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, 2014, the Water District had a total workforce of 69 employees composed of 46 regular personnel and 23 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 2014 and 2013:

	2014	**2013**	**Inc (Dec)**
Assets	**P96,755,006.39**	**P84,759,256.85**	**P11,995,749.54**
Liabilities	25,244,344.58	28,848,675.40	(3,604,330.82)
Government Equity	71,510,661.81	55,910,581.45	15,600,080.36
Total Liabilities and Government Equity	**P96,755,006.39**	**P84,759,256.85**	**P11,995,749.54**

Gross income from operations increased from P51,278,074.00 in CY 2013 to P57,320,203.17 in the current year or up by P6,042,129.17 or approximately 11.78%. Consequently, the net income at year-end which was P16,630,359.47 was higher by P4,914,282.43 or approximately 41.94% if compared with that of the preceding year which was P11,716,077.04.

The Budget Utilization for CY 2014 is shown below (rounded off to the nearest peso):

Expense Category	Amount Appropriated (COB*)	Amount Obligated	Unexpended Balance
Personal Services (PS)	27,879,779	20,553,684	7,326,095
Maintenance and Other Operating Expenses (MOOE)	17,706,150	13,110,373	4,595,777
Financial Expenses (FE)	5,398,212	3,273,897	2,124,315
Capital Expenditures (CAPEX)	43,926,859	6,643,254	37,283,605
TOTAL	**94,911,000**	**43,581,208**	**51,329,792**

*Corporate Operating Budget (COB)

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	2014	2013	Increase (Decrease)
Service Connections			
Total Services	14,796	13,817	979
Total Active	12,178	11,320	858
Total Metered	12,178	11,320	858
Total Billed Concessionaires	12,102	11,225	877
Water Production			
Pumped	767,206 cu. m	573,648 cu. m.	193,558 cu. m.
Gravity	2,659,039 cu. m	2,738,099 cu. m.	(79,060) cu. m.

D. SCOPE OF AUDIT

The audit covered the financial transactions of Carcar Water District for Calendar Year 2014. 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 Accounts Receivable-Trade (A/R) and Metered (Water) Sales accounts were each overstated by P315,502.65 due to a system generated change of the previously recorded water sales of January 2014, which matter was not detected during the closing of the books of accounts. If not immediately resolved/corrected, this amount will add on to the unsubstantiated Accounts Receivable of previous years which still have a balance of P375,309.01 as of December 31, 2014, making the A/R balance not reliable.

   We recommended that management direct the Accounting Division, Finance Services Department, to draw a Journal Entry Voucher (JEV) for the adjustments that will correct the errors noted. Thereafter, we recommended a monthly reconciliation of the GL Balance of the Accounts Receivable (A/R) with the related Aging of Accounts Receivable for early detection and resolution of differences.

   We likewise recommended that management review the access controls and the rights given to edit information previously entered in the computer systems to prevent unauthorized data changes.

2. The account balance of the Property, Plant and Equipment (PPE) still cannot be fully relied upon because the difference between the physical count and the combined Subsidiary Ledger (SL) balances of five major PPE sub-accounts increased by P3,370,580.68 or approximately 179.13% if compared with the difference of P188,159.93 in CY 2013. The difference, which has not be fully resolved at the time of audit, could either be errors in the recording of transactions by both the Accounting Division and the Supply Unit, differences in the valuation of certain items or in extreme case loss of properties.

We recommended that management require the Accounting Division and the Supply Unit to reconcile the results of the physical count of CY 2014 with the related accounting and property records, preferably within the first semester of the ensuing year, so that all identified differences can be disposed of/adjusted by year end.

3. The misstatement in the Construction in Progress account remained unresolved as the account still carried the costs of completed projects and transactions for adjustments which totaled P7.862 million or approximately 82.15% of the year-end balance of P9.571 million. The delay in the transfer of the completed projects which totaled P6.881 million to the appropriate PPE accounts has consequently misstated the balances of the Plant (UPIS) and Buildings and Structures accounts and their corresponding accumulated depreciation as well as the depreciation expense for the year. Hence, until corrected, this circumstance will repeatedly overstate the reported income at the end of the year.

   We reiterated the following audit recommendations, with minor revisions, to ensure the reliability of the Construction in Progress (CIP) account balance in the ensuing year:

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

   - Improve the coordination between the Finance Services Department (FSD) and the Operations and Maintenance (O&M) Division with regards to the Construction in Progress transactions. As an initial step, require the O&M Division to furnish FSD all the papers pertaining to completed projects within one (1) month after the date of completion to regularly adjust the CIP account particularly on projects undertaken during the year.

   - Review the year-end schedules supporting the CIP accounts so that the needed adjustments can be effected before the closing of the books of accounts.

4. Abnormal and dormant balances, including one erroneous subsidiary account balance which was an outcome of the inappropriate accounting treatment of the covering transaction, still formed part of the year-end account balance of various asset and liability accounts, a condition which may mislead users of the financial statements in making sound economic decisions. This situation also suggests that the Finance Services Department has not regularly

monitored the disposal of these cases that resulted in the carry-over of the above-mentioned balances in the next accounting period.

We recommended that Management require the Finance Services Department to set a timetable for the re-verification/analysis of the abnormal and dormant account balances including the errors noted with a deadline for drawing the adjustments on these deficiencies. We also reiterated our previous years' audit recommendation requiring a semestral review of the composition/details of account balances so that dormant items/abnormal balances contained therein can immediately be acted upon.

5. Payments for supplies and services totaling P239,207.50 were made to appear as "reimbursement" to certain employees when in fact CWD checks were issued either during or days before the scheduled activity. This decision may result in a financial statement carrying unreliable information and is a violation of Section 172 of GAAM, Volume I. Further verification of the transactions disclosed that: (a) Taxes were not withheld from the gross amounts due the suppliers, and (b) All purchases were not supported with canvass of prices which is a requirement under the Government Procurement Reform Act.

   We recommended that all payments be made thru check to be issued in the name of the supplier concerned pursuant to Section 172 of GAAM, Volume I. Moreover, we recommended that management require the Finance Services Department to withhold from the gross amounts due the suppliers the required withholding taxes under various BIR Revenue Regulations and to remit the same to the BIR within the deadline set.

   We also reiterated our previous year's audit recommendation for Management to comply with the Implementing Rules and Regulations of RA 9184 to ensure that all procurement activities will result in the most advantageous price/terms for the Water District.

6. Several government regulations on foreign travel were not complied with either during the release of the travel cash advance or at the time of the liquidation thereof, as follows:

   - Foreign travels of three officials with a total cost of P53,795.88 were not supported with the approved Authority to Travel Abroad, a requirement under Section 2.d of LWUA Memorandum Circular No. 010-10.

   - All the officials who were on foreign travel have not submitted a report on the forums attended though required under Section 16 of Executive Order No. 298 and reiterated in Memorandum Circular No. 7, s. 2010, issued by the Office of the President on November 19, 2010.

- The liquidation reports for the Vietnam trip were not supported completely with the required documents, making it difficult to determine the correct DSA due the employees.

- One official was paid the full Daily Subsistence Allowance (DSA) even if the invitation was inclusive of air fare and accommodation.

We recommended that management require the officials concerned to: (a) Secure from LWUA an "after the fact" approval of their foreign travels; (b) Render and submit a report on the foreign travels undertaken as required under Section 16 of EO 298 and Memorandum Circular No. 7, s. 2010 of the Office of the President; (c) Refund the DSA granted for the Malaysia trip since the accommodation was paid by the sponsoring organization; and (d) Submit the Statement on the Travelling Expenses and Allowances shouldered by the sponsoring organization of the VietWater 2014 Forum with the Certificate of Participation as these documents will be the basis to attest the propriety of the expenses claimed in the Liquidation Report.

Thereafter, see to it that all regulations on foreign travel are complied with prior to the grant of the cash advance for said official travel.

7. Several Acknowledgment Receipts for Equipment (ARE) were not renewed/reissued after three years from date of issue which is contrary to the instructions under Appendix 53 of the NGAS Manual, Volume II.

   We recommended and Management agreed to direct the Property Officer/Storekeeper to renew/reissue all AREs which were issued three years back from 2014 to comply with the aforementioned NGAS instruction.

8. The Gender and Development (GAD) Plan and Budget for CY 2014 was not submitted to the Philippine Commission on Women for approval and endorsement as required under Section 8.0 of PCW-NEDA-DBM Joint Circular No. 2012-01. Thus, without PCWs review, there is no assurance that all the listed GAD activities are addressing women concerns and gender issues. Moreover, the amount allocated for GAD activities was less than the mandated 5% of the approved Corporate Operating Budget.

   We recommended that Management request from PCW a "post-approval" of their CY 2014 GAD Plan and Budget so that the expenses incurred can be appropriately post audited.

   Henceforth, we recommended that Management strictly comply with the instructions on the preparation of the GAD Plan and Budget and the GAD Accomplishment Report as enumerated in PCW-NEDA-DBM Joint Circular No. 2012-01 and its Annexes.

The above audit observations and recommendations were discussed with the General Manager and the Division Managers in an exit conference held on March 30, 2015.

G. IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the twenty (20) audit recommendations contained in the Audit Reports covering CY 2010 to CY 2013, eight (8) were fully implemented, seven (7) were partially implemented and the remaining five (5) audit recommendations were considered not implemented as of December 31, 2014.

H. ON GENDER AND DEVELOPMENT

Carcar Water District (CWD) has formulated its GAD Plan and Budget for CY 2014 and has implemented the programs indicated therein. Of the appropriated funds totaling P P2,222,000.00, P 548,000.00 was spent during the year. An audit exception on this regard is included in this report (see F8 above).

I. ON UNSETTLED AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

In CY 2014, 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, 2014. 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.

J. ON COMPLIANCE WITH TAX LAWS

CWD has substantially 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 659,390.79
1601-C	Income Tax Withheld on Compensation	710,853.11
1601-E	Income Tax Withheld – Expanded (EWT)	176,757.02
2551-M	Franchise Tax	1,072,632.42
TOTAL		**P 2,619,633.34**