ANNUAL AUDIT REPORT

ON THE

CARCAR WATER DISTRICT
Carcar City, Cebu

For Calendar Year 2013

EXECUTIVE SUMMARY

A. INTRODUCTION

Carcar Water District (CWD) is a government-owned and controlled corporation created and existing by virtue of P.D. 198, as amended. A Certificate of Conformance, Certificate No. 117, was issued by the Local Water Utilities Administration (LWUA) to CWD on May 30, 1980 validating its operations as one of the water districts of the country. On March 29, 2012, pursuant to the Revised Local Water District (LWD) Manual on Categorization, Re-Categorization and Other Related Matters, LWUA has categorized Carcar Water District as Category "C".

The primary objective of Carcar Water District is to provide sufficient potable water to the residents of the town of Carcar (now a City) utilizing available sources of water and applying appropriate water treatment measures to ensure that water is safe for the consumption of its concessionaires.

As of December 31, 2013, the Water District had a total workforce of 68 employees composed of 41 regular personnel and 27 casuals. The water district is headed by a General Manager. The present General Manager is still Engr. Edward L. Remo.

B. FINANCIAL HIGHLIGHTS

Below is a comparative presentation of the financial condition of the Water District for calendar years 2013 and 2012:

	2013	2012	Inc (Dec)
Assets	**P84,759,256.85**	**P81,025,854.22**	**P3,733,402.63**
Liabilities	28,848,675.40	33,601,066.99	(4,752,391.59)
Government Equity	55,910,581.45	47,424,787.23	8,485,794.22
Total Liabilities and Government Equity	**P84,759,256.85**	**P81,025,854.22**	**P3,733,402.63**

Gross income from operations has substantially increased, from P44,224,589.67 in CY 2012 to P51,278,074.00 in CY 2013 or up by P7,053,484.33. Consequently, the net income at year-end which was P11,716,077.04 increased by P5,566,106.66 or approximately 90.51% as compared with that of the preceding year which was P6,149,970.38. The rise in net income was primarily due to the increase in water rates effective May 2013.

C. OPERATIONAL HIGHLIGHTS

The following were among the reported accomplishments of the Water District for the year as compared with that of the same period last year, as furnished to the Audit Team:

Category	2013	2012	Inc.(Dec)
Service Connections			
Total Services	13,817	12,885	932
Total Active	11,320	10,464	856
Total Metered	11,320	10,464	856
Total Billed Concessionaires	11,225	10,369	856
Water Production			
Pumped	573,648 cu. m.	646,770 cu. m.	(73,122 cu. m.)
Gravity	2,738,099 cu. m.	2,592,566 cu. m.	145,533 cu. m.

D. SCOPE OF AUDIT

The audit covered the financial transactions of Carcar Water District for Calendar Year 2013. The audit was primarily aimed at ascertaining the reliability of financial reports and the adequacy of the books of accounts in order to express an opinion on the fairness of presentation of the financial statements. On a test basis, it also included a review on the propriety of disbursements and other financial transactions to determine whether or not the transactions were made in accordance with existing laws, rules and regulations.

E. AUDITOR'S REPORT

The auditor expressed a qualified opinion on the financial statements of the Water District due to the various account balances which cannot be relied upon at year end. The audit exceptions are discussed in detail in Part II and in brief, in Part III of this report.

F. OBSERVATIONS AND RECOMMENDATIONS

The following are the findings and the corresponding audit recommendations contained in the herein report:

1. The account balance of the Property, Plant and Equipment which totalled P125.082 million cannot be relied upon for the following reasons:

1.a The Construction in Progress account balance of P6.302 million was grossly overstated since only one project with a cost of P3,259.83 was on-going at year-end. The difference of P6.299 million or approximately 99.94% of the account balance represents either completed projects, transactions for reclassification/adjustments or projects deferred due to problems in land acquisition. The delay in the transfer of the completed projects which totaled P5.275 million to the appropriate PPE accounts has resulted in the misstatement of the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation/depreciation expense. Moreover, the PPE subsidiary ledger carried negative (abnormal) balances totaling P22,647.15 and was less by P429.06 if compared with the General Ledger Balance.

We requested management to implement the following audit recommendations:

- Direct the Division Manager C - Finance to draw the JEVs for the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts. Thereafter, require the computation of the monthly depreciation expense using as reference the guidelines set forth in COA Circular No. 2004-003 dated October 4, 2004.

- Instruct the OIC - O & M Division Manager to submit to the Finance Division all the papers pertaining to the reported completed projects to facilitate the transfer of these assets to the appropriate PPE accounts. Henceforth, require the Operations and Maintenance Division to furnish the Accounting Section all the papers pertaining to a completed project within the quarter when the project was validated as 100% completed so that the appropriate adjustments can be effected in the accounting books.

- Require the Division Manager C – Finance to draw the JEVs for all the identified transactions for adjustments to put all PPE account balances in order. It is also recommended that the Division identify the cause of the difference between the GL and SL balances for Construction In Progress-Plant and effect the necessary adjustments in either books of accounts.

- Require a semestral reconciliation of the GL balance on Construction In Progress account with the report rendered by the O & M Division on this subject matter so that errors/differences can be located/adjusted before the closing of the books of accounts.

1.b The GL account balance of five PPE accounts cannot be fully relied upon because their balances were different from those appearing either in the physical inventory report, the subsidiary ledger or in the lapsing schedule.

We recommended that management direct the Finance Division to identify the causes of the differences noted and to effect immediately the necessary adjustments that will correct either the GL Balance, the SL Balance or the lapsing schedule.

1.c Unserviceable equipment costing P196,717.65 are still carried in the PPE accounts, a condition which is not in conformity with PAS No. 16 and overstates the PPE account balance.

We recommended and management agreed to reclassify the above properties from the PPE account to Other Assets while waiting for the disposal of the items to comply with the guidelines prescribed under the NGAS Manual. We further recommended that these items be disposed following the provisions of Section 79 of PD 1445.

1.d The lapsing schedule prepared by management did not show the equipment salvage value, the amount subject to depreciation and the book value at the end of each month. In consequence, management was not able to immediately detect/correct several erroneous balances under the column "Accumulated Depreciation."

We recommended that management require the Finance Division to provide the following columns in the lapsing schedule to be prepared at the end of each month: (a) Residual Value; (b) Amount Subject To Depreciation and (c) Book Value/Carrying Amount to facilitate review by top management and/or any review body of the computed Depreciation Expense and the Accumulated Depreciation to Date.

2. There is no assurance that the year-end balance of the Accounts Receivable in the amount of P4.874 million was stated at its estimated realizable value, due to the following conditions:

- The adequacy of the Allowance for Doubtful Accounts in the amount of P1,558,449.13 has not been reviewed/adjusted since CY 2004. Thus, the balance at year-end did not reflect the current status of the accounts.

- The audit recommendations to identify the causes of the recurring differences between the General Ledger Balance and the Aging Schedule of Account Receivable and to effect the necessary adjustments in either books are considered not implemented since a difference of P376,551.23 still exists at year-end. The GL balance was still higher, which situation will not enable the agency to collect the accounts because the debtors were not identified.

We recommended and Management agreed to review the adequacy of the Allowance for Doubtful Accounts using the accounting policy adopted under the New Government Accounting System (NGAS). We also reiterated our previous year's audit recommendation for the Billing Division to send collection letters to all customers under the "inactive status" as this will determine the collectibility of their accounts which is one factor to be considered in the review of the Allowance.

We further reiterated our previous year's audit recommendation for the Accounting and the Billing Divisions to identify the causes of the difference of P376,551.23 between the GL Balance and the Aging Schedule so that appropriate adjustments can either be effected or a request for write-off be initiated.

3. Checks issued in the name of the Cashier A for payment of personnel benefits such as allowances of caretakers, monetization of unused leave credits and daily compensation of Job Order personnel were immediately treated as expense instead of cash advance for payroll (Payroll Fund) as required under COA Accounting Circular No. 2006-001. With this practice, management cannot be provided with a ready record for monitoring the outstanding cash advances on said transactions.

   We recommended and management agreed to comply with the instructions on the accounting treatment for various cash advances as set forth under COA Accounting Circular No. 2006-001 dated November 9, 2006 and COA Accounting Circular Letter No. 2007-001 dated January 19, 2007 to ensure proper presentation in the financial statements of subject transactions.

4. The purchase of the various software to automate the operating processes of the Water District was contrary to existing government procurement regulations, as follows:

   - The procurement for the computerization of the water district's various processes/operations which amounted to P380,000.00 was done without the benefit of public bidding or any of the alternative methods of procurement, a decision which is contrary to Sections 10 and 48 of the Implementing Rules and Regulations (IRR) of RA 9184. Moreover, this procurement transaction was not posted in the PhilGEPS bulletin board which is a requirement under Section 8.2.1 (a) of the aforementioned IRR. Thus, there was neither an assurance that the most advantageous price for the government was obtained nor was there a concrete basis to ascertain the technical capability of the firm/supplier.

- The Memorandum of Agreement (MOA) contained a provision for the payment of fifty percent (50%) of the contract amount which is not in conformity with the instructions under Item 4.3, Annex D, IRR of RA 9184.

- The agreement did not include a provision on liquidated damages which is also a requirement under Section 68 of the IRR.

- The MOA further contains a provision for CWD to refund all expenses incurred by the contractor during travel to the Water District such as transportation, board and lodging, and per Diems of Php 800.00/day which is considered a disadvantageous stipulation because said expense was not time-bounded nor was supported with a list of personnel authorized to travel and the purposes for said travels. As it is, this particular expense may considerably add to the cost of the project but may not be noticed by the Water District.

- The Disbursement Vouchers (DVs) for the monthly installments were not supported with a Certificate of Acceptance from the Water District on the work items accomplished, a practice which is not in keeping with the rules and regulations of an effective internal control system.

We recommended that Management require strict compliance of the Implementing Rules and Regulations of RA 9184 so that all procurement activities will result in the most advantageous price/terms for the Water District. We further recommended that Management validate the accomplishments of JMK IT Solutions to serve as basis in the computation of the liquidated damages that shall be imposed on the supplier. Thereafter, we recommended that all liquidated damages be deducted from any money due or may become due to the supplier pursuant to Item 3.2 of Annex D, IRR of RA 9184.

We also recommended that Management use as reference COA Circular No. 2012-001 dated June 14, 2012 on the subject: Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions, when effecting payment to employees, suppliers and other parties.

5. Several checks were issued and released to the creditors even if the corresponding disbursement vouchers have either not been approved by the General Manager or signed by the Division Manager C – Finance, a decision which is a violation of Section 4 (5) of PD 1445. This condition is also

considered a serious breakdown in the internal control system of the Water District and likewise indicative of pre-signing of blank checks.

We recommended that management direct the Cashier A / Disbursing Officer to prepare checks only when the covering Disbursement Voucher has been duly signed by the Accountant and approved by the Head of Office to assure that all the basic requirements for payment have been complied with by the Water District.

6. Part of the cash advance that was granted to the General Manager for the attendance of CWDs officials in a PAWD conference was transferred to four BOD members who participated in the activity. This transfer of accountability violates Section 4.1.6 of COA Circular No. 97-002 dated February 10, 1997. Moreover, if tolerated, this arrangement may result in delayed liquidation of cash advances and/or accumulation of cash advances since the person who did the actual utilization of the funds may not immediately submit the liquidation documents for he is not the accountable officer on record.

   We recommended and management agreed to comply strictly the rules and regulations on the granting, utilization and liquidation of cash advances as set forth in COA Circular No. 97-002 to ensure the immediate and full settlement of all cash advances that maybe granted in any given year.

7. The cash advances for payment of the per diem for Board Meetings were drawn in the name of the Chairman of the Board of Directors which is tantamount to allowing the official to perform disbursing function. This practice is a violation of Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002 dated February 10, 1997.

   We recommended and management agreed to stop the practice of granting the cash advance for BOD per diem to the Chairman of the Board to comply with Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002.

8. The check for payment of the sale of various scrap items in the amount of P30,000 was accepted though it was issued as “Pay to the order of CASH” and without verification if such check was an indorsed private check. Both conditions are violations of Section 77 of the Government Accounting and Auditing Manual (GAAM), Volume I. This occurrence, in fact, is considered an indirect encashment of private checks from collections which is strictly prohibited under Section 67 (3) of PD 1445.

   We recommended that Management instruct the Cashier A to accept checks for payment only when it is made payable to the agency or head of agency as required in Section 77 of GAAM, Volume I. We further recommended that she be instructed to stop the accommodation of private checks to comply with Section 67 (3) of PD 1445 and prevent occurrence of dishonored checks.

9. Lapses were noted in the controls over leave credits, as follows:

- Monetization of sick leave credits was allowed without any supporting document to justify the payment thereof which is required under Section 23 of the Omnibus Rules on Leave (Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292). Monetization of vacation leave credits was also allowed even if an employee did not have an accumulated fifteen (15) days of vacation leave balance at the time of monetization. This practice violates Section 22 of the above mentioned Omnibus Rules. Until corrected, this practice can overstate the budget for monetization of leave credits.

- The expected earned leave of 2.5 days (Vacation and Sick Leave) per month was posted in the leave cards every first day of the month at which time the employee is not yet entitled to said benefit since no service has been rendered. If not corrected, an erroneous leave balance may become the basis for monetization.

- There were instances when the leave balances reflected in the Applications for Leave supporting the requests for monetization differed with the balance appearing in the Leave Card. Hence, if not corrected, the Water District might monetize a non-existing leave credit.

We recommended that Management comply strictly the regulations on monetization of leave credits as contained in the Civil Service Commission (CSC) Omnibus Rules on Leave.

We also recommended that Management instruct the Personnel Section to post all earned leaves at the end of each month when the related service requirements have been met by the employees. We likewise requested Management to direct a thorough review of the entries in the Leave Cards to prevent errors during monetization and/or payment of terminal leave.

10. Properties owned by the Water District with an insurable value of P50.420 million are not insured with the General Insurance Fund of the Government Service Insurance System (GSIS) as required under R.A. No. 656 and reiterated in Administrative Order Nos. 33 and 141. Under this circumstance, the Water District is denied of adequate and reliable protection against any damage to, or loss of their properties due to fire, earthquake and other risks from forces of nature.

We recommended and management agreed to insure their insurable properties and interests with the General Insurance Fund of the GSIS in compliance with the provisions of R.A. No. 656, as reiterated in AO Nos. 33 and 141, and for the protection of the interests of the government.

The above audit observations and recommendations were discussed with the General Manager and the Division Managers in an exit conference held on March 24, 2014.

G. IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the twelve (12) audit recommendations contained in the CY 2010-2012 Triennium Audit Report (TAR), four were fully implemented, five were partially implemented and the remaining three audit recommendations were considered not implemented as of December 31, 2013.

H. ON GENDER AND DEVELOPMENT

Carcar Water District (CWD) has formulated its GAD Plan and Budget for CY 2013 and has implemented the programs indicated therein. Of the appropriated funds totaling P3,427,046.80, P855,624.94 was spent during the year.

I. ON COMPLIANCE WITH TAX LAWS

CWD has complied with all tax laws on withholding of income tax from compensation and Value-Added Tax (VAT) on goods and services purchased. The taxes withheld were remitted regularly to the Bureau of Internal Revenue (BIR) along with the franchise tax due from CWD as seller of water. The details of the taxes remitted to the BIR during the year are, as follows:

BIR Form No.	**Taxes**	**Amount**
1600	VAT Withheld	P 581,409.06
1601-C	Income Tax Withheld on Compensation	719,558.56
1601-E	Income Tax Withheld – Expanded (EWT)	149,386.57
2551-M	Franchise Tax	1,862,589.56
TOTAL		**P 3,312,943.75**

J. ON UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

In CY 2013, the water district was not issued a notice of suspension, disallowance and charge. However, there is an unsettled disallowance on the payment of honorarium to an OGCC designated legal counsel totaling P36,000 which remained unsettled as of December 31, 2013. As informed by the Division Manager C - Finance, the claimant has filed an appeal with the Commission on Audit on ND No. 2009-001-Corp. Fund (2008) dated June 4, 2009. The papers on the appeal have yet to be located.

TABLE OF CONTENTS

PART I

FINANCIAL STATEMENTS

- Independent Auditor's Report
- Statement of Management's Responsibility for Financial Statements
- Statement of Financial Position
- Statement of Comprehensive Income
- Statement of Cash Flows
- Statement of Changes in Government Equity
- Notes to Financial Statements

Republic of the Philippines

COMMISSION ON AUDIT

Regional Office No. VII

Cebu City

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Carcar Water District
Carcar City, Cebu

Report on the Financial Statements

Pursuant to Section 2, Article IX-D of the Constitution of the Philippines and Section 43 of the Government Auditing Code of the Philippines (PD 1445), we have audited the accompanying financial statements of Carcar Water District which comprise the statement of financial position as at December 31, 2013 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with State accounting principles generally accepted in the Philippines and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether, due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence, on a test basis, about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

The following audit observations, which are discussed in detail in Part II and in brief in Part III of this report, affected the fair presentation of the financial statements:

1. The account balance of the Property, Plant and Equipment which totalled P125.082 million cannot be relied upon for the following reasons:

   1.a The Construction in Progress account balance of P6.302 million was grossly overstated since only one project with a cost of P3,259.83 was on-going at year-end. The difference of P6.299 million or approximately 99.94% of the account balance represents either completed projects, transactions for reclassification/adjustments or projects deferred due to problems in land acquisition. The delay in the transfer of the completed projects which totaled P5.275 million to the appropriate PPE accounts has resulted in the misstatement of the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation/depreciation expense. Moreover, the PPE subsidiary ledger carried negative (abnormal) balances totaling P22,647.15 and was less by P429.06 if compared with the General Ledger Balance.

   1.b The GL account balance of five PPE accounts cannot be fully relied upon because their balances were different from those appearing either in the physical inventory report, the subsidiary ledger or in the lapsing schedule.

   1.c Unserviceable equipment costing P196,717.65 are still carried in the PPE accounts, a condition which is not in conformity with PAS No. 16 and overstates the PPE account balance.

2. There is no assurance that the year-end balance of the Accounts Receivable in the amount of P4.874 million was stated at its estimated realizable value, due to the following conditions:

- The adequacy of the Allowance for Doubtful Accounts in the amount of P1,558,449.13 has not been reviewed/adjusted since CY 2004. Thus, the balance at year-end did not reflect the current status of the accounts.

- The audit recommendations to identify the causes of the recurring differences between the General Ledger Balance and the Aging Schedule of Account Receivable and to effect the necessary adjustments in either books are considered not implemented since a difference of P376,551.23 still exists at year-end. The GL balance was still higher, which situation will not enable the agency to collect the accounts because the debtors were not identified.

3. Eleven of the fifteen parcels of land with an approximate area of 1,239.50 square meters and a recorded value of P652,519.27 are still not titled in the name of Carcar Water District, a situation which exposes the Water District to possible adverse claims from third parties. Furthermore, two of the above-mentioned eleven lots with an approximate area of 83.5 square meters are without recorded value which understates the Land account.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Carcar Water District as at December 31, 2013 and its financial performance and its cash flows for the period ended December 31, 2013 in accordance with generally accepted state accounting principles in the Philippines.

COMMISSION ON AUDIT

By:

TERESITA N. COSCOS
Supervising Auditor

March 31, 2014

CARCAR WATER DISTRICT
San Vicente Ferrer St., Cogon, Pob. I, Carcar, Cebu
Tel. No.: (032)487-8500, Telefax No.: (032)487-9141

STATEMENT OF MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Carcar Water District, Carcar, Cebu is responsible for all information and representations contained in the financial statements of the year ended December 31, 2013. The financial statements have been prepared in conformity with the applicable laws and regulations and generally accepted accounting principles applied on a consistent basis and reflect amounts that are based on the best estimated and informed judgment of management with appropriate consideration of materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal control to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

The Carcar Water District Board of Directors reviews the financial statements before such statement are approved and submitted to the creditors and Local Water Utilities Administration.

The Commission on Audit, in pursuance of its mandate under Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree 1445, has audited the financial statements of the Authority in accordance with laws, COA and INTOSAI standards, and applicable generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination.

ATTY. DEMOCRITO C. BARCENAS
Chairman

ENGR. EDWARD L. REMO
General Manager

JOSEFA SN. MANUGAS
Division Manager C

PART II

OBSERVATIONS AND RECOMMENDATIONS

ON KEEPING OF ACCOUNTS

1. The account balance of the Property, Plant and Equipment which totalled P125.082 million cannot be relied upon for the following reasons:

1.a The Construction in Progress account balance of P6.302 million was grossly overstated since only one project with a cost of P3,259.83 was on-going at year-end. The difference of P6.299 million or approximately 99.94% of the account balance represents either completed projects, transactions for reclassification/adjustments or projects deferred due to problems in land acquisition. The delay in the transfer of the completed projects which totaled P5.275 million to the appropriate PPE accounts has resulted in the misstatement of the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation/depreciation expense. Moreover, the PPE subsidiary ledger carried negative (abnormal) balances totaling P22,647.15 and was less by P429.06 if compared with the General Ledger Balance.

Philippine Accounting Standard (PAS) No. 16 defines Property, Plant and Equipment (PPE) as tangible assets that are held by an enterprise for use in production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period. It also provides that depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

In consonance with the above Accounting Standard, the New Government Accounting System (NGAS), adopts the following policies with respect to PPE:

- For assets under construction, the Construction Period Theory shall be applied for costing purposes, that is, any related expenses incurred during the period of construction shall be capitalized and recorded as "Construction in Progress". Upon completion of the project, the Construction in Progress account shall be closed and transferred to the appropriate PPE account.

- The straight-line method of depreciation shall be used. The computation of the depreciation expense shall start on the following month after the purchase/completion of the PPE, irrespective of the date within the month. The above regulations are contained in COA Circular No. 2003-007 dated December 11, 2003 and COA Circular Letter No. 2004-003 dated October 4, 2004.

As of December 31, 2013, the Construction in Progress (CIP) account of Carcar Water District was P6,302,943.15 which consists of the following:

GL Code	Account Description	Amount
243	Construction In Progress – Plant	P 5,746,670.90
244	Construction In Progress – Buildings and Other Structures	556,272.25
	TOTAL	**P 6,302,943.15**

Upon verification of the composition/status of the above account, which was prepared by the Operations and Maintenance (O & M) Division, it was noted that only one project costing P3,259.83 was on-going at year end. The balance of P6,299,683.32 represents either completed projects, transactions for reclassification/adjustments or projects deferred due to problems in land acquisition.

The following are the details of the CIP accounts as appearing in the report of the O & M Division:

CONSTRUCTION IN PROGRESS – PLANT (GL 243)

PROJECT DESCRIPTION with SL Account No.	SL BALANCE	PROJECT STATUS		REMARKS
		Date Started	Date Completed	
Completed Projects				
1. Magsipit Reservoir Acct. No. 243-01	117,437.63	11.02.05	09.28.07	For closing / reconciliation (Papers already submitted)
2. 2008 Rehabilitation Acct. No. 243-14	453,108.95	04.03.08	12.24.08	For closing / reconciliation (Papers already submitted)
3. New Distribution Lines Acct. No. 243-13	26,872.32	04.30.08	01.31.09	Completed / For closing (No papers yet)
4. Upper Lamakan Reservoir Acct. No. 243-05	4,835.65	01.18.06	03.31.09	For closing / reconciliation (Papers already submitted)
5. Pipeline Rehabilitation (2009) Acct. No. 243-28	562,612.51	02.13.09	12.29.09	Completed / For closing (No papers yet)

PROJECT DESCRIPTION with SL Account No.		SL BALANCE	PROJECT STATUS		REMARKS
			Date Started	Date Completed	
6.	Pipeline Rehabilitation (2010) Acct. No. 243-59	680,407.86	01.15.10	12.30.10	Completed / For closing (No papers yet)
7.	Fire Hydrant- P. Burgos St. Acct. No. 243-23	26,852.96	02.15.12	02.16.12	For closing / reconciliation (Papers already submitted)
8.	Change 6 units Mechanical Gate Valve Acct. No. 243-25	54,266.02	02.15.12	06.27.12	For closing / reconciliation (Papers already submitted)
9.	Pipeline Extension Dandan, Upper Cogon Acct. No. 243-38	11,332.91	06.15.12	06.29.12	Completed / For closing (No papers yet)
10.	Lateral Pipeline Ibabao, Perrelos Acct. No. 243-39	349,532.35	07.02.12	08.30.12	Completed / For closing (No papers yet)
11.	Pipeline Extension Ibabao (2012) Acct. No. 243-45	19,804.88	10.15.12	10.31.12	Completed / For closing (No papers yet))
12.	Pipeline Extension Rotunda (2013) Acct. No. 243-54	18,484.54	02.04.13	02.08.13	Completed / For closing (No papers yet)
13.	Proposed Booster Pump – Caipilan Acct. No. 243-57	188,139.28	04.10.13	04.19.13	Completed / For closing (No papers yet)
14.	Liburon Pumping Station (2013) Acct. No. 243-61	302,339.88	03.22.13	05.10.13	Completed / For closing (No. papers yet)
15.	Installation of Flow Meter – Cabitohan (2013) Acct. No. 243-65	47,179.16	07.16.13	08.12.13	For Closing / Reconciliation (Papers already submitted)

PROJECT DESCRIPTION with SL Account No.	SL BALANCE	PROJECT STATUS		REMARKS
		Date Started	Date Completed	
16. Distribution Line Improvement – Perrelos Acct. No. 243-64	56,120.19	07.08.13	08.23.13	Completed / For Closing (No papers yet)
17. Installation of Flow Meter – Banica (2013) Acct. No. 243-69	29,656.71	08.08.13	09.06.13	For closing / Reconciliation (Papers already submitted)
18. Pipeline Extension – Kalindoy, Liburon Acct. No. 243-73	112,133.57	09.02.13	09.13.13	Completed / For Closing (No papers yet)
19. Pipeline Extension Lumbia, Can-asujan (2013) Acct. No. 243-63	284,165.72	07.01.13	09.30.13	Completed / For closing (No papers yet)
20. Pipeline Rehabilitation Theotokos Acct. No. 243-72	130,256.19	09.22.13	09.30.13	Completed / For closing (No papers yet)
21. Flow Meter Installation Lagang (L. Dayondon) Acct. No. 243-77	30,077.46	10.01.13	10.03.13	Completed / For closing (No papers yet)
22. Pipeline Extension Oliveros, Can-asujan Acct. No. 243-74	203,349.45	10.01.13	10.18.13	Completed / For closing (No papers yet)
23. CWD Fire Hydrant CWD Bldg. Acct. No. 243-43	40,048.78	10.11.12	11.06.13	Completed / For Closing (No papers yet)
24. Installation of Flow Meter – Caipilan (2013) Acct. No. 243-66	30,698.49	11.05.13	11.21.13	For closing / reconciliation (Papers already submitted)
25. Pipeline Extension – Bantayan 2013 Acct. No. 243-93	227,137.25	10.22.13	11.28.13	Completed / For closing (No papers yet)
26. Flow Meter Installation Bahabaha 2013 Acct. No. 243-86	99,161.00	12.05.13	12.05.13	Completed / For Closing (No papers yet)

PROJECT DESCRIPTION with SL Account No.	SL BALANCE	PROJECT STATUS		REMARKS
		Date Started	Date Completed	
27. Pipeline Extension – Dandan Acct. No. 243-92	76,697.70	10.17.13	12.06.13	Completed / For closing (No papers yet)
28. Flow Meter Installation Ilaya Bolinawan 2013 Acct. No. 243-85	48,591.72	12.05.13	12.09.13	Completed / For closing (No papers yet)
29. Flow Meter Replacement Magsipit Liburon 2013 Acct. No. 243-91	41,141.80	12.09.13	12.09.13	Completed / For Closing (No papers yet)
30. Installation of Flow Meter – Venancia (2013) Acct. No. 243-62	51,248.24	07.15.13	12.11.13	For closing / reconciliation (Papers already submitted)
31. Flow Meter Installation Kapatagan 2013 Acct. No. 243-76	45,681.59	11.19.13	12.11.13	For closing / reconciliation (Papers already submitted)
32. Flow Meter Replacement Ocaña 2013 Acct. No. 243-90	66,400.00	12.19.13	12.19.13	Completed / For closing (No papers yet)
33. Pipeline Extension Mahayahay, Liburon Acct. No. 243-58	282,726.71	03.07.13	12.27.13	Completed / For closing (No papers yet)
Sub-Total	**4,718,499.47**			
For Adjustments/Others/On-going				
34. Watershed Management Program Acct. No. 243-87	845,541.11	-	-	For re-classification to PYA
35. Re-drilling of Camagayan Well/Pump Acct. No. 243-06	965.50	-	-	For adjustment / erroneous charges
36. Rehabilitation (Pipelines) Acct. No. 243-12	(110.00)	01.04.07	.01.16.08	For adjustment / erroneous charges

37.	Battery Cage (2012) Acct. No. 243-30	(9,049.14)	03.26.12	04.02.12	For adjustment
38.	Pipeline Rehabilitation San Roque, Liburon Acct. No. 243-42	(11,500.00)	10.08.12	10.15.12	For adjustment / erroneous charges
39.	Pipeline Extension – Perrelos (2013) Acct. No. 243-51	(429.06)	01.18.13	01.24.13	For adjustment / erroneous charges
40.	Pipeline Extension Ilangcob Acct. No. 243-55	(1,102.95)	02.08.13	02.28.13	For adjustment / erroneous charges
41.	Truss Renovation – Venancia Spring Acct. No. 243-97	80.00	07.25.11	08.31.11	Closed to UPIS, for adjustment
42.	Pipeline Re-routing, Napo Acct. No. 243-99	3,435.08	09.02.11	11.29.11	Closed to UPIS, for adjustment
43.	System Expansion – Tapal, Guadalupe Acct. No. 243-88	187,895.00	-	-	Deferred due to problems in land acquisition
44.	Pipeline Extension Bahabaha, Liburon Acct. No. 243-80	8,477.00	04.26.11	04.28.11	Deferred
45.	Pipeline Rehabilitation Tawog, Valladolid Acct. No. 243-82	280.00	04.13.11	09.19.11	Closed to UPIS For adjustment
46.	**Additional Water Source Ibabao** **Acct. No. 243-94**	**3,259.83**	**12.23.13**	-	**On-going**
	Sub-Total	**1,027,742.37**			
	Grand Total	**5,746,241.84**			
	Balance per General Ledger (GL)	5,746,670.90			
	Difference	**429.06**			

CONSTRUCTION IN PROGRESS – BUILDINGS AND OTHER STRUCTURES (GL 244)

PROJECT DESCRIPTION with SL Account No.	SL BALANCE	PROJECT STATUS		REMARKS
		Date Started	Date Completed	
Completed Projects 1. Motorpool (Cogon) Acct. No. 244-01	261,238.42	-	-	Completed / For closing (No papers yet)
2. Construction (Office Workshop Acct. No. 244-02	123,814.60	-	-	Completed / For closing (No papers yet)
3. Partitions Shelves and Benches (CWD-Commercial) Acct. No. 244-05	48,548.93	-	-	Completed / For closing (No papers yet)
4. Repair of Service Vehicle (SD-8647) Acct. No. 244-10	2,048.35	-	-	Completed / For closing (No papers yet)
5. Repair of Service Vehicle SD 8656 Acct. No. 244-11	1,361.00	-	-	Completed / For closing (No papers yet)
6. Improvement of Warehouse Acct. No. 244-22	2,215.00	02.17.11	07.07.11	Completed / For closing (No papers yet)
7. Q & M Computer Table with Locker Acct. No. 244-26	8,738.50	02.15.12	02.29.12	Completed / For closing (No papers yet)
8. Water System Improvement – Manghupe Can-asujan Acct. No. 244-27	2,312.99	02.07.12	05.22.12	Completed / For closing (No papers yet)
9. Proposed Comfort Room CWD Building Acct No. 244-28	106,380.46	09.16.13	12.07.13	Completed / For closing (No papers yet)
Sub-Total	**556,658.25**			

Adjustments				
10. Repair of Service Vechicle (SD-8610) Acct. No. 244-09	70.00	-	-	For adjustment / erroneous charge
11. Watershed Management Program 2010	(456.00)	01.15.10	12.30.10	For adjustment / erroneous charges
Sub-Total	**(386.00)**			
TOTAL	**556,272.25**			
Balance per General Ledger	556,272.25			
Difference	**0.00**			
SUMMARY (Completed Projects)				
GL 244	556,658.25			
GL 243	4,718,499.47			
TOTAL	**5,275,175.52**			

As gathered, the projects that were completed were all done by administration. Therefore, there is a need for a close coordination between the Finance Division and the Operations and Maintenance (O & M) Division to enable the Water District to correct this deficiency which was also brought to the attention of management in the Annual Audit Report of CY 2009.

It shall be stressed that the delay in the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts has misstated the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation/depreciation expense. Otherwise stated, under the circumstances, depreciation expense could not be computed which eventually overstated the reported income at year-end and understated the accumulated depreciation for said assets.

Moreover, the subsidiary ledger (SL) carried negative (abnormal) balances totaling P22,647.15 and was less by P429.06 if compared with the General Balance (GL). To reiterate, the following is the result of the comparison of the GL and SL Balances:

Account Description/Code	GL Balance	SL Balance	Difference
Construction In Progress – Plant Account Code 243	P 5,746,670.90	P 5,746,241.84	P 429.06
Construction In Progress – Buildings and Other Structures Account Code 244	556,272.25	556,272.25	0.00
TOTAL	**P 6,302,943.15**	**P 6,302,514.09**	**P 429.06**

According to the Division Manager C, several of the papers needed for the transfer of the CIP accounts to the appropriate PPE accounts are already with the Finance Division for preparation/issuance of the Journal Entry Vouchers (JEVs). She further informed that the supporting documents of some projects are not yet ready. The completion report from the Operations and Maintenance Division is a necessary document to validate the 100% completion of the project.

We requested management to implement the following audit recommendations:

- **Direct the Division Manager C - Finance to draw the JEVs for the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts. Thereafter, require the computation of the monthly depreciation expense using as reference the guidelines set forth in COA Circular No. 2004-003 dated October 4, 2004.**

- **Instruct the OIC - O & M Division Manager to submit to the Finance Division all the papers pertaining to the reported completed projects to facilitate the transfer of these assets to the appropriate PPE accounts. Henceforth, require the Operations and Maintenance Division to furnish the Accounting Section all the papers pertaining to a completed project within the quarter when the project was validated as 100% completed so that the appropriate adjustments can be effected in the accounting books.**

- **Require the Division Manager C – Finance to draw the JEVs for all the identified transactions for adjustments to put all PPE account balances in order. It is also recommended that the Division identify the cause of the difference between the GL and SL balances for Construction In Progress-Plant and effect the necessary adjustments in either books of accounts.**

- **Require a semestral reconciliation of the GL balance on Construction In Progress account with the report rendered by the O & M Division on this subject matter so that errors/differences can be located/adjusted before the closing of the books of accounts.**

In their written reply, management stated that they are now processing the close-out of completed projects which are still under the account of Construction-in-Progress. The delay was brought about by the lack of documents required to support the costs charged to the various projects. Thus, management has decided to prepare as-built plans (where applicable) and use the available data on the cost for the subject projects.

1.b The GL account balance of five PPE accounts cannot be fully relied upon because their balances were different from those appearing either in the physical inventory report, the subsidiary ledger or in the lapsing schedule.

The General Ledger (GL) balances of PPE accounts are considered reliable if the total of the amounts appearing in the lapsing schedule, the subsidiary ledgers (SL) and the physical inventory reports will be equal to the GL balances.

Our audit revealed differences between the GL balance of five PPE accounts and the totals appearing in the following records:

GL Balance and Physical Count

SL Code	Description	Per GL	Per Count	Difference
	GL 203 (Plant - UPIS)			
203-09	Transmission and Distribution Mains	P59,344,974.27	P58,612,158.68	P732,815.59
203-13	Meter Installations	11,601,801.59	12,227,118.70	(625,317.11)
203-14	Hydrants	346,830.07	292,348.18	54,481.89
203-17	Water Meters (1/2 Insert)	196,151.43	196,318.71	(167.28)
	GL 207 – Office Equipment			
207-01	IT Equipment	1,528,549.00	1,569,971.00	(41,422.00)
	GL 225 – Other Machinery and Equipment			
225-01	Power Production Equipment	804,366.46	710,262.46	94,104.00
225-04	Stores Equipment	3,000.00	47,605.00	(44,605.00)
225-05	Communications Equipment	451,871.20	481,661.00	(29,789.80)
225-06	Power Operated Equipment	1,162,349.12	973,796.32	188,552.80
225-07	Tools, Shop and Garage Equipment	866,836.86	881,121.38	(14,284.52)
	GL 226 – Furniture and Fixtures			
226-01	Office Furniture and Fixtures	195,616.48	282,826.12	(87,209.64)
226-04	Chairs	213,723.00	241,488.00	(27,765.00)
226-06	Office Tables	31,251.00	42,485.00	(11,234.00)
	TOTAL	**P76,747,320.48**	**P76,559,160.55**	**P188,159.93**

GL Balance and SL Balance

GL Code	Description	GL Balance	SL Balance	Difference
225	Other Machinery and Equipment	P 6,012,947.22	P 6,018,139.22	P 5,192.00

GL Balance and Lapsing Schedule

GL Code	Description	GL Balance	Lapsing Schedule	Difference
203	Plant (UPIS)	P 93,811,873.16	P 92,797,487.61	P1,014,385.55
204	Buildings and Other Structures	8,840,842.14	8,372,491.31	468,350.83
207	Office Equipment	3,387,715.74	3,259,468.79	128,246.95
225	Other Machinery and Equipment	6,012,947.22	5,458,491.80	554,455.42
226	Furniture and Fixtures	1,045,523.93	1,127,452.57	(81,928.64)
	TOTAL	**P113,098,902.19**	**P 111,015,392.08**	**P2, 083,510.11**

We recommended that management direct the Finance Division to identify the causes of the differences noted and to effect immediately the necessary adjustments that will correct either the GL Balance, the SL Balance or the lapsing schedule.

Management, in their written reply, has pointed out that the difference in the GL Balances and the balances in the Lapsing Schedule per account are differences which cannot be traced anymore because it has been there before they became a water district. But, there are some unreconciled balances that will still have to be traced to asset disposal or cost adjustments.

1.c Unserviceable equipment costing P196,717.65 are still carried in the PPE accounts, a condition which is not in conformity with PAS No. 16 and overstates the PPE account balance.

As earlier stated, Philippine Accounting Standard (PAS) No. 16 which is also adopted under the New Government Accounting System (NGAS), defines Property, Plant and Equipment as tangible assets that are held by an enterprise for use in production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

Verification of the Report of the Physical Count of Utility Plant In Service (UPIS) disclosed unserviceable equipment/properties with a total cost of P196,717.65. These properties are still carried in the Property, Plant and Equipment (PPE) accounts which is not in conformity with PAS No. 16 and has overstated the PPE account balance at year-end. The details are:

SL Acct. No.	Description	Property No.	Amount
	IT Equipment		
207-01	Monitor	2006-01-003B	P 5,495.00
207-01	HP Printer	2009-05-237	1,550.00
207-01	LED Monitor	2011-07-517	5,850.00

SL Acct. No.	Description	Property No.	Amount
	Office Equipment		
207-04	Calculator	98-07-001	1,110.00
207-08	Digital Camera	2004-05-003	25,500.00
	Transportation Equipment		
214-01	Motorcyle SD 8610	92-0011-A	45,162.65
	Water Treatment Equipment		
225-03	Hypochlorinator	2009-03-225	13,500.00
225-03	Hypochlorinator	2009-09-280	13,500.00
225-03	Hypochlorinator	2010-12-461	16,500.00
225-03	Chlorinator	2012-03-635	35,000.00
	Communication Equipment		
225-05	Portable Radio	2010-06-372	12,500.00
	Tools, Shop and Garage Equipment		
225-07	Plastic Tool Box	2009-02-207	985.00
225-07	Pipe Wrench	2009-07-259	2,660.00
225-07	Cutting Outfit	2009-10-284	13,500.00
225-07	Pipe Wrench	2010-12-427	1,815.00
225-07	Pipe Wrench	2010-12-428	2,090.00
	TOTAL		**P 196,717.65**

We recommended and management agreed to reclassify the above properties from the PPE account to Other Assets while waiting for the disposal of the items to comply with the guidelines prescribed under the NGAS Manual. We further recommended that these items be disposed following the provisions of Section 79 of PD 1445.

Section 79 of PD 445 (also known as the Government Auditing Code of the Philippines) states: "When government property has become unserviceable for any cause or is no longer needed, it shall upon application of the officer accountable therefore be inspected by the head of the agency or his duly authorized representative in the presence of the auditor concerned and if found to be valueless or unsalable it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor or other authorized representative of the Commission, after advertising by printed notice in the Official Gazette, or for not less than three consecutive days in any newspaper of general circulation, or where the value of the property does not warrant the expense of publication, by notices posted for a like period in at least three public places in the locality where the property is to be sold. In the event that the public auction fails, the property may be sold at a private sale at such price as may be fixed by the same committee or body concerned and approved by the Commission."

1.d The lapsing schedule prepared by management did not show the equipment salvage value, the amount subject to depreciation and the book value at the end of each month. In consequence, management was not able to immediately detect/correct several erroneous balances under the column "Accumulated Depreciation."

A lapsing schedule is a worksheet that contains specific accounting data about property, plant and equipment (PPE) to enable the entity to keep track of all its capital assets. Basically, the lapsing schedule to be prepared monthly has to include the following information for each PPE:

1) Complete description, including identification/property number
2) Date acquired
3) Estimated Useful Life
4) An indication of whether the asset was purchased new or used
5) Purchase Cost/Acquisition Cost
6) Depreciation Method
7) Salvage/Residual Value
8) Amount Subject to Depreciation
9) Depreciation Expense This Month
10) Accumulated Depreciation to Date

Under COA Circular No. 2003-007 dated December 11, 2003, all agencies of government including Corporate Government Agencies are required to use the straight-line method of computing the depreciation for government property, plant and equipment. This Circular further requires a residual value equivalent to ten percent (10%) of the acquisition cost/appraised value which shall be deducted before dividing the same by the Estimated Useful Life. Otherwise stated, the amount that shall be subjected to depreciation shall be equivalent to 90% of the purchase cost. Thus, it is abnormal when the total Accumulated Depreciation exceeds the acquisition cost.

The lapsing schedule prepared by the Water District did not carry a column for residual value and the amount subject to depreciation. With this arrangement, a reviewer has to redo the computation of the depreciation expense to validate if management has complied with the above-mentioned Circular. As noted, there were instances when the residual value was not equivalent to ten percent (10%). For instance, the Jack Hammer with Property No. 2004-12-007 has a residual value of approximately 12% since the Total Accumulated Depreciation as of year-end was P447,182.54 which is equivalent to about 88% of the acquisition cost of P505,291.00. This item is one of the fully depreciated assets presented in the lapsing schedule.

On further verification, we have noted that there were instances when the Accumulated Depreciation far exceeded the acquisition cost. This exception was obvious in the lapsing schedule for water installation and water treatment equipment. The following are samples:

Acct. No.	Property Code	Description	Acquisition Cost	Accumulated Depreciation
203-13	92-0006	Meter Installation	P 155,763.51	P 246,089.40
203-13	92-0007	Meter Installation	357,173.25	323,865.49
203-13	95-01-003	Meter Installation	2,768.00	8,226.84
203-13	96-12-003	Meter Installation	0.00	6,941.06
225-03	2009-03-225	Chlorinator (1 unit)	13,500.00	14,227.50
225-03	2009-03-226	Chlorinator (1 unit)	13,500.00	14,227.50

We recommended that management require the Finance Division to provide the following columns in the lapsing schedule to be prepared at the end of each month: (a) Residual Value; (b) Amount Subject To Depreciation and (c) Book Value/Carrying Amount to facilitate review by top management and/or any review body of the computed Depreciation Expense and the Accumulated Depreciation to Date.

It shall be stressed that when the property is fully depreciated, the following shall be equal: (a) Total Accumulated Depreciation and Amount Subject to Depreciation, (b) Book Value and Residual Value.

According to management, the Lapsing Schedule maintained by the Finance Division contains an Accumulated Depreciation and a Carrying Book Value for each account at the end of each year. Cases of "over-depreciation" happen especially in UPIS items which are booked in lots (e.g. water meters) but are not retired as lots. Henceforth, they will include a Residual Value column in their Lapsing Schedule.

On the contrary, the sample transaction to explain the "over-depreciation" will not result in the condition cited in the audit observation because the quantity retired/disposed will most likely be less than the amount recorded which was in lot.

2. **There is no assurance that the year-end balance of the Accounts Receivable in the amount of P4.874 million was stated at its estimated realizable value, due to the following conditions:**

- **The adequacy of the Allowance for Doubtful Accounts in the amount of P1,558,449.13 has not been reviewed/adjusted since CY 2004. Thus, the balance at year-end did not reflect the current status of the accounts.**

- **The audit recommendations to identify the causes of the recurring differences between the General Ledger Balance and the Aging Schedule of Account Receivable and to effect the necessary adjustments in either books are considered not implemented since a difference of P376,551.23 still exists at year-end. The GL balance was still higher, which situation will not enable the agency to collect the accounts because the debtors were not identified.**

Recoverability of some receivables may be doubtful although not definitely irrecoverable. Such receivables are known as doubtful debts. Prudence requires that an allowance be created to recognize the potential loss arising from the possibility of incurring bad debts. Under the Manual on the New Government Accounting System (NGAS), the Bad Debts Expense account is used to record the amount of receivables determined to be uncollectible.

The NGAS Manual further 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.

The Allowance for Doubtful Accounts shall be provided in an amount based on collectibility of receivable balances and evaluation of such factors as aging of the accounts, collection experience of the agency, expected loss experience and identified doubtful accounts.

Verification of the Accounts Receivable account and the related Allowance for Doubtful Accounts revealed that there has been no Bad Debts Expense recognized for the past nine years. The Allowance for Doubtful Accounts as of December 31, 2013 with a balance of P1,558,449.13 has been carried over since 2004. From the General Ledger (GL), the last entry made to recognize estimated uncollectible accounts was on October 1, 2004 under JV No. 1761 in the amount of P21,310.51. With this information, we can reasonably conclude that the adequacy of the Allowance for Doubtful Accounts has not been reviewed to reflect the current status of the accounts.

In fact, as of December 31, 2013, the arrearages which have to be considered in the evaluation of the adequacy of the Allowance amounted to P2,492,943.15, as follows:

Table I Arrearages

Account Classification	Amount	Remarks
Inactive Accounts (Total Arrears)	P 1,764,130.80	As explained by the Commercial Division, inactive accounts pertains to the unpaid water bills of concessionaires whose water service connections have already been disconnected.
Active Accounts (Over 120 days only)	728,812.35	
	P 2,492,943.15	

Comparison of the Aging of Accounts Receivable Summary By Zone (Inactive Accounts), for years ending 2012 and 2013 further disclosed that the number of connections with arrearages was up by 8.65% while the reduction in the year-end balance was P12,091.91 or approximately 00.68% only. The facts supporting these observations are presented in Table II.

Table II Comparison of Arrearages (Inactive Accounts)

Category	2013	2012	Difference	Percentage/Remarks
A. Amount of Arrearages	P 1,764,130.80	P 1,776,222.71	P 12,091.91	(00.68%) Decrease
B. Number of Connections	779	717	62	8.65% Increase

According to the Division Manager C – Finance Department, the Water District has not established an accounting policy for determining the amount of uncollectible accounts which is the reason for not being able to recognize any adjustment for the uncollectible accounts since October 2004.

On the other hand, our audit still disclosed an unlocated difference of P376,551.23 between the General Ledger Balance and the Aging of Accounts Receivable Summary By Zone (All Accounts). The Aging Schedule which is prepared by the Billing Division serves as the subsidiary ledger for Accounts Receivable. It contains, among others, the Customer's Account Number, the Customer's Name and the Total Outstanding Accounts of each customer.

Of the total difference of P376,551.23, P375,454.16 pertains to the unlocated difference of prior years which was reclassified by the Accountant to Accounts Receivable coded GL 111-02, under JEV No. 13-04-0084 dated April 30, 2013, as an initial step to isolate the differences of prior years. Thus, the year-end balance of Accounts Receivable (GL 111) consists of GL 111-01 in the amount of P4,499,453.64 and GL 111-02 amounting to P375,454.16. However, the balance under GL 111-01, which represents mostly current transactions, still differs with the Aging Schedule by P1,097.07. Otherwise stated, another difference is building-up which can be an indication that the root cause of the discrepancy has not been identified. Table III summarizes the above discussion.

Table III Comparison of GL Balances with the Aging Schedule

Account Description	Per GL	Per Aging Schedule	Difference
Accounts Receivable (GL 111-01)	P 4,499,453.64	P 4,498,356.57	P 1,097.07
Accounts Receivable (GL 111-02)	375,454.16	0.00	375,454.16
TOTAL	**P 4,874,907.80**	**P 4,498,356.57**	**P 376,551.23**

The above stated differences cannot be collected by the Water District because these are not supported with names of concessionaires. Thus, as earlier stated, there is an immediate need for the Finance Division to identify the cause(s) of the discrepancy which has also started up for the current transactions.

From the Reconciliation Statement for Accounts Receivable as of December 31, 2013, we have noted that the deductions to Gross Accounts Receivable differed both in amounts and explanation. For instance, the collections (Cashiers) for the month of December was P4,528,714.88 in the Accounting Records while the collections (Cashiers) in the Billing Records which uses a computerized system was only P4,418,917.01 or a difference P109,797.87. Also, the Billing Records showed rebates totalling P119,109.04 which was not reflected in the column for Accounting Records. This amount may have been included in the Accounting Records under collections (Cashiers). Thus, this condition is indicative of different treatment/description of a similar transaction. Accordingly, the reconciliation statement prepared by the Finance Division cannot as yet serve the purpose because it did not show a reconciled amount and the differences noted have not been explained.

Thus, until the differences mentioned above can be fully accounted for/explained and the adequacy of the Allowance for Doubtful Accounts reviewed, there is no assurance that the Accounts Receivable balance of P4,874,907.80 was stated at its estimated realizable value.

We recommended and Management agreed to review the adequacy of the Allowance for Doubtful Accounts using the accounting policy adopted under the New Government Accounting System (NGAS). We also reiterated our previous year's audit recommendation for the Billing Division to send collection letters to all customers under the "inactive status" as this will determine the collectibility of their accounts which is one factor to be considered in the review of the Allowance.

In addition to the factors in arriving at the appropriate Allowance for Doubtful Accounts (mentioned in the third paragraph of this audit observation), the NGAS Manual further provides the following:

"The determination of bad debts expense shall be derived from computation based on percentages and aging of accounts receivable, as follows:

Age of Accounts	**Percentage**
1 - 60 days	1 %
61 - 180 days	2 %
181 - 1 year	3 %
More than 1 year	5 %

We further reiterated our previous year's audit recommendation for the Accounting and the Billing Divisions to identify the causes of the difference of P376,551.23 between the GL Balance and the Aging Schedule so that appropriate adjustments can either be effected or a request for write-off be initiated.

Based on the furnished Accounts Receivable Reconciliation Statement as of December 31, 2013, identification of the causes of the discrepancy can be facilitated by directly comparing the composition of the transaction. As previously discussed, one of the deductions in the Reconciliation Statement, column for Billing Records, was "rebates" which cannot be traced directly in the column for Accounting Records. Immediate verification of the supporting documents is necessary to ensure a uniform treatment/description of the transaction in both the Billing and Accounting Records. In this way, reconciliation of related records can be facilitated.

It shall be mentioned that write-off of long outstanding accounts is allowed under existing COA regulations provided there are documented efforts to collect those accounts and/or other explanation for the existence of said outstanding accounts. Under COA Resolution No. 2012-001 dated March 22, 2012, only the COA Commission Proper can authorize write-off of accounts.

In a written reply, management stated that since the available subsidiary records of the outstanding accounts are the Consumer's Ledgers maintained by the Commercial Division, they are inclined to adjust the accounting records as far as the unlocated difference of P375,454.16 which has been reclassified to GL 111-02 and to write-off the amount altogether, if authorized by the COA. As for the remaining amount of P1,097.07, they are tracing the amount and reviewing the reconciliation process between the accounting and the billing records.

3. **Checks issued in the name of the Cashier A for payment of personnel benefits such as allowances of caretakers, monetization of unused leave credits and daily compensation of Job Order personnel were immediately treated as expense instead of cash advance for payroll (Payroll Fund) as required under COA Accounting Circular No. 2006-001. With this practice, management cannot be provided with a ready record for monitoring the outstanding cash advances on said transactions.**

COA Accounting Circular No. 2006-001 dated November 9, 2006 prescribes the use, among others, of the account "Payroll Fund" for cash advances granted to disbursing officers for the salaries and wages of officers and employees and other personnel benefits to distinguish it from other cash advances given to disbursing officers. It shall be liquidated within five (5) days after the pay period. General Ledger Code 106 is assigned for the Payroll Fund account (COA Accounting Circular Letter No. 2007-001 dated January 19, 2007).

As with any other cash advance, recognition of the appropriate expense shall be done only upon liquidation by the disbursing officer/accountable employee.

Verification of disbursement vouchers revealed several checks that were issued in the name of the Cashier A for the payment of personnel benefits such as allowances of caretakers, monetization of unused leave credits and daily compensation of Job Order personnel which were immediately treated as expense instead of being coursed thru the Payroll Fund account. The practice is not in conformity with the instructions under COA Accounting Circular No. 2006-001 dated November 9, 2006, as discussed in the first paragraph of this audit observation. In the absence of a record for cash advances for payroll, the management of the water district cannot be provided with a record to easily determine/monitor the accountability of the Disbursing Officer on said transactions.

An example of this kind of payment is Disbursement Voucher No. 13-09-0514 for the allowance of caretakers covering the period from September 1-15, 2013 which was covered by LBP Check No. 301721 dated September 13, 2013 in the amount of P10,500.00 under the name of Cashier A, Priscilla Abellana. The transaction was recorded in the Check Disbursement Journal of September 2013 as a direct debit to an expense account, Repairs and Maintenance-Plant (UPIS), under GL Code 803 instead of the cash advance account, Payroll Fund (GL Code 106) which is the nature of the transaction. The account credited was Cash in Bank - Local Currency (GL Code 107). With this accounting treatment, the accountability of the DO/Cashier A and the liquidation of her cash advances cannot easily be determined/monitored.

We recommended and management agreed to comply with the instructions on the accounting treatment for various cash advances as set forth under COA Accounting Circular No. 2006-001 dated November 9, 2006 and COA Accounting Circular Letter No. 2007-001 dated January 19, 2007 to ensure proper presentation in the financial statements of subject transactions.

Management informed that the above audit recommendation was implemented in December 2013.

ON COMPLIANCE WITH GOVERNMENT REGULATIONS

4. The purchase of the various software to automate the operating processes of the Water District was contrary to existing government procurement regulations, as follows:

- **The procurement for the computerization of the water district's various processes/operations which amounted to P380,000.00 was done without the benefit of public bidding or any of the alternative methods of procurement, a decision which is contrary to Sections 10 and 48 of the Implementing Rules and Regulations (IRR) of RA 9184. Moreover, this procurement transaction was not posted in the PhilGEPS bulletin board**

which is a requirement under Section 8.2.1 (a) of the aforementioned IRR. Thus, there was neither an assurance that the most advantageous price for the government was obtained nor was there a concrete basis to ascertain the technical capability of the firm/supplier.

- **The Memorandum of Agreement (MOA) contained a provision for the payment of fifty percent (50%) of the contract amount which is not in conformity with the instructions under Item 4.3, Annex D, IRR of RA 9184.**

- **The agreement did not include a provision on liquidated damages which is also a requirement under Section 68 of the IRR.**

- **The MOA further contains a provision for CWD to refund all expenses incurred by the contractor during travel to the Water District such as transportation, board and lodging, and per Diems of Php 800.00/day which is considered a disadvantageous stipulation because said expense was not time-bounded nor was supported with a list of personnel authorized to travel and the purposes for said travels. As it is, this particular expense may considerably add to the cost of the project but may not be noticed by the Water District.**

❖ **The Disbursement Vouchers (DVs) for the monthly installments were not supported with a Certificate of Acceptance from the Water District on the work items accomplished, a practice which is not in keeping with the rules and regulations of an effective internal control system.**

The Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184, otherwise known as the "Government Procurement Reform Act", was promulgated for the purpose of prescribing the necessary rules and regulations for the modernization, standardization, and regulation of the procurement activities of the Government of the Philippines (GOP).

The provisions of this IRR are in line with the commitment of the GOP to promote good governance and its effort to adhere to the principle of transparency, accountability, equity, efficiency, and economy in its procurement process. It is the policy of the GOP that procurement of infrastructure projects, goods and consulting services shall be competitive and transparent, and therefore shall go through public bidding, except as otherwise provided in this IRR (Section 2, IRR, RA 9184).

Section 10 of the aforementioned IRR states: "All procurement shall be done through competitive bidding except as provided in Rule XVI of this IRR. Rule XVI is on Alternative Methods of Procurement which is explained under Section 48. Section 48.1 states: "Subject to the prior approval of the Head of the Procuring Entity, and whenever justified by the conditions provided in this Act, the procuring entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement provided in this Rule. **In all instances, the procuring entity shall ensure that the most advantageous price for the Government is obtained** (Emphasis Supplied).

Section 8.2.1 of the IRR also requires that all Procuring Entities shall post all procurement opportunities, results of bidding and related information in the Philippine Government Electronic Procurement System (PhilGEPS) bulletin board. Item 3 (d), Appendix 18 (Guidelines for Shopping and Small Value Procurement) of the IRR specifically enumerates the conditions for posting of the Request for Quotation (RFQ), as follows:

> "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, this 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

In the review of the Disbursement Vouchers (DVs) for the payments made to JMK IT Solutions, the supplier who developed the software/computer programs for the various operating processes of Carcar Water District, we noted that their services was procured even without a public bidding conducted or any of the alternative methods of procurement. Moreover, this procurement transaction was not posted in the PhilGEPS bulletin board which is a requirement under Section 8.2.1 (a) of the aforementioned IRR. Thus, under the circumstances, there was neither an assurance that the most advantageous price for the Government was obtained nor was there a concrete basis to ascertain the technical capability of the firm/supplier.

Per our review, the Carcar Water District (CWD) Board of Directors passed Resolution No. 31, Series of 2011, on July 22, 2011 approving the proposal of the Management to avail the services of JMK IT Solutions in order to enhance the operational efficiency of the Water District with the use of computer software programs. Accordingly, on January 10, 2012, CWD (the First Party) entered into a Memorandum of Agreement with JMK IT Solutions (the Second Party) of Catbalogan City for a contract price of P380,000.00 covering six systems. The payment terms were:

- Php 190,000.00 upon signing of the Memorandum of Agreement;
- Php 31,666.66 monthly installment payable in six (6) months or a total of Php 190,000.00; Monthly Payment will commence the month after the delivery of the system;

- That the monthly installment shall be paid every first week of the month.

The payment of fifty percent (50%) of the contract amount is not in conformity with the instructions under Item 4.3 of Annex D, IRR of RA 9184. Annex D deals on the subject: Contract Implementation Guidelines for the Procurement of Goods, Supplies and Materials. Item 4.3 of said Annex states:

> "A single advance payment not to exceed fifty percent (50%) of the contract amount shall be allowed for contracts entered into by a procuring entity for the following services where requirement of down payment is a standard industry practice:
>
> a) Hotel and restaurant services;
> b) Use of conference/seminar and exhibit areas; and
> c) Lease of office space.

Development of computer programs is not among the transactions that can be paid in advance. It shall be mentioned that "goods", as defined under RA 9184, refers to all items, supplies, materials and general support services, except consulting services and infrastructure projects, which may be needed in the transaction of public businesses or in the pursuit of any government undertaking, project or activity x x x as well as trucking, hauling, janitorial, security, and related or analogous services, as well as procurement of materials and supplies provided by the procuring entity for such services. The term "related" or "analogous services" shall include, but not limited to, lease or purchase of office space x x x and other services essential to the operation of the procuring entity.

Furthermore, the agreement did not include a provision on liquidated damages which is also a requirement under Section 68 of the above-mentioned IRR. The following are the specific provisions on liquidated damages for the procurement of "goods" as set forth in Item 3, Annex D of the aforementioned IRR:

> "When the supplier fails to satisfactorily deliver goods under the contract within the specified delivery schedule, inclusive of duly granted time extensions, if any, the supplier shall be liable for damages for the delay and shall pay the procuring entity liquidated damages, not by way of penalty, an amount equal to one-tenth (1/10) of one percent (1%) of the cost of the delayed goods scheduled for delivery for every day of delay until such goods are finally delivered and accepted by the procuring entity concerned.
>
> The procuring entity need not prove that it has incurred actual damages to be entitled to liquidated damages. **Such amount shall be deducted from any money due or which may become due to the supplier, or collected from any securities or warranties posted by the supplier,** whichever is convenient to the procuring entity concerned. In no case shall the total sum of liquidated damages exceed ten percent (10%) of the total contract price,

in which event the procuring entity concerned shall automatically rescind the contract and impose appropriate sanctions over and above the liquidated damages to be paid (Emphasis Supplied)."

The MOA stipulates that JMK IT Solutions shall install the above-mentioned programs/systems within a period of thirty (30) days after the signing of the contract. The contract was signed on January 10, 2012 and therefore was supposed to end on February 10, 2012. Based on the Status Report submitted by the contractor to support his 2nd Billing for the six-month installment term which was dated April 2, 2012, the Accounting and the Billing and Collection Systems were not yet completed at that time. Using the contract provisions, the contractor was already in default as of April 2, 2012. However, the Water District did not deduct the corresponding liquidated damages from the installment payment to JMK IT Solutions.

The MOA further contains a provision for CWD to refund all expenses incurred by the contractor during travel to the Water District such as transportation, board and lodging, and per Diems of Php 800.00/day. This is considered a disadvantageous stipulation because said expense was not time-bounded nor was supported with a list of personnel authorized to travel and the purposes for said travels. As it is, this particular expense may considerably add to the cost of the project but may not be noticed by the Water District.

Also, the Disbursement Vouchers (DVs) for the monthly installments were not supported with a Certificate of Acceptance from the Water District on the work items accomplished. With this omission, Management was not able to validate if the reported accomplishments were accurate and therefore due for payment. Thus, this practice is not in keeping with the rules and regulations of an effective internal control system and does not conform with one of the general requirements for all types of disbursements which is the submission of sufficient and relevant documents to establish the validity of claims.

The technical capability of the supplier has likewise not been fully ascertained. From the exception reports furnished by the Finance Division, there were several instances when the Management encountered problems using the developed systems. Some of the issues that were reported for correction were:

- Data is not locked in other work stations except J. Manugas Station;
- The system still accepts non-existing accounts, ex. "159-03";
- The balance forwarded in the SL will not display the amount if there is no transaction for that account during the period;
- RIS double entry in the program.

Management has deferred the payment of the last two installments totaling P63,333.36 due to the deficiencies noted after running the programs. At the time of audit, the IT provider has not yet answered the many issues raised by Carcar Water District. It may be mentioned that the supplier was a referral from Catbalogan Water District. We wish to emphasize that in government procurement, the only basis to be considered is the Procurement Law (RA 9184) and not actual practices of other government agencies/water districts.

It shall be informed that this subject procurement shall be referred to the Technical and Information Technology Services Office of COA Region VII for validation of the project accomplishments and determination of the reasonableness of the price quoted by the supplier.

We recommended that Management require strict compliance of the Implementing Rules and Regulations of RA 9184 so that all procurement activities will result in the most advantageous price/terms for the Water District. We further recommended that Management validate the accomplishments of JMK IT Solutions to serve as basis in the computation of the liquidated damages that shall be imposed on the supplier. Thereafter, we recommended that all liquidated damages be deducted from any money due or may become due to the supplier pursuant to Item 3.2 of Annex D, IRR of RA 9184.

We also recommended that Management use as reference COA Circular No. 2012-001 dated June 14, 2012 on the subject: Prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions, when effecting payment to employees, suppliers and other parties.

According to management, their preliminary survey on the cost for installing a computerized recording system would run to a million or more. Thus, when a program was presented to them by JMK IT Solutions, they deemed it more advantageous to the government that they availed of the IT program under a Memorandum of Agreement with the programmer Exequiel Cabrigas III. They thought it was worth to consider because the said program was already up and running in Catbalogan Water District, where Mr. Cabrigas is an employee. That, after the initial installation of the software, the water district requested several customizations to suit the reportorial needs of the office. This resulted in the extension of the full implementation of the program. To date, the system is already in place with some fine tuning as to the format of the reports.

With regards to the other findings and recommendations, the water district will commit to abide by the provisions of RA 9184 in its future procurement transactions.

5. **Several checks were issued and released to the creditors even if the corresponding disbursement vouchers have either not been approved by the General Manager or signed by the Division Manager C – Finance, a decision which is a violation of Section 4 (5) of PD 1445. This condition is also considered a serious breakdown in the internal control system of the Water District and likewise indicative of pre-signing of blank checks.**

Section 4 (5) of Presidential Decree (PD) No. 1445, also known as the "Government Auditing Code of the Philippines" provides that one of the fundamental principles governing financial transactions of any government agency is: "Disbursements or disposition of government funds or property shall invariably bear the approval of the proper officials."

The above requirement has been emphasized in the Manual on the New Government Accounting System (NGAS) under the caption Basic Requirements for Disbursements. As stated, one of the requirements applicable to all types of disbursements made by government agencies is: "Approval of the expense by the Chief of Office or by his duly authorized representative."

In the review of the disbursements made by the Water District, we noted several payments that were supported with Disbursement Vouchers (DVs) that were either not approved by the General Manager as the Head of Office or signed by the Division Manager C – Finance who acts as the Head of the Accounting Unit, as follows:

Transaction	**Date**	**DV No. Check No.**	**Payee**	**Amount**	**Signatures Lacking**
Payment of one (1) unit office table	2/15/13	13-02-0141 LBP 262222	Cebu Progress Commercial	P7,240.18	Section A of DV was not signed by the Head of the Accounting Unit/Accountant while Section B which carry the phrase "Approved for Payment" was likewise not signed by the General Manager.
Payment for the monthly contribution of job order personnel – February 2013	2/07/13	13-02-0123 LBP 262205	Home Development Mutual Fund	1,800.00	Section B of DV which carry the phrase "Approved for Payment" was not signed by the General Manager.
Payment for the monthly loan remittance as of February 2013	2/07/13	13-02-0124 LBP 262206	Home Development Mutual Fund	46,359.00	Section B of DV which carry the phrase "Approved for Payment" was not signed by the General Manager.
Payment for the monthly contribution as of February 2013	2/07/13	13-02-0125 LBP 262207	Home Development Mutual Fund	14,800.00	Section B of DV which carry the phrase "Approved for Payment" was not signed by the General Manager.

Payment for renewal of registration of CWD service vehicle SJM 912	2/08/13	13-02-0126 LBP 262208	BTR FAO LTO	2,229.06	Section A of DV was not signed by the Head of the Accounting Unit/Accountant while Section B which carry the phrase "Approved for Payment" was likewise not signed by the General Manager.

Under Section A of the DV, the Division Manager C – Finance who acts as the Head of the Accounting Unit/Accountant, shall certify the following:

- Supporting documents complete and proper
- Cash available
- Subject to ADA (where applicable)

Hence, with the signature of the Accountant in Section A , the presumption is that the Water District has complied with Section 4 (6) of PD 1445 which states: "Claims against government funds shall be supported with complete documentation."

Otherwise stated, a completely signed Disbursement Voucher validates the propriety of the transaction and directs that payment to the creditor can now be authorized.

The above-mentioned condition is also considered a serious breakdown in the internal control system of the Water District and likewise indicative of pre-signing of blank checks.

We recommended that management direct the Cashier A / Disbursing Officer to prepare checks only when the covering Disbursement Voucher has been duly signed by the Accountant and approved by the Head of Office to assure that all the basic requirements for payment have been complied with by the Water District.

The following are the basic requirements applicable to all types of disbursements to be made by government agencies:

- Existence of a lawful and sufficient allotment certified as available by the Budget Officer [Section 4 (1), PD 1445];

- Existence of a valid obligation certified by the Chief Accountant/Head of Accounting Unit [Section 4 (4), PD 1445];

- Legality of transactions and conformity with laws, rules and regulations [Section 4 (7), PD 1445];

- Approval of the expense by the Chief of Office or by his duly authorized representative [Section 4 (5), PD 1445]; and

- Submission of proper evidence to establish the claim [Section 4 (6), PD 1445].

Management gave assurance to be more vigilant in the proper documentation of disbursements prior to issuance of checks.

6. Part of the cash advance that was granted to the General Manager for the attendance of CWDs officials in a PAWD conference was transferred to four BOD members who participated in the activity. This transfer of accountability violates Section 4.1.6 of COA Circular No. 97-002 dated February 10, 1997. Moreover, if tolerated, this arrangement may result in delayed liquidation of cash advances and/or accumulation of cash advances since the person who did the actual utilization of the funds may not immediately submit the liquidation documents for he is not the accountable officer on record.

Section 4.1.6 of COA Circular No. 97-002 dated February 10, 1997 states that: "Transfer of cash advance from one Accountable Officer (AO) to another shall not be allowed." Further, Section 4.1.5 of the above-mentioned COA Circular provides that officers and employees who are given cash advances for official travel need not be designated as Disbursing Officers.

Our review disclosed that the cash advance granted to Engr. Edward L. Remo in the amount of P76,000.00 (DV No. 13-02-0120) for the travelling expenses and registration fee of the Carcar Water District's (CWDs) officials who were authorized to attend the conference of the Philippine Association of Water Districts (PAWAD) held at Crown Plaza Hotel, Metro Manila, on February 6-8, 2013 was partly transferred to the four BOD members who attended the activity. The amount transferred which totaled P9,040.00 for each BOD member consisted of the cost of the airport terminal fee, conference registration fee and the incidental expenses authorized. The recipients were:

Claimant	Position	Amount
1. Cabalquinto, Marcelo	Member of the Board	P 9,040.00
2. Cabungcal, Martin, Sr.	Member of the Board	9,040.00
3. Ledesma, Danilo	Member of the Board	9,040.00
4. Trinidad, Alexis	Member of the Board	9,040.00
Total Cash Advance Transferred		**P 36,160.00**

The transfer of the cash advance from Engr. Remo to each of the four BOD member violates Section 4.1.6 of COA Circular No. 97-002 which clearly states that transfer of cash advance from one accountable to another shall not be allowed. Moreover, if tolerated, this arrangement may result in delayed liquidation of cash advances and/or accumulation of cash advances since the person who did the actual utilization of the funds may not immediately submit the liquidation documents for he is not the accountable officer on record. Also, there is a risk that the amount transferred maybe used for purposes other than for which the cash advance was granted.

We recommended and management agreed to comply strictly the rules and regulations on the granting, utilization and liquidation of cash advances as set forth in COA Circular No. 97-002 to ensure the immediate and full settlement of all cash advances that maybe granted in any given year.

7. The cash advances for payment of the per diem for Board Meetings were drawn in the name of the Chairman of the Board of Directors which is tantamount to allowing the official to perform disbursing function. This practice is a violation of Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002 dated February 10, 1997.

COA Circular No. 97-002 dated February 10, 1997, on the subject: Restatement With Amendments Of The Rules And Regulations On The Granting, Utilization And Liquidation Of Cash Advances Provided For Under COA Circular No. 90-331 Dated May 3, 1990, provides the following, among others:

Section 4.1.4 : Only permanently appointed officials shall be designated as disbursing officers. Elected officials may be granted a cash advance only for their official traveling expenses.

Section 4.1.5 : Only duly appointed or designated disbursing officers may perform disbursing functions. Officers and employees who are given cash advances for official travel need not be designated as Disbursing Officers.

Our review of the disbursement vouchers of the Water District disclosed that the cash advances for payment of the per diem for Board Meetings were drawn in the name of the Chairman of the Board of Directors. As a result, he acted as the Disbursing Officer for the payment of said benefit to each of the Members of the Board of Directors. This arrangement is a violation of Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002. The Chairman of the Board is not an organic personnel of the Water District and as such he cannot be designated as a Disbursing Officer under existing government auditing regulation.

An example of this transaction is covered by Disbursement Voucher (DV) No. 13-09-0773 dated September 13, 2013 in the amount of P16,625.70 for the payment of the BODs per diem for the meeting held on September 13, 2013. The cash advance drawn under LBP Check No. 301720 of even date was in the name of Atty. Democrito C. Barcenas, the Chairman of the Board of Directors of Carcar Water District. Attached to the DV was the payroll signed by the BOD members acknowledging receipt of their per diem for said meeting. The payment by Chairman Barcenas of the per diem to each BOD member was tantamount to performing a disbursing function.

We recommended and management agreed to stop the practice of granting the cash advance for BOD per diem to the Chairman of the Board to comply with Sections 4.1.4 and 4.1.5 of COA Circular No. 97-002.

The cash advance for this transaction can be drawn in the name of the regular Disbursing Officer of the Water District.

8. **The check for payment of the sale of various scrap items in the amount of P30,000 was accepted though it was issued as "Pay to the order of CASH" and without a verification if such check was an indorsed private check. Both conditions are violations of Section 77 of the Government Accounting and Auditing Manual (GAAM), Volume I. In fact, this occurrence is considered an indirect encashment of private checks from collections which is strictly prohibited under Section 67 (3) of PD 1445.**

Section 77 of the Government Accounting and Auditing Manual (GAAM), Volume I, states the following:

> "**Sec. 77. Drawing of checks** – Checks in payment for indebtedness to the government must be drawn by the **payor himself** and made payable to the agency or head or treasurer of agency. In the latter case, only the **official title or designation of the official concerned** shall be stated, as the payee. Under no circumstance shall the following checks be accepted: (a) checks drawn payable to the name of agency head or any of its officers, (b) indorsed checks, (c) stale checks, and (d) out-of-town checks except those which are drawn by the Government or its instrumentalities (Emphasis Supplied)."

Our review of the collections and deposits of December 2013 disclosed an official receipt for the sale of scrap items. On further inquiry, we were informed that the collections under OR No. 4394 dated December 11, 2013 in the amount of P60,611.25 under the name of Mr. Diego Mahania of Perrelos Proper was in cash and check. The check component was P30,000 with the following particulars:

Bank	BDO SM City Cebu Branch
Account Number	002458007064
Check Number	0078893
Check Date	December 11, 2013
Payee	Pay to the order of CASH

From informal interviews and which was later confirmed thru an informal confirmation from the Bank, the above check was not issued by Mr. Diego Mahania but by another person. Hence, it is considered an indorsed private check.

This practice, if tolerated, is not only a violation of Section 77 of the GAAM but may also expose the Water District to possible loss of funds due to simple embezzlement. This occurrence is, in fact, considered an indirect encashment of private checks from collections which is strictly prohibited under Section 67 (3) of PD 1445, also known as the "Government Auditing Code of the Philippines."

We recommended that Management instruct the Cashier A to accept checks for payment only when it is made payable to the agency or head of agency as required in Section 77 of GAAM, Volume I. We further recommended that she be instructed to stop the accommodation of private checks to comply with Section 67 (3) of PD 1445 and prevent occurrence of dishonored checks.

In this connection, it shall be mentioned that even dishonored government checks that were purely received for accommodation or encashment **shall be disallowed** and the amount thereof shall be made good by the Accountable Officer who allowed their encashment. This instruction is contained in Page 10 of the Revised Cash Examination Manual which was prescribed for use under COA Memorandum No. 2013-004 dated July 9, 2013.

Management acknowledged the lapse on the part of the cashier in accepting the check payment for the scrap materials. The COA recommendation on this subject matter will be strictly implemented and adhered to by the Water District.

9. Lapses were noted in the controls over leave credits, as follows:

- **Monetization of sick leave credits was allowed without any supporting document to justify the payment thereof which is required under Section 23 of the Omnibus Rules on Leave (Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292). Monetization of vacation leave credits was also allowed even if an employee did not have an accumulated fifteen (15) days of vacation leave balance at the time of monetization. This practice violates Section 22 of the above mentioned Omnibus Rules. Until corrected, this practice can overstate the budget for monetization of leave credits.**

- **The expected earned leave of 2.5 days (Vacation and Sick Leave) per month was posted in the leave cards every first day of the month at which time the employee is not yet entitled to said benefit since no service has been rendered. If not corrected, an erroneous leave balance may become the basis for monetization.**

- **There were instances when the leave balances reflected in the Application for Leave supporting the requests for monetization differed with the balance appearing in the Leave Card. Hence, if not corrected, the Water District might monetize a non-existing leave credit.**

Monetization refers to payment in advance under prescribed limits and subject to specified terms and conditions of the money value of leave credits of an employee upon his request without actually going on leave (Rule I, Omnibus Rules on Leave).

Officials and employees in the career and non-career service, whether permanent, temporary, casual or coterminous, who have accumulated fifteen (15) days of vacation leave credits shall be allowed to monetize a minimum of ten (10) days: Provided, that at least five (5) days is retained after monetization and provided further that a maximum of thirty (30) days may be monetized in a given year (Section 22 of the CSC Omnibus Rules on Leave, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292).

Under Section 23 of the said Omnibus Rules, monetization of fifty (50%) or more of the accumulated leave credits may be allowed for valid and justifiable reasons such as:

a. Health, medical and hospital needs of the employee and the immediate members of his/her family;
b. Financial aid and assistance brought about by force *majeure* events such as calamities, typhoons, fire, earthquake and accidents that affect the life, limb and property of the employee and his/her immediate family;
c. Educational needs of the employee and the immediate members of his/her family;
d. Payment of mortgages and loans which were entered into for the benefit or which inured to the benefit of the employee and his/her immediate family;
e. In cases of extreme financial needs of the employee or his/her immediate family where the present sources of income are not enough to fulfill basic needs such as food, shelter and clothing;
f. Other analogous cases as may be determined by the Commission.

Verification of the Disbursement Vouchers (DVs) for the payment of monetization of leave credits revealed the following:

1. Employees with accumulated vacation leave credits of less than fifteen (15) days were still allowed to monetize provided at least five (5) days was retained after monetization.

   In Table 1, below, three personnel were allowed to monetize their vacation leave credits even if their leave balance at the time of monetization was less than fifteen (15) days. This is a violation of Section 22 of the Civil Service

Commission (CSC) Omnibus Rules on Leave. The employees concerned were: (1) Compañon, Archie; (2) Parilla, Ariel and (3) Tanque, Maribeth.

2. Sick leave credits of less than 50% of the unused balance (except for Archie Compañon) were also monetized without requiring the employees to attach documents indicating valid and justifiable reasons to explain the payment thereof, which practice violates Section 23 of the CSC Omnibus Rules on Leave, As noted, the monetization was simply described in the Applications for Leave as "50% Monetization of Unused VL & SL credits." This Application was the only document supporting the monetization of leave credits.

An example of the above transactions is the monetization of the leave credits of the following personnel which was paid on January 2, 2013 covered by Disbursement Voucher No. 13-01-006 and LBP Check No. 262098 in the name of Cashier, Priscilla Abellana:

Table I - Sample Monetization

	Leave Balance Before Monetization ***			**Number of Days Monetized**			**Leave Balance After Monetization**		
Name and Position	**VL**	**SL**	**Total**	**VL**	**SL**	**Total**	**VL**	**SL**	**Total**
Compañon, Archie R. Customer Service Asst. B	9.951	22.375	32.326	4	12	16	5.951	10.375	16.326
Parilla, Ariel E. Utility Worker B	12.885	17.000	29.885	7	7	14	5.885	10.000	15.885
Remo, Edward L. General Manager C	17.488	46.000	63.488	12	19	31	5.488	27.000	32.488
Sandoy, Christine Q. Corp. Budget Officer C	16.606	25.750	42.356	11	10	21	5.606	15.750	21.356
Tanque, Maribeth S. Adm. Service Aide	10.990	37.500	48.490	5	13	18	5.990	24.500	30.490
*** As reflected in the Application for Leave									

We wish to mention that in CSC Resolution No. 000034 dated January 5, 2000, the Civil Service Commission stated that as a general rule what is allowed to be monetized are the accumulated vacation leave credits. Section 23, on the other hand, is an extraordinary measure to relieve an employee from financial difficulties that may be allowed only for valid and justifiable reasons subject to the discretion of the agency head and the availability of funds. Hence, Section 23, should be construed as an exception to the general rule as provided under Section. 22.

Also, the leave credit balances that were reflected in the Application for Leave of the following employees differed with the balance appearing in the leave cards, as follows:

Table II - Leave Differences

Name and Position	Leave Balance Per Leave Card			Leave Balance Per Application for Leave			Difference		
	VL	SL	Total	VL	SL	Total	VL	SL	Total
Compañon, Archie R., Customer Service Asst. B	9.878	22.375	32.253	9.951	22.375	32.326	0.073	0.000	0.073
Tanque, Maribeth S, Adm. Service Aide	7.926	33.500	41.426	10.990	37.500	48.490	3.064	4.000	7.064

The above condition is quite alarming because the leave balances that were lifted to the Application for Leave (the document supporting the monetization) exceeded the balances per Leave Cards. If not corrected, the Water District might monetize a non-existing leave credit.

We recommended that Management comply strictly the regulations on monetization of leave credits as contained in the Civil Service Commission (CSC) Omnibus Rules on Leave.

We also recommended that Management instruct the Personnel Section to post all earned leaves at the end of each month when the related service requirements have been met by the employees. We likewise requested Management to direct a thorough review of the entries in the Leave Cards to prevent errors during monetization and/or payment of terminal leave.

Management commented that the monetization of 50% or more of vacation/sick leave credits was with attached letter request duly approved by the GM. That, as per CSC, the monetization of 50% or more of the accumulated leave credits shall be upon the favorable recommendation of the agency head and availability of funds. The applied monetization were under Section 23 of the Omnibus Rules on Leave (Rule XVI of the Omnibus Rules Implementing Book V of EO No. 292). Management interpreted the provision as only requiring the following: (a) said monetization be for valid and juastifiable reason, (b) approval of the agency head/recommendation and (c) funds are available. Management thinks that the approval of the General Manager is already sufficient without attaching documents to prove the financial needs since some financial difficulties experienced by their employees cannot be substantiated. On the contrary, from the samples taken, the leave monetization did not have a letter request from the employees concerned.

As to the issue that monetization of vacation leave credits was also allowed even if an employee did not have an accumulated fifteen (15) days of vacation leave balance at the time of monetization, management reasoned out that the applied monetization was under extraordinary measure which is Section 23 of the Omnibus Rules on Leave and the said provision does not provide that it requires an accumulated fifteen (15) days vacation leave as provided for under Section 22. Therefore, they assumed in good faith that the two modes of availing leave monetization are independent with each other since the classification of availment is not the same. They even cited CSC Resolution No. 000034 dated January 5, 2000 (MASLAN, Belen T., Re: Query; Monetization of Leave Credits) which provides that Section 23 should be construed as an exception to the general rule. Therefore, there are two modes of monetization one general which is Section 22 and the extraordinary one which is Section 23, where every employee can avail depending upon her/his needs. Furthermore, according to them Section 23 is an extraordinary measure to relieve an employee from financial difficulties which is more in harmony with the purpose of the law in answering the needs of every employee. We wish to mention that the CSC Resolution was already brought out in the Audit Observation.

On the posting of leaves earned, Management will comply with the recommendation that earned leave of 2.5 days (Vacation and Sick Leave) per month will be posted at the end of the month. Management further committed to review the entries in the Leave Cards and comply strictly the regulations on monetization of leave credits as contained in the CSC Omnibus Rules on Leave.

10. Properties owned by the Water District with an insurable value of P50.420 million are not insured with the General Insurance Fund of the Government Service Insurance System (GSIS) as required under R.A. No. 656 and reiterated in Administrative Order Nos. 33 and 141. Under this circumstance, the Water District is denied of adequate and reliable protection against any damage to, or loss of their properties due to fire, earthquake and other risks from forces of nature.

Section 2 of Republic Act (RA) 656 states that in order to indemnify or compensate the Government for any damage to, or loss of, its properties due to fire, earthquake, storm, or other casualty there is hereby established the "Property Insurance Fund."

Section 5 of the same law also provides that every government, except a municipal government below first class, is required to insure its property with the General Insurance Fund against any insurable risk therein provided and pay the premiums thereon.

Administrative Order (AO) No. 141, of the Office of the President, dated August 17, 1994, reiterates the requirement for the insurance of all insurable risks affecting properties, assets and interests of the government and prescribes guidelines for the insurance thereof in order to conserve the resources of the government. This same requirement is incorporated in Administrative Order (AO) No. 33 dated August 25, 1987. The following important provisions under the above AOs are stated below for ready reference:

> Section 1 - AO No. 33: "All heads of departments, commissions, boards, bureaus, offices of the national and local governments concerned except

municipal governments below first class, **government-owned and/or controlled corporations**, subsidiaries and acquired asset corporations shall **secure from the General Insurance Fund directly, all insurances or bonds covering properties, contracts, rights of action and other insurable risks of their respective offices, including all those in which their respective offices have an insurable risk and all those in which they have an insurable interest only.** For this purpose, no insurance agent or general agency shall hereafter be appointed or maintained to represent the General Insurance Fund and/or the Government Service Insurance System (Emphasis Supplied)."

Section 2 - AO 141: " No insurable interest of the Government or any part or portion thereof shall be covered by or insured with and no bonds to the extent of such interest shall be obtained from any entity, enterprise, firm, company, person, corporation or partnership, or any other juridical person other than the GSIS (General Insurance Group)."

The Division Manager C of the Finance and Commercial Services Division informed the Audit Team that only the Building and Structures – Administrative Structure and Improvement (SL Code- 204-05) and the Land Transportation Equipment with net book value of P5,924,740.45 and P1,273,689.75, respectively, were insured with the General Insurance Fund, as administered by the Government Service Insurance System (GSIS). The rest of the properties recorded under the Property, Plant and Equipment account with a total insurable value of P50,420,082.38 as of December 31, 2013 are not insured. The details of the assets not insured and insured are:

Table I (Propeties Not Insured)

Description	**Cost**	**Accumulated Depreciation**	**Book Value**
Plant-UPIS	P 93,811,873.16	P47,096,002.75	P46,715,870.41
Buildings and Other Structures, Water Treatment Structures and Improvement	1,075,726.11	558,377.35	517,348.76
IT/Office Equipment	3,387,715.74	2,003,100.02	1,384,615.72
Other Machinery and Equipment	6,018,139.22	4,484,997.64	1,533,141.58
Furniture and Fixtures	1,045,523.93	776,418.02	269,105.91
TOTAL	**P105,338,978.16**	**P54,918,895.78**	**P50,420,082.38**

Table II (Properties Insured)

Description	**Cost**	**Accumulated Depreciation**	**Book Value**
Buildings and Other Structures, Administrative Structures and Improvements	P 7,765,116.03	P 1,840,375.58	P 5,924,740.45
Land Transportation Equipment	2,927,085.24	1,653,395.49	1,273,689.75
TOTAL	**P 10,692,201.27**	**P 3,493,771.07**	**P 7,198,430.20**

At the present time, it is very important for government entities to insure their properties with the GSIS considering the recent calamities caused by strong forces of nature (earthquakes and super typhoon) that occurred within the Province of Cebu and other parts of the country. For failure to insure these assets, the agency cannot be indemnified in case of loss or damage caused by fire, earthquake, storm, or other casualty.

We recommended and management agreed to insure their insurable properties and interests with the General Insurance Fund of the GSIS in compliance with the provisions of R.A. No. 656, as reiterated in AO Nos. 33 and 141, and for the protection of the interests of the government.

As stated in AO No. 141, violation of this Order or any provision thereof shall accordingly be meted with the appropriate administrative sanction.

ON GENDER AND DEVELOPMENT

Carcar Water District (CWD) has formulated its GAD Plan and Budget for CY 2013 and has implemented the programs indicated therein. Of the appropriated funds totaling P3,427,046.80, P855,624.94 was spent during the year.

ON UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

In CY 2013, the water district was not issued a notice of suspension, disallowance and charge. However, there is an unsettled disallowance on the payment of honorarium to an OGCC designated legal counsel totaling P36,000 which remained unsettled as of December 31, 2013. As informed by the Division Manager C - Finance, the claimant has filed an appeal with the Commission on Audit on ND No. 2009-001-Corp. Fund (2008) dated June 4, 2009. The papers on the appeal have yet to be located.

ON COMPLIANCE WITH TAX LAWS

CWD has complied with all tax laws on withholding of income tax from compensation and Value-Added Tax (VAT) on goods and services purchased. The taxes withheld were remitted regularly to the Bureau of Internal Revenue (BIR) along with the franchise tax due from CWD as seller of water. The details of the taxes remitted to the BIR during the year are, as follows:

BIR Form No.	Taxes	Amount
1600	VAT Withheld	P 581,409.06
1601-C	Income Tax Withheld on Compensation	719,558.56
1601-E	Income Tax Withheld – Expanded (EWT)	149,386.57
2551-M	Franchise Tax Remitted	1,862,589.56
TOTAL		**P 3,312,943.75**

PART III

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
<u>BENEFITS/EXPENSES PAID NOT IN ACCORDANCE WITH REGULATIONS</u>			
1. The government counterpart for the BODs contribution to the Provident Fund is without legal basis since Section 5.1.1 of DBM Budget Circular No. 2008-3 limits the membership to the Fund to only the incumbents of positions, whether permanent, casual or contractual in nature. Accordingly, the subject expense is considered an irregular expenditure. We recommended that management secure from the Department of Budget and Management (DBM) an authority to provide a government counterpart for the BODs contribution to the Provident Fund. If such authority will not be granted, direct the Provident Fund to return to the Water District the government shares remitted from CY 2009 up to the present. In the meantime, we recommended the suspension of this particular benefit.	Triennium Audit Report CYs 2010-2012	The CWD has sent a letter to the DBM Secretary for the approval of the government counterpart in the provident fund contribution of BOD members. In the meantime, payment for the government counterpart for BOD members have been suspended. As of December 31, 2013, the WD has only received an acknowledgement letter from the DBM that the above letter has been received and will be subjected to evaluation.	Considered partially implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
2. The Board of Directors was granted in CY 2011 a Year-End Financial Assistance and Cash Gift without approval from the President as required under Section 8 (d) of Executive Order No. 24 dated February 10, 2011. We recommended that management require the concerned members of the Board of Directors to refund the Year-End Financial Assistance and Cash Gift granted in CY 2011. We further recommended that management strictly comply with the instructions contained in Section 3 of Executive Order No. 65 dated January 2, 2012 when granting allowances and other benefits to the members of the Board of Directors.	Triennium Audit Report CYs 2010-2012	The financial benefits for the members of the Board of Directors aside from Per Diems have been suspended since January 2012 up to the present.	Considered not implemented because there was no refund made by the persons held liable.
<u>LAPSES IN THE KEEPING OF ACCOUNTS</u> 3. The balance of the Land account in the amount of P2.748 million cannot as yet be fully relied upon for the following reasons: • Eleven parcels of land with approximate area of 1,239.50 square meters are still not titled in the name of CWD, a situation which exposes the Water	Triennium Audit Report CYs 2010-2012	Processing of documents to establish legal ownership of lands in question is on-going.	Considered partially implemented. The recorded value of the eleven lots is P652,519.27.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
District to possible adverse claims from third parties. Accordingly, the financial statement assertion on "rights and obligations" has not yet been fully established. • Two parcels of donated land with an approximate area of 83.5 square meters are without recorded value. • The land area of two parcels of land as contained in the Deeds of Donation differed with that stated in the Report of the Physical Count of Utility Plant In Service (UPIS) as of December 31, 2012. • The physical inventory report carried an information that the land where the office building is located has an encumbrance but without clear explanation. • The water district paid the Real Property Tax (RPT) of a parcel of land covered by Tax Declaration No. 36260 from 2008 up to the present even if the Deed of Sale of said property was not consummated. Said parcel of land cannot be traced to the books of			

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
accounts nor in the inventory report. For the above audit observations, we recommended and management agreed to: • Closely monitor the titling of the properties donated and/or purchased by the Water District. If needed, require the IRDO to submit a quarterly status report on the titling of CWD acquired lots to enable top management and the Board to consider other alternatives that will fast tract the titling process. • Seek assistance from the Office of the City Assessor for the valuation of lots without recorded value. • Direct the Industrial Relations Development Officer (IRDO), the person in charge of land titling, to review the documents pertaining to the lands acquired but with differences in land area as appearing in either the TD or in the Deed of Sale/Donation and the Saducas lot.			

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
• Update the remarks column in the Report of the Physical Count of Utility Plant In Service to either correct or expand the explanatory notes.			
4. There is still a difference of P431,354.00 between the General Ledger (GL) balance of P4,578,492.03 as against the Aging Schedule of Accounts Receivable which totaled P4,147,138.03, a condition which casts doubts on the validity of the year-end account balance. Moreover, the balance of the inactive accounts has been increasing in the three-year period. We reiterated the following audit recommendations to which management agreed: • Direct the Billing and the Accounting Departments to identify the causes of the difference of P431,354.00 between the general ledger balance and the aging schedule generated by the Billing Department. Thereafter, we recommended that proper adjustments be immediately effected to correct either records.	Triennium Audit Report CYs 2010-2012	The Accounts Receivable (111) was reclassified to Accounts Receivable – Trade (111-01) and Accounts Receivable – Unlocated Ledger (111-02), under JEV No. 13-04-0084. Monthly reconciliation of 111-01 is made between the billing and finance records.	Considered not implemented. This issue is reiterated in this report.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
• Instruct the Finance Department to coordinate with the IT Officer for the creation of separate subsidiary records for CY 2013 transactions in order to isolate the differences of prior years and to facilitate reconciliation of current transactions. • Direct the Billing Department to prepare demand collection letters for all delinquent accounts and for management to file collection cases, if warranted.			
5. The expenses that were capitalized and treated as reforestation project do not qualify as an asset of the water district under paragraphs 49 (a), 89 and 90 of the Framework for the Preparation and Presentation of Financial Statements. Moreover, the expenses incurred by Barangay Guadalupe in the amount of P150,000 which formed part of the account balance are regular operating expenses of the Barangay and not for a watershed management program. Also, the financial assistance of P150,000 was erroneously recorded as Advances to Officers and Employees.	Triennium Audit Report CYs 2010-2012	The account Reforestations was reclassified to operating expenses by way of Prior Period Adjustment to Retain Earnings under JEV No. 13-04-0086 dated April 30, 2013. The WD will still have to coordinate with the officials of Barangay Guadalupe regarding the second audit recommendation.	Considered partially implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
We recommended that management direct the Department Manager C – Finance to close the asset account, Reforestation by way of Prior Period Adjustments to Retained Earnings. Henceforth, we recommended strict compliance of the provisions on the recognition of assets as set forth in the Framework for the Preparation and Presentation of Financial Statements. Furthermore, we recommended that management require Barangay Guadalupe to replenish the P150,000 that was erroneously used by the Barangay so that the funds can be used for watershed management programs as agreed upon in the MOA. On the accounting aspect, we recommended the use of GL Account Code 125, Due from Local Government Units, for moneys transferred to local government units that are subject for liquidation.			
6. Dormant items and abnormal balances are carried in certain asset and liability accounts, a condition which may mislead the users of the financial statements in their economic	Triennium Audit Report CYs 2010-2012	Management tried to trace the abnormal balances particularly the Construction	Considered not implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
decisions. On the other hand, the balances appearing in the subsidiary ledgers for loans payable differed with the those reflected in the amortization schedule by P223,185.54. We recommended that management direct the Accounting Department to conduct a thorough verification of the dormant items and to effect the necessary adjustments to clean the books of this deficiency. We further recommended a semestral review of all account balances so that dormant accounts can immediately be identified and acted upon. On the loans payable, we recommended and management agreed to secure from LWUA an updated amortization schedule for all outstanding loan accounts to facilitate reconciliation and/or correction of the balances appearing in the subsidiary records.		Materials Inventory and Chemical and Filtering Supplies Inventory, but can no longer find the supporting papers which brought about the negative balances of these accounts. These must have been the result of erroneous recording of material issuances during the construction of the CWD administrative building.	
7. The use of the account "Donations" for expenses related to public relations is considered an inappropriate accounting treatment since said expenses qualify for recognition as Extraordinary and Miscellaneous Expenses	Triennium Audit Report CYs 2010-2012	Expenses charged to EME (795) were re-classified to the appropriate accounts under JEV 13-07-0132 dated July 31, 2013.	Considered Implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
(EME) pursuant to COA Circular No. 2006-001. Hence, with this decision, both the Donations and Extraordinary and Miscellaneous Expenses accounts were misstated in CY 2012 and prior years. We recommended that management direct the Department Manager C - Finance to use the budget for EME in paying expenses for public relations. This will not only ensure proper use of resources but will also prevent accounting errors. We further recommended that management require the Finance Department to specify, in clear terms, the projected expenses under the budget for Donations so that the DBM and other review agencies can easily differentiate the funds allocated for Donations from that of the EME.		The budget for EME was adjusted accordingly.	
8. The disclosure requirement under Paragraph 73 of PAS 16 on Property, Plant and Equipment has not been complied with. We recommended and management agreed to comply with the disclosure requirements under PAS 16 in order to provide the users	Triennium Audit Report CYs 2010-2012	Management will start to comply with the disclosure requirements of PAS 16.	Considered partially implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
of the financial statements with adequate information for decision-making.			
<u>LOAN PROVISIONS/ REGULATORY REQUIREMENTS NOT COMPLIED WITH</u>			
9. The cash deposited for Debt Service Reserve and Operation and Maintenance Reserve is still very much below the requirement under the loan agreement with LWUA. This situation is not only an "event of default" under the loan contract but may also deprive the water district of adequate/ready cash resources for extraordinary repairs and replacement of facilities. We recommended and management agreed to secure from LWUA the signed contracts for the four loan availments to enable the water district to accurately allocate/deposit the cash for the reserve requirements.	Triennium Audit Report CYs 2010-2012	The WD is now in possession of copies of all the signed loan contracts with LWUA. They also have processed the updating of account signatories for the Joint Savings Account with LWUA maintained at LBP, Plaza Independencia Branch.	Considered Partially Implemented.
10. The Board-Approved Corporate Operating Budget (COB) of Carcar Water District (CWD) has never been submitted to the Department of Budget and Management, for review, which is contrary to the instructions under Section 3.1	Triennium Audit Report CYs 2010-2012	A copy of the Corporate Operating Budget (COB) for CY 2013 was submitted to the DBM Bureau F for comments and review but the	Considered Implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
of Corporate Budget Circular No. 20 dated April 27, 2005. We recommended that management send, for review, the Board-Approved COB of CY 2013 and every year thereafter, to the Secretary, Department of Budget and Management, Central Office, Attn: Budget and Management Bureau – F, to comply with the requirement under Corporate Budget Circular No. 20.		CWD has not received any feedback even after a tracer letter addressed to the said office.	
<u>ON COMPLIANCE WITH TAX LAWS</u> 11. The franchise tax payable of prior years which was noted in the CY 2010 audit still carried an outstanding balance of P909,053.76. As previously emphasized, this condition is a valid ground for the imposition of penalties and surcharges and has deprived the national government of additional resources to finance government programs. We recommended that management fully remit to the Bureau of Internal Revenue in CY 2013 the outstanding balance of P909,053.76 to avoid penalties and surcharges.	Triennium Audit Report CYs 2010-2012	The outstanding balance of the franchise tax in arrears was fully settled last July 2013.	Implemented.

AUDIT OBSERVATIONS AND RECOMMENDATIONS	REF.	ACTION TAKEN BY MANAGEMENT	AUDITOR'S VALIDATION RESULTS
<u>ON GENDER AND DEVELOPMENT</u>			
12. The CY 2012 budget for Gender and Development (GAD) in the amount of P900,000 was not utilized during the year, a condition which has deprived the water district personnel and CWD clients of the benefits that could have been derived from the program. Moreover, the water district did not prepare a GAD Plan which omission may have contributed to the non-utilization of the GAD budget. We recommended that manangement prepare its annual GAD Plan following the format and instructions listed in Annex A of DBM-NEDA-NCRFW Joint Circular No. 2004-1 to ensure that the planned activities will address gender issues and likewise, to serve as a monitoring tool for any review on the implementation of the GAD programs against utilization of the allocated resources. We also recommended that management set aside at least five percent (5%) of the agency's budget as the annual allocation for GAD programs.	Triennium Audit Report CYs 2010-2012	The CWD has formulated its GAD Plan and Budget for CY 2013 and has implemented the programs indicated therein.	Implemented.