shall be P6,768,456.21. At all instance, a deposit in transit shall be a reconciling item under the "bank section" of the Bank Reconciliation Statement (BRS) and not under the "book section" as was seen in the BRS prepared by the Accounting Division.

**Table IV LBP CA# 3502-1001-56 Bank Reconciliation Statement**  
**(as prepared by the Accounting Division)**

Book Balance	P 6,765,350.71	Bank Balance	P 6,752,387.32
Reconciling Items:		Reconciling Items:	-
• Interest Income	2,805.50	-	
• Cash Deposit by a Supplier not yet taken up in the books	300.00	-	
• Deposits in Transit	(16,068.89)	-	
<b>Reconciled Balance</b>	<b>P 6,752,387.32</b>	<b>-</b>	<b>P 6,752,387.32</b>

The deposits in transit of P16,068.89 were local checks that were already deposited in the Bank on December 29, 2015 but not yet included in the Bank balance since these were deposited after the Bank's cut-off time for check deposits. Thus, from the Bank's side this will be treated as next day's transaction. These deposits were posted in the bank statement on January 4, 2016. While, the Water District had already recorded these deposits in December 2015 and therefore should not be deducted from the Book balance. Hence, to reiterate, the correct adjusted cash balance shall be P6,768,456.21 (Bank Balance of P6,752,387.32 plus the deposits in transit of P16,068.89).

Management replied that the erroneous reconciling items were overlooked during the review and committed that a thorough verification/review of the bank reconciliation statements shall be done effective immediately.

**5.b The month-end cash balances in the Daily Cash Position Report have not been reconciled with the related account balances per General Ledger. At the time of audit, a difference of P1.04 million was noted.**

The following table shows that the cash balances for two bank accounts as reflected in the General Ledger (GL) and in the Daily Cash Position Report (DCPR) of the Cashiering Unit differed by P1,040,299.00 as at December 31, 2015:

**Table V Comparison of the Cash In Bank Balances per General Ledger (GL) and Daily Cash Position Report**

<b>Bank /Account No.</b>	<b>Balance Per General Ledger (12.31.2015)</b>	<b>Balance Per Daily Cash Position Report (12.31.2015)</b>	<b>Difference</b>
LBP CA # 3502-1001-56	P 6,765,350.71	P 7,117,637.17	P (352,286.46)
DBP CA # 0736-024365-030	2,833,040.46	1,440,455.00	1,392,585.46
<b>TOTAL</b>	<b>P 9,598,391.17</b>	<b>P 8,558,092.17</b>	<b>P 1,040,299.00</b>

Our inquiry disclosed that there has been no quarterly reconciliation of the two records which is a violation of Section 181 (c) of the Government Accounting and Auditing Manual, Volume I, which states that:

*“x x x The accountable officer and the Accountant shall reconcile their books of accounts at least quarterly.”*

At the time of audit, the Cashier and the Accounting Division have yet to identify the causes for the variance since they have not, ever since, reconciled their related records.

It shall be emphasized that the Daily Cash Position Report of the Cashiering Unit is in effect a subsidiary ledger for Cash and therefore its balance has to be reconciled with the related control account balance in the General Ledger. One of the basic internal control standards requires that the amount appearing in the subsidiary ledger must be equal to the amount reported in the control account. Considering that Cash is the most liquid asset of any entity, reconciliation of the two records is a must in order to establish accuracy and reliability of the cash balance and for early detection of defalcation.

**We recommended that management require a thorough review of the Bank Reconciliation Statements and a regular reconciliation of the cash balances as reflected in the Daily Cash Position Report with the related General Ledger accounts to ensure accuracy and reliability of the Cash account balance in the books of accounts.**

As a reminder, a bank reconciliation is a process of matching the balances in an entity's accounting records for its cash account to the corresponding information indicated in the bank statement. The goal of the process is to reconcile differences, if any, between the two records and to book changes to the accounting or the bank records as deemed appropriate. The benefit of reconciling the books with the bank statement is basically the assurance that the amount of Cash reported by the company is consistent/the same with the amount shown in the bank's records, which entity is independent from that of management.

In the exit conference, management explained that the difference noted between the cash balances per General Ledger and Daily Cash Position Report (DCPR) was a result of the computer system that they are using for collections and disbursements. This matter will be looked into and the discrepancies noted will be adjusted accordingly. During the discussion, the Audit Team emphasized that whether the discrepancy was caused by the system or not, daily review of the DCPR should be implemented for timely detection and correction of errors which management agreed.

**6. A portion of the application fee for new water service connections as well as the reconnection fee for inactive accounts was recognized in the books of accounts as Other Deferred Credits only upon payment by the concessionaires which is not in conformity with the accrual basis of accounting adopted by the Water District and set forth in the Framework for the Preparation and Presentation of Financial Statements. Further, the use of the account Other Deferred Credits for these transactions is no longer appropriate under the recognition criteria for income in the Framework. On the other hand, payments received from cancelled/withdrawn applications of CYs 2011 and 2012 have not been returned to the customers at year end.**

One of the underlying assumptions in the Framework for the Preparation and Presentation of Financial Statements is Accrual Basis. For ready reference, we quote Paragraph 22 of the Framework:

*"In order to meet their objectives, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or the equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. Hence, they provide the type of information about past transactions and other events that is most useful to users in making economic decisions."*

The policy on accrual basis of accounting is likewise adopted under the Philippine Public Sector Accounting Standards (PPSAS) and in the New Government Accounting System (NGAS). The Philippine Application Guidance (PAG) in the PPSAS which has been prepared to suit the Philippine public sector situation, states in PAG 1, that:

*“Generally, the Philippine Public Sector Accounting Standards is on accrual basis except for transactions otherwise accounted for as required by law.”*

Paragraph 92 of the Framework further provides the criteria for recognition of income, as follows:

*“Income is recognized in the income statement when increase in future economic benefits related to an increase in an asset or a decrease of a liability has arisen that can be measured reliably. This means, in effect, that recognition of income occurs simultaneously with the recognition of increases in assets or decreases in liabilities (for example, the net increase in assets arising on a sale of goods or services or the decrease in liabilities arising from the waiver of a debt payable).”*

Carcar Water District Board Resolution No. 24, Series of 2015, dated May 30, 2014, sets forth the policy to increase and provide alternative means to inactive as well as prospective concessionaires thru service connection promo which ended September 30, 2014 for new service connections and June 30, 2014 for inactive accounts. This resolution provides the following fees:

**For New Connections (Application Fee)**

Description	Amount
Inspection Fee (Initial Payment)	P 150.00
After compliance of the required materials, excavation and other pertinent documents	350.00
Balance to be paid in 8 payments ***	2,000.00
<b>TOTAL</b>	<b>P 2,500.00</b>

\*\*\* Cost of materials for new service connections

1. P500 – down payment
2. 4 payments for materials costing up to P2,000.00
3. 8 payments for materials costing over P2,000.00

The expiry of application is one (1) month from date of application. Payments made are non-refundable upon expiry of application.

**For inactive accounts (Reconnection Fee)**

1. Reopening fee of P100.00 for all accounts which has remained inactive from 2013 & below
2. Staggered payment on materials:
  - 5 payments for materials costing P2,500.00
  - 8 payments for materials over P2,500.00

The above written policy is the closest guidelines on water service connection that could be compared with the actual procedures being done at present.

As was noted during the audit, except for the inspection fee of P150.00 for new water service connection and the reopening fee of P100.00 for reconnection of inactive accounts (both non-refundable) which are immediately treated as income, all portions of the aforementioned water application/reconnection fees are recorded as Other Deferred Credits.

Other Deferred Credits, a liability account, is coded in the books of accounts as GL 459 per CPS-NGAS Modified Chart of Accounts for Water Districts. Under the Commercial Practices System (CPS) of LWUA the account is defined as: *"Other Deferred Credits includes all deferred credits not covered by other liability accounts including advance billings and receipts and amounts that cannot be entirely liquidated or classified until additional information is received."*

In the latest Chart of Accounts (RCA) for Government Corporations (GCs) which includes Water Districts, issued under COA Circular No. 2015-010 dated December 01, 2015, the Other Deferred Credits account is defined as: *"This account is used to recognize other transactions not falling under any of the specific deferred credits accounts. Debit this account when related income is earned."*

For purposes of illustration and easy understanding of the subject audit exception, the following are the accounting entries prepared by the Accounting Division on the collection of application fees for new water service connections, at present:

**Table I      Accounting Entries Under the Existing Practice**

EXPLANATION	GL CODE	DEBIT	CREDIT
1. Cash-Collecting Officer Miscellaneous Service Revenue  To record the required down payment representing inspection fee ( <b>non-refundable amount</b> )	102 618-01	P 150.00	P 150.00
2. Cash-Collecting Officer Other Deferred Credits  To record receipt of the <b>P350.00</b> to be made after compliance of the required materials, excavation and other pertinent documents.	102 459	P 350.00	P 350.00
3. Cash Other Deferred Credits  To record the downpayment ( <b>first installment</b> ) for the cost of materials	102 459	P 250.00	P 250.00

EXPLANATION		GL CODE	DEBIT	CREDIT
The same entry shall be prepared until full payment of the materials which is estimated to cost <u>P2,000.00</u> . This amount was taken from the sampled approved applications of 2015.				
4.	Other Deferred Credits	459	P 2,350.00	
	Service Connection Materials ***	169-02		P 483.53
	Miscellaneous Service Revenue	618-01		1,866.47
To close the Other Deferred Credits after the completion of the water service connection/installation				
***	cost of the materials used			
	amount used taken from the 2015 MSIJ			

From the foregoing, it can be seen that the Other Deferred Credits account which is a liability account, was only recorded in the books at the time of payment. Thus, the practice is not only a deviation from the accrual basis of accounting but also prone to creating abnormal balances. The fourth transaction in the Table above will most likely be done after installation but before full payment of the application fee since any delay in the recording of this economic event will simultaneously affect the accuracy of the Other Inventories account (GL 169). In fact, the Other Deferred Credits account registered an abnormal balance of P70,025.98 as of end of CY 2014. This balance was thereafter forwarded in the current year without an analysis of the account composition or what caused the abnormal balance.

Furthermore, under the recognition criteria for income as set forth in the Framework for the Preparation and Presentation of Financial Statements, it is no longer appropriate to use the Other Deferred Credits account for the water service application fee. It shall be emphasized that after the Service Application and Installation Order has been approved, the Water District has already acquired a sufficient basis to recognize the transaction as income. In addition, the one-month expiry date of application under CW D Board Resolution No. 24, Series of 2014, may be considered the latest policy on water service application fee. Thus, cancelled applications of less than a month and delays in installations can only be considered exceptions. To stress, the accounting treatment for the new service application/reconnection fee has to be corrected since the approval of the application/reconnection is basically the starting point of water sales.

Moreover, under the present practice, there is no automatic check on the outstanding receivables from application fees because these receivables are not recorded in the books of accounts. From the promissory notes which serve as the subsidiary ledger for each concessionaire, the outstanding receivables as of year end amounted to P213,290.00 as presented below:

**Table II Unpaid Application Fees from CY 2011 to CY 2015**

Year of Application	Installment Receivable	Payments	Outstanding Balance
2011	2,350.00	600.00	P 1,750.00
2012	4,700.00	3,450.00	1,250.00
2013	44,650.00	18,050.00	26,600.00
2014	25,850.00	14,350.00	11,500.00
2015	230,300.00	58,110.00	172,190.00
<b>TOTAL</b>	<b>307,850.00</b>	<b>94,560.00</b>	<b>P 213,290.00</b>

The balance of P213,290.00 is less by P85,789.96 if compared with the account balance of the Other Deferred Credits which totaled P299,079.96. These two balances has to be reconciled because these are the results of one transaction, that of the remaining balance of the application fee in the amount of P2,350.00 per concessionaire. It shall be mentioned, that at the time of audit, the accounting system of the agency cannot generate a composition of the balance of the Other Deferred Credits account which could have been used as basis in vouching the transactions that might have caused the difference between the said account balance and the side record for the unpaid application fees.

Further verification disclosed payments of cancelled/withdrawn applications of 2011 and 2012 (recorded in another side record) which were credited to the Other Deferred Credits account but has not been adjusted as of year end. These payments are covered by two policies, namely: (a) Section 9.1 of the Utility Rules and Regulations of Carcar Water District which states that: *“If a water concessionaire, for whatever reason, may decide to withdraw his/her application for water service connection from the water district, the district shall return the amount for application fee she/he had paid to the water district but to be deducted the amount of fifty pesos (P50.00) or one hundred pesos (P100.00) if the withdrawal is made within a month or more than a month respectively from the filing date of the application for water service connection.”* and (b) CWD Board Resolution No. 02, Series of 2012, dated January 13, 2012 which provided that during the promotion period from January 16 to June 30, 2012, the downpayment for the application fee and materials can only be withdrawn after a 3-day prescribed period. Considering that the prescribed period for withdrawal in the second situation has lapsed, the application fees may now be treated as Other Business and Service Income – Miscellaneous Service Revenue (GL 618-01). The paid application fees for the cancelled/withdrawn applications amounted to P19,250.00, as follows:

**Table III Payments of Concessionaires With Cancelled/Withdrawn Applications**

Year Applied	Amount
2011	P11,250.00
2012	8,000.00
<b>TOTAL</b>	<b>P19,250.00</b>



As earlier discussed, the present practice is prone to errors. During the audit, the Accounting Division presented instances when the adjustments to the Other Deferred Credits account after installation (on a per customer account) were either more or less than the fixed remaining balance of P2,350.00.

We recommended that management direct the Accounting Division to record as Miscellaneous Service Revenue the application fee of P2,500.00 and the balance to be paid in installments as Accounts Receivable to conform with the recognition criteria for income and the accrual basis of accounting as set forth in the Framework for the Preparation and Presentation of Financial Statements.

The following accounting entries will illustrate the effects of the above-mentioned audit recommendation on the application fee received for new water service connection:

**Table IV Proposed Accounting Entries**

EXPLANATION		GL CODE	DEBIT	CREDIT
<b>A. APPLICATION FEE PAID IN FULL</b>				
a.1	Cash-Collecting Officer Miscellaneous Service Revenue  To record the full payment of the application fee of P2,500.00	102 618-01	P 2,500.00	P 2,500.00
a.2	Other Supplies Expense Service Connection Materials  To record the service connection materials used during installation	765 169-02	P 483.53	P 483.53
<b>B. APPLICATION FEE TO BE PAID BY INSTALLMENT</b>				
b.1	Cash-Collecting Officer Accounts Receivable Miscellaneous Service Revenue  To record the required down payment representing inspection fee (non-refundable) duly supported with the approved Service Application and Installation Order.	102 111-3 618-01	P 150.00 2,350.00	P 2,500.00
b.2	Cash-Collecting Officer Accounts Receivable	102 111-3	P 350.00	P 350.00

	EXPLANATION	GL CODE	DEBIT	CREDIT
	To record receipt of the payment of <b>P 350.00</b> after compliance of the required materials, excavation and other pertinent documents .			
b.3	Cash-Collecting Officer Accounts Receivable  To record the <b>first payment</b> for the estimated cost of the materials. <b>(amount used based on the sampled CY 2015 approved applications)</b>  <b>The same entry shall be prepared until full payment of the materials to be used which will cost P 2,000.00.</b>	102	P 250.00	P 250.00
b.4	Other Supplies Expense Service Connection Materials  To record the service connection materials used during installation.	765 169-02	P 483.53	P 483.53

The net Miscellaneous Service Revenue earned under this recommended set-up is still equal to that arrived at using the present accounting practice. It is only the manner of recording the revenue earned which differed. Using the Framework, the materials used are to be recorded as expense that shall then be deducted from the Miscellaneous Service Revenue recognized at the time of the down payment duly supported with the approved water service application. Obviously, this simple recording of the subject transaction eliminates/reduces reconciliation work as all events are properly recorded at the time of occurrence. Also, with this set-up, the Materials and Supplies Issues Journal (MSIJ) will now carry only transactions relating to inventory issuances and related expenses.

Management is requested to introduce a subsidiary GL Code for Accounts Receivable since under COA Circular No. 2015-010 dated December 01, 2015 re: Adoption of the Revised Chart of Accounts (RCA) for Government Corporations (GCs) which consist of Government-Owned or Controlled Corporations (GOCCs), Government Financial Institutions (GFIs), Government Instrumentalities with Corporate Powers (GICPs)/Government Corporate Entities (GCEs), and their Subsidiaries, and **Water Districts** (Emphasis Supplied), the Accounts Receivable account is defined as:

*“This account is used to recognize the amount due from customers arising from regular trade and business transactions. Credit this account upon collection of receivables, transfers or write-off.”*

**W e further recommended that the Accounting Division review the papers for the cancelled/withdrawn applications and thereafter cause the closure of the account using the policies existing at the time of payment. We likewise recommended that management indicate in the Service Application and Installation Order the expiry date of the application with a notation that all payments made are non-refundable after said date to serve as basis in closing the account.**

In a written reply, management stated that in line with their on-going preparation for ISO certification, a Corrective Action Report (CAR) will be issued to the Finance and Commercial Divisions to come up with the processes to be adopted so that the installation fees collected from concessionaires will be properly accounted for and presented in the Financial Statements. During the exit conference, management informed that they shall adopt the suggested accounting entries effective CY 2017.

**7. Several procurement transactions were awarded without complying the rules and regulations of RA 9184, the Government Procurement Reform Act.**

The revised Implementing Rules and Regulations (IRR) of RA 9184 shall apply to all procurement of any branch, agency, department, bureau, office or instrumentality of the GOP, including government-owned and/or controlled corporations (GOCCs), government financial institutions (GFIs), state universities and colleges (SUCs), and local government units (LGUs), except for transactions enumerated under Section 4.4 of the IRR.

Test verification of the procurement transactions of Carcar Water District in 2015 disclosed situations when the provisions of the above-mentioned IRR were not adhered to, as follows:

- a. *Procurements transactions above P50,000 were not posted in the PhilGEPS website, website of the water district and not regularly in the bulletin board reserved for the purpose, which practice is not compliant with the instructions under Section 3.d of the Guidelines for Shopping and Small Value Procurement. Thus, this practice has limited competition and transparency of the procurement process.*

Appendix 18 of the Handbook on Philippine Government Procurement deals on the Guidelines for Shopping and Small Value Procurement. Among others, Section 3 thereof, discusses the posting requirements, as follows:

- “d. RFQs\*\*\* shall also be posted for a period of seven (7) calendar days in the Philippine Government Electronic Procurement System (PhilG-EPS) website, website of the procuring entity, if available, and at any conspicuous place reserved for this purpose in the premises of the procuring entity. However, in the following instances, the posting requirement shall not be applicable:*

i. When there is an unforeseen contingency requiring immediate purchase under Section 52.1(a) of the IRR; or

ii. RFQs with ABCs equal to Fifty Thousand Pesos (Php 50,000.00) and below.”

\*\*\* RFQ – Request for Quotation

Review of the CY 2015 procurement transactions of the Water District disclosed several purchases above P50,000 where the RFQs were not posted in the PhilGEPS website, the website of the Carcar Water District (CWD) and not regularly in the bulletin board reserved for the purpose which is located within the premises of the office. As gathered, only the procurement transactions done through public bidding were being posted at the CWD bulletin board.

The RFQs of the following sampled procurement transactions were not posted at PhilGEPS, in the website of the Carcar Water District (CWD) and in the CWD bulletin board reserved for the purpose:

	Date	Check No./DV No.	Gross Amount	Payee	Particulars	Mode of Procurement Used <sup>#</sup>
1.	1.05.2015	DBP48685101/ 15-01-0001	P 79,200.00	M P M C Fil Generators Corp	Rental of 2 units generator sets	Shopping
2.	1.05.2015	DBP48685103/ 15-01-0004	68,001.00	Data Computer Forms, Inc.	Printing of 30 boxes official receipts	Shopping
3.	1.07.2015	DBP48685108/ 15-01-0013	65,000.00	Rempin Mktg. and Services	Purchase of 100 kilos chlorine	Shopping
4.	1.12.2015	DBP48685118/ 15-01-0028	216,000.00	FJR Industrial Sales	Purchase of 1 set variable frequency drive	Shopping
5.	1.16.2015	DBP48685125/ 15-01-0056	73,280.00	ECQ Const. Supply	Purchase of various materials	Shopping
6.	1.21.2015	DBP48685137/ 15-01-0070	64,700.00	M P M C Fil Generators Corp	Rental of generator set	Shopping
7.	1.28.2015	DBP48685157/ 15-01-0097	65,000.00	Rempin Mktg. and Services	Purchase of 100 kilos chlorine	Shopping
8.	2.10.2015	DBP48685186/ 15-02-0148	82,583.00	JB Janz Marketing	Purchase of 1 unit flow meter	Shopping
9.	2.23.2015	DBP48685212/ 15-02-0181	144,000.00	FJR Industrial Sales	Purchase of 3 units chlorinator	Shopping
10.	2.27.2015	DBP 48685232/ 15-02-0209	483,018.84	Euroveck Incorporation	Purchase of various materials (UPVC Pipes etc.)	Shopping
11.	3.03.2015	DBP 48685238/ 15-03-0218	65,000.00	Rempin Mktg. and Services	Purchase of 100 kilos chlorine	Shopping
12.	3.13.2015	DBP 48685261/ 15-03-0256	166,520.20	Stream line Marketing	Purchase of various materials (BI Pipes etc.)	Shopping
13.	4.20.2015	DBP48685344/ 15-04-0361	128,909.00	Fly Over Lumber and Gen. M dse.	Payment of various construction materials	Shopping

<b>Date</b>	<b>Check No./D V No.</b>	<b>Gross Amount</b>	<b>Payee</b>	<b>Particulars</b>	<b>Mode of Procurement Used <sup>≠</sup></b>
14. 4.29.2015	DBP 48685359/ 15-04-0400	65,000.00	Rempin Mktg. and Services	Purchase of 100 kilos chlorine	Shopping
15. 6.02.2015	DBP 48685470/ 15-06-0541	290,000.00	Fanm Enterprises	Purchase of 200 units volumetric water meter	Shopping
16. 7.30.2015	LBP 353548/ 15-07-0752	130,000.00	Rempin Mktg. and Services	Purchase of 200 kilos chlorine	Shopping
17. 9.22.2015	LBP 353560/ 15-09-0921	415,926.60	Neltex Dev. Corporation	Purchase of PVC pressureline pipes	Shopping
18. 9.14.2015	DBP 50763401/ 15-09-0893	143,024.00	Neltex Dev. Corporation	Purchase of 70 lengths UPVC pipes	Shopping
19. 9.07.2015	DBP 50763331/ 15-09-0871	130,000.00	Rempin Mktg. and Services	Purchase of 200 kilos chlorine	Shopping
20. 11.13.2015	DBP 50763324/ 15-11-1083	117,000.00	Streamline Mktg.	Purchase of 300 pcs brass angle	Shopping
<b>Total</b>		<b>P 2,992,162.64</b>			
<sup>≠</sup> As gathered from interviews, the mode of procurement was classified by management as shopping.					

Per certification issued by management, the following were the only procurement transactions posted at the PhilGEPS website for Calendar Year 2015:

<b>Date of Posting (Invitation to Bid)</b>	<b>Bid Notice Title</b>
1. 01.16.2015	Negotiation for Project, Supply and Delivery of 3 units Pick-Up Vehicle
2. 07.06.2015	Provision of Security Services
3. 08.24.2015	Re-bidding for the Provision of Security Services
4. 10.08.2015	Negotiation for the Provision of Security Services
5. 10.08.2015	Supply and Delivery of 1 unit 75 KVA generator set

The lack of posting at PhilGEPS, in the website of Carcar Water District and in its bulletin board has limited competition and transparency of the procurement process.

To recall, the posting requirement has been brought to the attention of management in the Annual Audit Report of CY 2013.

*b. The purchases done thru “shopping” were not supported with BAC Resolutions recommending to the Head of the Procuring Entity the use of the Alternative Method of Procurement, an indication of lack of proper information on how to implement Section 12.1 (j) of the IRR. Also, as noted, several Requests for Quotation (RFQs) were addressed to the Head of the Procuring Entity instead of the BAC Chairman and there were no traces that the RFQs were first opened by the BAC.*

Section 12 of the revised IRR deals on the Functions of the Bids and Awards Committee (BAC). Among others, Section 12.1 provides that: “The BAC shall have the following functions: (a) advertise and/or post the invitation to bid/request for expressions

*of interest; . . . (h) recommend award of contracts to the Head of the Procuring Entity or his duly authorized representative; . . . (j) recommend to the Head of the Procuring Entity the use of Alternative Methods of Procurement as provided for in Rule XVI hereof; and (k) perform such other related functions as may be necessary, including the creation of a Technical Working Group (TWG) from a pool of technical, financial, and/or legal experts to assist in the procurement process, particularly in the eligibility screening, evaluation of bids, and post qualification."*

From the sampled procurement transactions (**see preceding Table**), we noted that the BAC participation was seen only in the Abstract of Quotation but without a clear statement on the award. The procurement was presumed to have been awarded to the "supplier" that was indicated after the following standard statement: *"We hereby certify to the correctness of the above quotations of prices opened at CWD on ---- 2015 in our presence including the conditions for each item."* To implement Section 12.1 of the IRR of 9184, the BAC has to pass two resolutions, the first shall recommend the particular alternative mode of procurement to be used such as "shopping" and "small value procurement" and the second shall recommend to the Head of the Procuring Entity the supplier to be awarded the contract. Both resolutions have to be signed by the BAC Members and to be approved by the Head of the Procuring Entity. In our audit, we did not find these two documents from among the supporting documents of the reviewed disbursement vouchers. Also, as noted, several of the RFQs were addressed to or for the attention of the General Manager instead of the BAC Chairman. Moreover, there were no traces that the RFQs were first opened by the members of the Bids and Awards Committee.

As gathered from interviews, the BAC only prepares resolutions when the procurement transaction shall be done thru public bidding. On the resolution recommending the use of the alternative methods of procurement, the BAC explained that the said requirement was deemed complied with since the mode of procurement was already indicated in the approved Annual Procurement Plan. As to the resolution for the award, the BAC admitted that they have not prepared a resolution on said matter for all purchases using the alternative methods of procurement.

c. *The Water District has not instructed the participating suppliers to provide them with their PhilGEPS Registration number, a requirement under GPPB Resolution No. 30-2013 dated 25 October 2013.*

Among others, Resolution No. 30-2013 dated 25 October 2013 of the Government Procurement Policy Board (GPPB) provides the following:

*"2. INCLUDE a new provision relative to the requirement of PhilGEPS Registration in Alternative Methods of Procurement under Section 54.6 of the IRR of RA 9184 as follows:*

*Manufacturers, suppliers, distributors, contractors, and/or consultants are mandated to register with PhilGEPS and provide a **PhilGEPS Registration number** in the following alternative methods of procurement as a condition for award of the contract:*

*(a) . . . . .*

*x x x x x*

*(d) Section 52.1 (b) Shopping for Ordinary Office Supplies and Equipment not available in the Procurement Service*

*x x x x x*

*(h) Section 53.9 Small Value Procurement*

From the sampled procurement transactions, we have not found a copy of any Certificate of PhilGEPS Registration issued by the Procurement Service, Department of Budget and Management, which document carries the PhilGEPS Registration Number. The management and the BAC may not have been aware of this amendment to the revised Implementing Rules and Regulations (IRR) of RA 9184.

d. *An advance payment equivalent to fifty percent (50%) of the contract price was allowed by management for the purchase of certain goods which arrangement is prohibited under Section 88 of PD 1445 and the revised IRR of RA 9184.*

Section 88 of Presidential Decree (PD) No. 1445, also known as the “Government Auditing Code of the Philippines”, prohibits advance payment of services not yet rendered or for supplies and materials not yet delivered. This prohibition is also reiterated in the revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184, popularly known as the “Government Procurement Reform Act.”

Test verification of the disbursements made by Carcar Water District in CY 2015 disclosed two purchases of goods and services where management allowed an advance payment of fifty percent (50%) of the contracted cost. The details are summarized in the following table.

Check No./Voucher No./ Date	Payee	Particulars	Amount	Procurement Method Used	Remarks
DBP48685422/ 15-05-0483 5.19.2015	Peter Sports and Craft Sales	50% down payment of Plaques and Plate Markers for CW D Praise Awardees	P 68,825.00	Shopping	The total amount for this transaction was P137,650.00.  The downpayment made is not allowed under the instructions in Annex “D” of the revised IRR of RA 9184, as discussed in the next page.

Check No./Voucher No./ Date	Payee	Particulars	Amount	Procurement Method Used	Remarks
					<p>Annex "D" is entitled: Contract Implementation Guidelines for the Procurement of Goods, Supplies and Materials.</p> <p>Section 4.1 of said Annex states: <i>"In accordance with Presidential Decree 1445, advance payment shall be made only after prior approval of the President, and shall not exceed fifteen percent (15%) of the contract amount, unless otherwise directed by the President; Provided, however, that for cases mentioned under 4.3, 4.4 and 4.5 of these guidelines, no prior approval by the President shall be necessary."</i> (Emphasis Supplied)</p> <p>Section 4.3 states:</p> <p><i>"A single advance payment not to exceed fifty percent (50%) of the contract amount shall be allowed for contracts centered into by a procuring entity for the following services where requirement of down payment is a standard industry practice:</i></p> <p><i>a) Hotel and restaurant services;</i></p> <p><i>b) Use of conference/seminar exhibit areas; and</i></p> <p><i>c) Lease of office space.</i></p> <p>The subject procurement transaction does not fall under the above exception.</p> <p>The down payment was made on May 19, 2015 while the full payment was on May 25, 2015, under DBP Check No. 48685431.</p>
DBP48685387/ 15-05-0439 5.8.2015	Suarez Bros. Metal & Arts, Inc.	50% down payment for 7 pcs. pendant for PRAISE Awardees	16,650.00	Shopping	<p>The total cost for the 7 pieces 10k and 12k pendant is P33,000. Down payment was made on May 8, 2015 while full payment was on May 25, 2015.</p> <p>This audit exception was based on the provisions cited in the preceding procurement transaction.</p>
		<b>TOTAL</b>	<b>P 85,475.00</b>		



Management has been informed of the limitations on advance payment in the Annual Audit Report of CY 2013.

**We recommended that management require strict compliance of the revised Implementing Rules and Regulations (IRR) of RA 9184 and its amendments, that are periodically released thru GPPB Resolutions, to ensure that all procurement awards and decisions will result in the most advantageous price and terms for the Water District. In particular, we recommended that management strictly impose the posting requirements for procurement transactions above P50,000, now specifically enumerated in Annex H of the 2016 Revised IRR of RA 9184.**

It shall be emphasized that although the thresholds and mechanics for Shopping in Section 52.1 and Small Value Procurement (SVP) under Section 53.9 are generally the same in the IRR, these two methods differ in the items/services to be procured. Shopping shall be employed only in any of the following cases as set forth in Section 52.1 of the IRR:

- a) When there is an unforeseen contingency requiring immediate purchase; Provided, however, That the amount shall not exceed the thresholds prescribed in Annex "H" of this IRR.*
- b) Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the thresholds prescribed in Annex "H" of this IRR.*

The phrase "ordinary or regular office supplies" is defined under Section 52.2 as: *"The phrase "ordinary or regular office supplies" shall be understood to include those supplies, commodities, or materials which, depending on the procuring entity's mandate and nature of operations, are necessary in the transaction of its official businesses, and consumed in the day-to-day operations of said procuring entity. However, office supplies shall not include services such as repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security, and related or analogous services."*

In terms of procedure, these two modes of procurement are the same since the procuring entity shall send a Request for Quotation (RFQ) to at least three (3) suppliers, contractors, or consultants of known qualifications. The detailed instructions on the posting of RFQs which were contained in the Guidelines for Shopping and Small Value Procurement (SVP), presented as Appendix 18 of the Handbook on Philippine Government Procurement, are now incorporated in the Consolidated Guidelines for the Alternative Methods of Procurement, Annex "H", of the 2016 Revised IRR of RA 9184 which took effect on October 28, 2016. The requirement under GPPB Resolution No. 30-2013 has also been included in the consolidated guidelines.

Management commented that they have been complying with the guidelines on government procurement but not consistently though due to unavoidable exigencies of the service. They, however, assured that effective immediately compliance to the guidelines

will be strictly implemented by the water district. To reiterate, the 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184 took effect on October 28, 2016.

## **ON GENDER AND DEVELOPMENT**

8. The Gender and Development (GAD) Plan and Budget for CY 2015 was still not submitted to the Philippine Commission on Women for approval and endorsement as required under Section 8.0 of the PCW -NEDA-DBM Joint Circular No. 2012-01. Thus, without PCW's review, there is no assurance that all the listed GAD activities are addressing women's concerns and gender issues and/or not restricted under the aforementioned Circular.

The same audit observation was contained in the Annual Audit Report (AAR) of CY 2014 which was received by the Water District on June 10, 2015. This subject matter is reiterated in the current year's audit report as the GAD Program is a mandated activity for all agencies of the government.

To recall, in the 2014 AAR, we brought to the attention of management two of the restrictions on the use of the GAD Budget as set forth in Annex A of the PCW -NEDA-DBM Joint Circular No. 2012-01, as follows:

*"Examples of expenses that **CANNOT** be charged to the GAD budget:"*

1. *PAPs (Programs, Activities and Projects) that are not in the agency's **PCW-endorsed GAD Plan**; (Emphasis Supplied along with the meaning of PAPs)*
7. *The following expenses may **NOT** be charged to the GAD budget **UNLESS they are justified as clearly addressing specific gender issue**; (Emphasis Supplied)*
  - 7.1 Physical, mental and health fitness including purchase of equipment and information dissemination materials;
  - 7.2 Social, rest and recreation activities;
  - 7.3 Religious activities and implementation of cultural projects; and
  - 7.4 Construction expenses

Otherwise stated, the first instruction directs all government agencies not to use their GAD Budget if the corresponding GAD Plan has not yet been reviewed and endorsed by the Philippine Commission on Women (PCW). To reiterate, the instructions on the Submission, Review and Endorsement of Agency GAD Plans and Budgets are contained in Section 8.0 of the PCW -NEDA-DBM Joint Circular No. 2012-01.

Our current year's audit disclosed that the GAD Plan and Budget of Carcar Water District for CY 2015 was still not submitted to PCW for endorsement, thus management

cannot be assured that all the identified activities are addressing women's concerns and gender issues and/or not restricted under the aforementioned Joint Circular. From an auditor's point of view, the GAD expenses during the year may have to be suspended in audit particularly those that falls under "Restriction No. 7." We noted the following activities which cannot readily be considered as GAD related under the said restriction: (a) Annual Lenten Recollection of Employees; b) Participation in annual City fiesta activities, and (c) Zumba sessions conducted every Thursday participated in by the majority of CW D employees.

**We reiterated our audit recommendation for management to strictly comply with the guidelines on the preparation and submission of the GAD Plan and Budget and Accomplishment Report as enumerated in PCW -NEDA-DBM Joint Circular No. 2012-01 and its Annexes.**

As a reminder, the Philippine Commission on Women (PCW) has issued Memorandum Circular No. 2015-03 dated 19 May 2015 on the subject: Guidelines on the Review and Endorsement of Water District Annual Gender and Development Plans and Budgets (GPBs). Under this issuance, the Local Water Utilities Administration (LWUA) shall be the preliminary reviewer of water district's GPBs before these are transmitted to PCW for final review and endorsement. Paragraph 3 of the said Memorandum was, however, misinterpreted by the Water District since they submitted their 2015 GAD Plan and Budget to LWUA instead of directly to PCW.

In connection with the GAD Program, we would like to share with management the provisions on GAD as set forth in Section 34, General Provisions, General Appropriations Act of 2015 (Republic Act No. 10651) and, we quote:

*"Programs and Projects Related to Gender and Development. All agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their concerned sectors or mandate and implement applicable provisions under R.A. No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Millennium Development Goals (2000-2015), the Philippine Plan for Gender-Responsive Development (1995-2025), and the Philippine Development Plan (2011-2016).*

*The GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion, and fulfillment of women's human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of the GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies.*

*The preparation and submission of the annual GAD Plan and annual GAD Accomplishment Report shall be subject to the guidelines issued by the agencies concerned.”*

We also recommended that management request from PCW a “post-approval” of their CY 2015 GAD Plan and Budget in order to validate the expenses incurred.

Management noted the recommendations.

#### **ON UNSETTLED SUSPENSIONS, DISALLOWANCES AND CHARGES**

The Carcar Water District was not issued a notice of suspension, disallowance and charge in 2015. However, the unsettled audit disallowance on the payment of honorarium to an OGCC designated legal counsel totaling P36,000 still remained unsettled as of December 31, 2015. According to the Department Manager B – Finance Services Department, the claimant of the subject disallowance filed an appeal with the Commission On Audit but the papers on the appeal have yet to be located.

#### **ON COMPLIANCE WITH TAX LAWS**

The BIR withholding regulations were substantially complied with by the Water District. The taxes withheld by Carcar Water District (CWD) in 2015 were from compensation and Value Added Tax (VAT) on goods and services purchased. These were remitted regularly to the Bureau of Internal Revenue (BIR) together with the franchise tax due from CWD as seller of water. The details of the taxes remitted to the BIR in 2015 are:

Code	Tax Description	Amount
1600	VAT Withheld	P1,109,889.80
1601-C	Income Tax Withheld from Compensation	722,425.20
1601-E	Income Tax Withheld – Expanded (EWT)	274,013.11
2551-M	Franchise Tax	1,181,839.39
	<b>Total</b>	<b>P3,288,167.50</b>

#### **ON GSIS DEDUCTIONS AND REMITTANCES**

CWD has consistently deducted from the salaries of their employees the mandatory GSIS Life and Retirement insurance premiums (personal share) and loan repayments. These deductions and the government share for the employees insurance premiums were remitted to the Government Service Insurance System (GSIS) on time. The details of the remittances made in 2015 are:

<b>Transaction Covered by the Remittance</b>	<b>A m o u n t</b>
G S I S L i f e a n d R e t i r e m e n t P r e m i u m s (P e r s o n a l S h a r e)	P 1,175,742.39
G S I S L i f e a n d R e t i r e m e n t P r e m i u m s (G o v e r n m e n t C o u n t e r p a r t)	1,567,656.53
E m p l o y e e s C o m p e n s a t i o n C o n t r i b u t i o n s	84,261.84
C o n s o l i d a t e d L o a n R e p a y m e n t s	1,515,681.41
C a s h A d v a n c e L o a n R e p a y m e n t s	35,222.72
E m e r g e n c y L o a n R e p a y m e n t s	606,393.00
E d u c a t i o n a l A s s i s t a n c e L o a n R e p a y m e n t s	7,640.00
P o l i c y L o a n R e p a y m e n t s - R e g u l a r	7,700.00
O p t i o n a l L i f e I n s u r a n c e (U O L I)	2,844.00
<b>T O T A L</b>	<b>P 5,003,141.89</b>