PART II

OBSERVATIONS AND RECOMMENDATIONS

ON KEEPING OF ACCOUNTS

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.**

"Financial Statements shall present fairly the financial position, financial performance, and cash flows of an entity. *Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework*. The application of IFRSs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation [Paragraph 13, Philippine Accounting Standard (PAS) 1]. (Emphasis Ours).

Faithful representation means, that to be reliable, information must represent faithfully the transactions and other events it either purports to represent or could reasonably be expected to represent. Thus, for example, a balance sheet should represent faithfully the transactions and other events that result in assets, liabilities and equity of the entity at the reporting date which meet the recognition criteria (Paragraph 33, Framework for the Preparation and Presentation of Financial Statements).

Accounts Receivable-Trade and Metered (Water Sales) are two of the major accounts that enter the financial statements (FS) of Water Districts. In fact, from these two accounts, users of the financial statements are given information on how the Water District financed its activities and met its cash requirements. Therefore, an error affecting these two accounts may adversely affect the fair presentation of the financial position and financial performance of the Water District as well as the economic decisions that maybe rendered by the users of the FS.

Among the computerized systems at Carcar Water District are the Full Utilities Billing and Collection System and the Accounting System. Accordingly, we tested the accuracy of the balance of the Accounts Receivable-Trade (GL Account Code 111-01) with its related account Metered (Water) Sales (GL Account Code 576) using the outputs from the respective systems.

Our comparison of the amount of Water Sales as reflected in the monthly Billing Summary, which is generated from the Full Utilities Billing and Collection System, showed a difference of P315,502.65 with the amount posted in the General Ledger (GL) for Accounts Receivable (A/R). The difference was specifically located in the month of January 2014 when the Billing Summary amounted to only P4,581,062.02 (consists of Water Sales of P4,372,816.19 and Penalties totaling P208,245.83) while the posted amount in the GL for A/R was P4,896,564.67 or higher by P315,502.65. The same amount of difference was arrived at when we compared the total amount in the Billing Summary with the recorded/posted water sales under GL Account 576. To mention, the Billing Summary lists the cost of the water consumption per consumer per month.

The difference was due to a change in the previously reported/recorded water sales of January 2014. The amount of water sales that was first recorded amounted to P4,372,816.19, as evidenced by a Subsidiary Ledger for Metered Sales that was generated for the month of June 2014. When a similar Subsidiary Ledger was generated for the month ending December 2014, the January sales rose to P4,688,318.84. Thus, the correction has overstated the Accounts Receivable and Water Sales of 2014 by P315,502.65 (P4,688,318.84 less P4,372,816.19). This error, however, was not detected by the Accounting Division during the closing of the books of accounts. They learned of the changed amount only during the conduct of the audit engagement when the Audit Team requested a clarification for the difference. The Department Manager, Finance Services Department, claimed that the difference was a system error as can be seen in the Billing Register for January 2014. She explained that the following information in the Billing Register (an accounting record) of January 2014 were not correct:

Date	Zone No.	Water Sales	Remarks
1/1/2014	021	P 60,301.90	No reading was done on New Year's Day.
1/2/2014	031	157,245.95	The correct amount is P124,761.38. The reading was made on January 3, 2014. A case of double entry.
1/2/2014	032	52,125.20	The correct amount is P54,456.95. The reading was made on January 3, 2014. A case of double entry.
1/2/2014	041	45,829.60	The correct amount is P35,674.15. The reading was made on January 3, 2014. A case of double entry.
		P 315,502.65	**TOTAL**

The change in the amount previously posted in the accounting books is considered "alarming" because this incident, if not corrected/addressed, may result in a window-dressed financial statement or a very commendable financial performance. The change is also alarming because the figure claimed by management as correct, in the amount of P4,372,816.19, was already stored in the accounting and billing systems as evidenced by a printed copy of the Subsidiary Ledger (SL) for Metered Sales as of June 2014 as discussed in the previous paragraph. However, when the SL for Metered Sales was printed as of

December 2014, the January sales automatically increased to P4,688,318.84. Thus, from an auditor's point of view, this is a serious matter to be discussed with the IT Officer and the IT Provider, preferably in a joint conference, with the Finance Services Department and the Customers Accounts Division, Commercial Services Department, to prevent the recurrence of a similar case. On this regard, the Accounting Department insinuated that the data may have been touched sometime in January 2015 when the IT Provider visited/checked the systems installed at Carcar Water District.

The late detection of the above error strongly suggests that the Accounting Division has not regularly reconciled the A/R balance per books of accounts against the Aging of Accounts Receivable which serves as the subsidiary ledger (SL) for customers outstanding accounts and which report can be generated from the Full Utilities Billing and Collection System. Section 12, Volume II, of the Manual on the National Government Accounting System (NGAS) requires that the totals of the SL balances shall be reconciled with their respective control account regularly or at the end of each month.

A difference of P11,872.23 (after taking out the above-mentioned discrepancy of P315,502.65) was also noted after comparison of the GL amount as against the Aging of the Trade Receivable accounts at the end of the year, as illustrated below:

Per GL (Accounts Receivable-Trade, SL 111-01)	P4,981,165.91
Per Aging Summary	4,677,535.49
Difference	303,630.42
Difference in the January GL posting, A/R vs. Billing Summary	315,502.65
Net Difference	**(P 11,872.23)**

The Department Manager B, Finance Services Department, provided the Audit Team the items/transactions that will explain the difference noted above. The following reconciling items, if recorded, will bring into agreement the total of the Aging Schedule of Receivables with the balance of the control account in the General Ledger:

Advance Payments from Customers not reflected in the Aging Schedule *		(P14,597.69)
Less:	Staggered payment for water bill credited to customer's deposit	1,499.10
	Unrecorded payments due to power outage posted only on 1/8/2015	138.70
	Unrecorded billing adjustments (Aug. Nov. & Dec. 2014)	1,027.50
	Unrecorded discount on advance payments from CY 2013	60.17
	Unlocated difference	(.01)
		2,725.46
Difference		**(P11,872.23)**

* Negative balances in customers' ledgers from advance payments not reflected in the supporting list of accounts receivable.

The transactions covering the amount of P2,725.46 are due for recording/correction in the books of accounts in the ensuing year. However, at the time of audit, the Accounting Division has not provided the Audit Team with the names of the customers affected.

On the other hand, the Accounts Receivable-Unlocated Ledger account (SL Code111-02) which represents the unsubstantiated receivables of prior years still carries a balance of P375,309.01 as of December 31, 2014. The account balance barely moved with a deduction of only P145.15 or 0.04% from the previous amount of P375,454.16. The adjustment made in the current year represents franchise tax payment which was erroneously debited to the account in the previous years.

The conditions noted above materially affects the reliability of major account balances and unless corrected, the financial statements of Carcar Water District can only be considered as fairly presented with certain qualifications.

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.

Management informed that the adjustments recommended have been made under JEV Nos. 15-02-0056 and 15-02-0061. Management further informed that the changes in the stored data have been brought to the attention of the computer programmer. He is still resolving the issue.

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.

In the Annual Audit Report of CY 2013, we reported that the GL/SL account balance of four (4) Property, Plant and Equipment (PPE) sub-accounts cannot be fully relied upon because their balances differed with the results of the physical inventory count. The same audit observation, with a substantial increase in the amount of difference, resulted when we expanded the samples taken. The details are:

SL Code	Description	Per SL	Per Count	Difference
	GL 203 (Plant - UPIS)			
203-09	Transmission and Distribution Mains	P59,353,279.15	P58,631,689.56	P721,589.59
203-12	Meters	1,953,358.44	1,487,298.20	466,060.24
203-13	Meter Installations	13,697,016.07	13,109,757.02	587,259.05
203-14	Fire Hydrants	346,830.07	53,924.97	292,905.10
203-17	Water Meters (1/2 Insert)	250,601.86	251,578.84	(976.98)
	GL 204 – Buildings and Other Structures			
204-03	Water Treatment Structures and Improvement	1,075,726.11	1,075,763.71	(37.60)
204-05	Administrative Structures and Improvement	7,765,116.03	7,296,727.60	468,388.43
	GL 207 – Office Equipment			
207-01	IT Equipment	1,592,907.00	1,463,683.00	129,224.00
207-04	Calculators	7,100.00	5,990.00	1,110.00
207-05	Bundy Clock	19,935.00	0.00	19,935.00
207-07	Canon Photocopier	82,000.00	0.00	82,000.00
207-08	Canon Digital Camera	159,189.00	131,189.00	28,000.00
207-09	Canon Instamatic Camera	7,549.50	0.00	7,549.50
207-10	UBIX Photocopier	82,500.00	0.00	82,500.00
	GL 225 – Other Machinery and Equipment			
225-01	Power Production Equipment	910,963.46	896,645.46	14,318.00
225-02	Pumping Equipment	412,768.19	347,094.19	65,674.00
225-03	Water Treatment Equipment	1,056,430.00	694,420.00	362,010.00
225-04	Stores Equipment	3,000.00	47,605.00	(44,605.00)
225-05	Communications Equipment	451,871.20	405,229.00	46,642.20
225-06	Power Operated Equipment	1,162,349.12	973,796.32	188,552.80
225-07	Tools, Shop and Garage Equipment	1,155,863.86	1,125,325.38	30,538.48
225-09	Acoustic Leak Sounding System	432,487.50	348,576.56	83,910.94
225-10	Sound System	143,850.00	138,570.00	5,280.00
	GL 226 – Furniture and Fixtures			
226-01	Office Furniture and Fixtures	205,448.48	288,391.62	(82,943.14)
226-02	Electric Fan/Aircon	480,910.00	458,570.00	22,340.00
226-04	Chairs	213,723.00	227,313.00	(13,590.00)
226-06	Office Tables	39,989.50	44,883.50	(4,894.00)
	TOTAL	**P93,062,762.54**	**P89,504,021.93**	**P3,558,740.61**

The difference arrived at in the current year is higher by P3,370,580.68 or approximately 179.13% if compared with that of CY 2013 which was only P188,159.93. The difference noted above, which has not be 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.

The increase in the amount of difference is likewise an indication that the Accounting Division and the Supply Unit are not reconciling their related records on Property, Plant and Equipment. To support this statement, we compared three (3) PPE sub-accounts which is composed of few items but still have a difference, as follows:

SL Code	Property Description	Amount of Difference	Remarks
203-14	Fire Hydrants	P292,905.10	In the CY 2014 physical inventory report, only four (4) fire hydrants "head" were reported. The 13 hydrants included in the CY 2013 inventory report were no longer seen in the current year. Therefore, there is a need for the Accounting Division to confirm the whereabouts/status of these facilities.
207-05	Bundy Clock	19,935.00	This item was not seen during the inventory count. Considering that this equipment is for general use, its non-use or disposal can easily be traced from the records of the Supply Section.
207-07	Canon Photocopier	82,000.00	This item was not seen during the inventory count. Again, considering that this is an Office Equipment for general use, its non-use or disposal can easily be traced from the records of the Supply Section.
207-09	Canon Instamatic Camera	7,549.50	This item was not seen during the inventory count. Again, considering that this is an Office Equipment for general use, its non-use or disposal can easily be traced from the records of the Supply Section.

SL Code	Property Description	Amount of Difference	Remarks
207-10	UBIX Photocopier	82,500.00	This item was not seen during the inventory count. Again, considering that this is an Office Equipment for general use, its non-use or disposal can easily be traced from the records of the Supply Section.
225-04	Stores Equipment	(44,605.00)	This particular account consists of three items only. The difference of P44,605.00 pertains to two items with a remark "destroyed" in the inventory report. Thus, there is a need for the inventory committee to explain what is meant by destroyed.
225-100	Sound System	5,280.00	This difference represents the newly acquired wireless microphone purchased in May 2014. This was not included in the inventory report.
	TOTAL	**P445,564.60**	

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.

In their written reply to the Audit Observation Memorandum (AOM), management cited seven (7) transactions which can partly resolve the difference noted during the audit, as follows:

Transaction	Amount
1. Meter installations (SL Code 2013-13) amounting to P208,087.60 for the month of June was erroneously posted under Meters (SL Code 2013-12). This was adjusted in January 2015 under JEV No. 15-01-0013.	P 208,087.60
2. Cost of scrap meters (SL Code No. 203-13) disposed last December 2014 were taken up in the books as Prior Years Adjustment (PYA).	627,257.82

Transaction		Amount
3.	The other hydrants which were booked under Property Code 92-0008 were retired last August 2012 but were not removed from the inventory list until January 2014. To date there are 15 installed hydrants but have not been booked yet as they are in the CIP accounts. **No value was stated in the reply.**	0.00
4.	The differences noted under SL Nos. 207-05, 207-07, 207-09 and 207-10 totalling P191,984.50 represent defective items which have been disposed last December 2014 but the disposal was booked last January 2015.	191,984.50
5.	The item stores equipment under SL 225-04 was the container van that was used to store slow or non-moving materials. It was already very dilapidated and rusty so that management decided to discard it. It was included in the disposed UPIS in 2013 and booked accordingly. The inventory records were updated only in 2014. **On this regard, we wish to pinpoint that the physical inventory still carried the item which could be an indication that the inventory records have not really been updated though claimed.**	44,605.00
6.	On SL 225-10, management stated that the cost of the wireless microphone was not included in the Lapsing Schedule for 2014. The necessary adjustments will be made immediately.	5,280.00
7.	According to management, there is an unreconciled difference of P732,705.59 under SL 203-09 since 2009. **This amount will not be considered as resolving the issue since it is an unlocated difference.**	0.00
	TOTAL	**P 1,077,214.92**

During the exit conference, the Finance Services Department Manager B stated that the other items are still for tracing and dropping, if valid, from the books of accounts.

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.

This is a reiteration of an audit observation which was last brought to the attention of management in the CY 2013 Annual Audit Report (AAR). In the current year's audit, similar audit exceptions were noted in the analysis of the account Construction in Progress (CIP).

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.

To reiterate and state simply, under the LWUA prescribed Chart of Accounts, Construction in Progress includes all ongoing construction for utility plant which is not ready for use at the balance sheet date. It also includes the amount transferred from the Preliminary Survey and Investigation Charges account when the construction of the Project has started.

As of December 31, 2014, the Construction in Progress (CIP) account of Carcar Water District had a balance of P9,571,001.69 which consisted of the following:

GL Code	Account Description	Amount
243	Construction in Progress – Plant	P 9,024,081.87
244	Construction in Progress – Buildings and Other Structures	546,919.82
	TOTAL	**P 9,571,001.69**

Verification of the composition/status of the above accounts, as prepared by the Operations and Maintenance (O&M) Division, disclosed that only eight (8) projects costing P1,708,160.73 were on-going at year end. The balance of P7,862,840.96 or approximately 82.15% of the account balance represents either completed projects or transactions for reclassification/adjustments. The details of the CIP accounts as appearing in the Project Status Report of the O&M Division are:

CONSTRUCTION IN PROGRESS – PLANT (GL 243)

Project Name with Account Code	**2014 SL Balances**	**Date Started**	**Date Completed**	**2014 Remarks/Project Status**
On-Going Projects				
1. Transfer of Meter & Service Connection II SL 243-89	P 31,827.34	-	-	On-going
2. Brass Water Meter Repair SL 243-96	2,990.00	-	-	On-going
3. Construction of Water Treatment Plant Hindang, Guadalupe SL 243-102	151,250.00	04/01/2014		Completed as to Plans and Design
4. Installation of 108 Units Water Meter, Tagaytay, Can-asujan SL 243-107	100,523.43	06/25/2014		On-going with MOA
5. Watershed Management Program 2014, Sangi, Guadalupe SL 243-110	215,210.61	07/15/2014		On-going
6. 300M Pipeline Extension Bacsijie, Ocaña SL 243-112	193,392.55	12/09/2014		On-going
7. Additional Water Source Langub, Can-asujan SL 243-115	882,973.51	09/01/2014		On-going
8. Additional Water Source Maximina, Upper Cogon SL 243-116	129,993.29	10/01/2014		On-going
Sub-Total	**1,708,160.73**			

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
Completed Projects				
1. New Distribution Lines SL 243-13	26,872.32	04/30/2008	01/31/2009	Completed/For Closing; Same amount in the 2013 Annual Audit Report (AAR). Dormant, balance since February 2009.
2. Fire Hydrant - P. Burgos St.; SL 243-23	26,852.96	02/15/2012	02/16/2012	Completed/For Closing; Same amount in the 2013 AAR.
3. Pipeline Extension Dandan, Upper Cogon SL 243-38	11,332.91	06/15/2012	06/29/2012	Completed/For Closing; Same amount in the 2013 AAR.
4. Lateral Pipeline Ibabao, Perrelos SL 243-39	349,532.35	07/02/2012	08/30/2012	Completed/For Closing; Same amount in the 2013 AAR.
5. CWD Fire Hydrant CWD Building SL 243-43	40,048.78	10/11/2012	11/06/2013	Completed/For Closing; Same amount in the 2013 AAR.
6. Pipeline Extension Rotunda (2013) SL 243-54	18,484.54	02/04/2013	02/08/2013	Completed/For Closing; Same amount in the 2013 AAR.
7. Proposed Booster Pump - Caipilan SL 243-57	188,139.28	04/10/2013	04/19/2013	Completed/For Closing; Same amount in the 2013 AAR.
8. Pipeline Extension – Mahayahay, Liburon SL 243-58	450,604.37	03/07/2013	06/16/2014	Completed/For Closing; With additions totaling P167,877.66 (MSIJ & JV) in 2014; Balance per 2013 AAR was P282,726.71. **(1)**

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
9. Liburon Pumping Station (2013) SL 243-61	302,339.88	03/22/2013	05/10/2013	Completed/For Closing; Same amount in the 2013 AAR.
10. Pipeline Extension Lumbia, Can-asujan (2013) SL 243-63	284,165.72	07/01/2013	09/30/2013	Completed/For Closing; Same amount in the 2013 AAR.
11. Distribution Line Improvement – Perrelos (2013) SL 243-64	56,120.19	07/08/2013	08/23/2013	Completed/For Closing; Same amount in the 2013 AAR.
12. Installation of Flow Meter Dandan (2013) SL 243-67	32,707.31	01/16/2014	01/30/2014	Completed/For Closing. **(2)**
13. Installation of Flow Meter Banica (2013) SL 243-69	1,092.91	08/08/2013	09/06/2013	A transaction in 2014 from MSIJ. The balance of P29,656.71 as of 12.31.2013 was closed in June 2014.
14. Pipeline Rehabilitation Theotokos SL 243-72	130,256.19	09/22/2013	09/30/2013	Completed/For Closing; Same amount in the 2013 AAR.
15. Pipeline Extension Kalindoy, Liburon SL 243-73	112,133.57	09/02/2013	09/13/2013	Completed/For Closing; Same amount in the 2013 AAR.
16. Pipeline Extension Oliveros, Can-asujan SL 243-74	203,349.45	10/01/2013	10/18/2013	Completed/For Closing; Same amount in the 2013 AAR.
17. Flow Meter Installation Lagang 2013 SL 243-78	1,089.05	01/15/2004	03/04/2014	Completed/For Closing. **(3)**
18. Flow Meter Installation Lumbia, Can-asujan SL 243-81	35,197.94	03/27/2014	04/15/2014	Completed/For Closing. **(4)**
19. Flow Meter Installation Ka-Lindoy, Liburon SL 243-83	29,451.51	01/13/2014	01/14/2014	Completed/For Closing. **(5)**

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
20. Flow Meter Installation Oliveros, Can-asujan SL 243-84	30,725.52	01/08/2014	01/10/2014	Completed/For Closing. **(6)**
21. Flow Meter Installation Bahabaha 2013 SL 243-86	99,161.00	12/05/2013	12/05/2013	Completed/For Closing; Same amount in the 2013 AAR.
22. Flow Meter Installation Ocaña 2013 SL 243-90	66,400.00	12/19/2013	12/19/2013	Completed/For Closing; Same amount in the 2013 AAR.
23. Flow Meter Replacement Magsipit Liburon 2013 SL 243-91	41,141.80	12/09/2013	12/09/2013	Completed/For Closing; Same amount in the 2013 AAR.
24. Pipeline Extension – Dandan SL 243-92	76,697.70	10/17/2013	12/06/2013	Completed/For Closing; Same amount in the 2013 AAR.
25. Pipeline Extension Bantayan 2013 SL 243-93	238,002.45	10/22/2013	12/05/2013	Completed/For Closing; With additions totaling P10,865.20 (MSIJ) in 2014; Balance per 2013 AAR was P227,137.25.
26. Additional Water Source Ibabao Perrelos SL 243-94	1,915,016.39	12/23/2013	07/10/2014	Reported as completed with additional charges. This was the only on-going project reported as of December 31, 2013. **(7)**
27. Clustering / Transfer of Meters – Centro Liburon SL 243-95	47,313.51	01/27/2014	03/07/2014	Completed/For Closing. **(8)**
28. Clustering / Transfer of Meters – Bacsijie SL 243-98	57,385.33	03/03/2014	04/02/2014	Completed/For Closing. **(9)**

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
29. 331 M Distribution Line Improvement – Colobong SL 243-100	117,422.57	03/12/2014	05/07/2014	Completed/For Closing. In the O&M Report, the location is Cambuntan, Bolinawan. **(10)**
30. 400 M Pipeline Rehabilitation – Lamakan, Valladolid 2014 SL 243-101	52,994.39	03/21/2014	05/09/2014	Completed/For Closing. **(11)**
31. Clustering / Transfer of Meters, Dapdap, Poblacion III (2014) SL 243-103	35,321.90	04/23/2014	07/02/2014	Completed/For Closing. **(12)**
32. 166 M Pipeline Extension Cambuntan, Bolinawan SL 243-104	54,808.40	04/28/2014	05/24/2014	Completed/For Closing. **(13)**
33. 4 Units Stall – Mainit, Guadalupe SL 243-105	55,721.68	04/28/2014	07/15/2014	Completed/For Closing. **(14)**
34. 210 M Pipeline Rehabilitation – Upper Tawog SL 243-106	61,965.90	05/14/2014	05/28/2014	Completed/For Closing. **(15)**
35. Fabrication of 14 pcs. 7" Ø Mechanical Sleeve Type Coupling – Poblacion Areas and Cambuntan, Bolinawan SL 243-108	32,041.00	06/19/2014	09/24/2014	Completed/For Closing. **(16)**
36. Clustering / Transfer of Meters – Upper Lamakan, Valladolid SL 243-109	52,201.60	07/16/2014	09/16/2014	Completed/For Closing. **(17)**
37. 540 M Pipeline Rehabilitation – Danawan, Can-asujan SL 243-111	167,286.62	07/22/2014	08/20/2014	Completed/For Closing. **(18)**
38. 690 M Pipeline Rehabilitation (Caipilan to Campo) SL 243-113	384,215.89	10/16/2014	11/14/2014	Completed/For Closing. **(19)**

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
39. 1080 M Pipeline Re-routing (Tuyom to Bantayan) SL 243-114	452,395.57	08/28/2014	12/11/2014	Completed/For Closing. **(20)**
Sub-Total	**6,337,990.45**			
For Adjustments				
1. Napo Intake Box SL 243-03	11,965.20	01/17/2006	07/21/2006	For Adjustment
2. Pipeline Extension 161 M, Bonsai, Bolinawan SL 243-17	(4,547.50)	03/26/2012	04/02/2012	For Adjustment
3. Battery Cage (2012) SL 243-30	(9,049.14)	03/26/2012	04/02/2012	Same amount in the 2013 AAR.
4. Watershed Management Program SL 243-87	979,562.13			For Re-classification to Prior Years' Adjustments (PYA); The balance in 2013 in the amount of P845,541.11 was increased by P134,021.02 from MSIJ, JV and Disbursements.
Sub-Total	**977,930.69**			
GRAND TOTAL PER SCHEDULE (Subsidiary Ledger)	**9,024,081.87**			
BALANCE PER GENERAL LEDGER (GL)	**9,024,081.87**			
Difference	**0.00**			

On the other hand, the following are the status of the projects/transactions comprising the Construction in Progress – Buildings and Structures account as of December 31, 2014:

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

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
Completed Projects				
1. Motorpool (Cogon) SL 244-01	P 261,238.42			Completed/For Closing; Same amount in the 2013 AAR.
2. Construction (Office Workshop) SL 244-02	123,814.60			Completed/For Closing; Same amount in the 2013 AAR. Dormant, balance since October 2008.
3. Partitions, Shelves and Benches (CWD Commercial) SL 244-05	48,548.93			Completed/For Closing; Same amount in the 2013 AAR. Dormant, balance since July 2009.
4. Improvement of Warehouse SL 244-22	2,215.00	02/17/2011	07/07/2011	Completed/For Closing; Same amount in the 2013 AAR.
5. Water System Improvement, Manghupe, Can-asujan SL 244-27	2,312.99	02/07/2012	05/22/2012	Completed/For Closing; Same amount in the 2013 AAR.
6. Proposed Comfort Room – CWD Bldg. SL 243-28	105,766.53	09/16/2013	12/07/2013	This account was debited by P6,574.87 and credited by P7,188.80 in 2014 or a net deduction of P613.93. Balance as of December 31, 2013 was P106,380.46.
Sub-Total	**543,896.47**			

Project Name with Account Code	2014 SL Balances	Date Started	Date Completed	2014 Remarks/Project Status
For Adjustments				
1. Repair of Service Vehicle (SD-8610) SL 244-09	70.00			Same amount as that reflected in the 2013 AAR. Dormant, balance since July 2009.
2. Repair of Service Vehicle (SD-8647) SL 244-10	2,048.35			Same amount as that reflected in the 2013 AAR. Dormant, balance since September 2009.
3. Repair of Service Vehicle (SD-8656) SL 244-11	1,361.00			Same amount as that reflected in the 2013 AAR. Dormant, balance since August 2009.
4. Watershed Management Program 2010 SL 244-18	(456.00)	01/05/2010	12/30/2010	Same amount as that reflected in the 2013 AAR.
Sub-Total	**3,023.35**			
GRAND TOTAL PER SCHEDULE (Subsidiary Ledger)	**546,919.82**			
GRAND TOTAL PER GENERAL LEDGER (GL)	**546,919.82**			
Difference	**0.00**			

In summary, these are the status of the Construction in Progress (CIP) accounts as of year-end:

OVERALL STATUS OF THE CONSTRUCTION IN PROGRESS ACCOUNT

Acct. Code	Account Description	Completed Projects	For Adjustments	Sub-Total	On-Going Projects	Total
243	Construction In Progress- Plant	6,337,990.45	977,930.69	7,315,921.14	1,708,160.73	P9,024,081.87
244	Construction In Progress- Buildings and Other Structures	543,896.47	3,023.35	546,919.82	0.00	546,919.82
	TOTAL	**6,881,886.92**	**980,954.04**	**7,862,840.96**	**1,708,160.73**	**P9,571,001.69**

From the above tables, it can be deduced that the coordination between the Finance Services Department and the Operations and Maintenance (O&M) Division is still not adequate to prevent the recurrence of the condition where the CIP accounts still carry costs of completed projects and transactions for adjustments. As shown in the first table, twenty (20) completed projects of 2014 remained in the CIP account at year-end. Also, we noted additional transactions in some projects though these were already reported as completed in previous years which matter has to be reviewed as the expenses may pertain to maintenance costs.

As was emphasized in the 2013 AAR, any delay in the transfer of the completed projects from the CIP accounts to the appropriate PPE accounts misstates 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. Otherwise stated, under the circumstance, depreciation expense could not be computed which understates the expense and eventually overstates the reported income at year-end.

The Finance Services Department (FSD) explained that some of the papers needed for the transfer of the CIP accounts to the appropriate PPE accounts are either for submission or still for final review prior to the adjustment to be made. As was recommended in the AAR of 2013, the O&M Division has to furnish the FSD the Project Accomplishment/Completion Report of all undertaken projects as it is the basic document to validate the 100% completion of any project.

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.**

In their reply, management stated that the district is continuously exerting efforts to close completed projects to UPIS. However, due to manpower constraints and availability of source documents, some completed projects were not closed. Henceforth, they committed to hasten the closing of completed projects to UPIS and charge the corresponding amount of depreciation expenses. Recently, they have added technical manpower to speed up the preparation of the as-built plans of completed projects.

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.

A similar audit observation but on different accounts was brought to the attention of management in the Triennium Audit Report covering Calendar Years 2010-2012. In the current year's audit, the verification has been expanded in order to clean the books of similar deficiencies.

As was emphasized in the Triennium Audit Report, accounting has a very unique function in any organization. Primarily, it provides valuable financial information that can be used in making economic decisions to whoever needs them, such as management, creditors, financial institutions, government entities and the public in general. To a large extent, the conclusions reached will depend on the accuracy and reliability of the financial data made available to the users of the financial statements.

The above statements expound paragraph 7 of Philippine Accounting Standard (PAS) No. 1, which states:

> "Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it."

Dormant accounts, as defined under COA Circular No. 97-001 dated February 5, 1997, refer to individual or group of accounts which remained non-moving for more than five years.

In the review of the schedules supporting the following asset and liability accounts, we noted the following:

Account Description			Abnormal Balance	Dormant Balance	Error OR For Adjustment	Total
A.	**Other Receivables (GL 149)**					
	Non-Current Receivables (NCR) from:					
	R. Alcudia	Since 06/30/2002		32,605.60		
	P. Alde	Since 06/30/2002		5,100.00		
	J. Alcoy	Since 06/30/2002		5,400.00		
	J. Aninon	Since 06/30/2002		8,700.00		
	A. Bacon	Since 06/30/2002		4,215.00		
	J. Baloran	Since 06/30/2002		8,985.00		
	A. Escorial	Since 06/30/2002		9,800.00		
	J. Gabinete	Since 06/30/2002		5,000.00		
	D. Gellica	Since 06/30/2002		8,800.00		
	L. Nacario	Since 06/30/2002		4,800.00		
	J. Remocaldo	Since 06/30/2002		8,700.00		
	A. Tanque	Since 06/30/2002		7,700.00		
	P. Fernandez	From 2000 to 07/31/2001		1,712.74		
	JR Alcordo	Since 10/10/2002		77.90		
	Sagolili	Since 06/30/02		6,834.25		
	SUB-TOTAL			**118,430.49**		118,430.49
	Other Receivables – GSIS			25,979.70		25,979.70
	Errors:					
	Travel Allowance claimed by COA Employees on audit assignment at Carcar Water District in 2011.				15,200.00	15,200.00
	JV 2154 dated 08/30/06 – Transfer From PCF to NCR (unidentified)				1,999.50	1,999.50
	Erroneous posting of payment to MIG System		(835.78)			(835.78)
	TOTAL FOR GL 149		**(835.78)**	**144,410.19**	**17,199.50**	**160,773.91**
B.	**Customer's Deposit (GL 451)**					
	Customer's Meter Deposits			456,660.85		456,660.85
	Customer's Materials Deposits		(191,357.78)			(191,357.78)
	Customer's Guarantee Deposits			37,121.45		37,121.45
	TOTAL FOR GL 451		**(191,357.78)**	**493,782.30**		**302,424.52**

C.	**Other Payables (GL 429)**					
	Other Payables - Housing	Outstanding Balance Since 2001		39,000.00		39,000.00
	Other Payables - Allowance	Outstanding Balance Since 2002		29,000.00		29,000.00
	Other Payables – R. Enanoria	Outstanding Balance Since 2007		3,715.54		3,715.54
	Other Payables – Provident Fund		(253,005.07)			(253,005.07)
	Other Payables – Officers (Provident)				37,032.91	37,032.91
	TOTAL FOR GL 429		**(253,005.07)**	**71,715.54**	**37,032.91**	**(144,256.62)**
D.	**Other Deferred Credits (GL 459)**		(70,025.98)			(70,025.98)
	TOTAL FOR GL 459		**(70,025.98)**			**(70,025.98)**
	GRAND TOTAL		**(515,224.61)**	**709,908.03**	**54,232.41**	**248,915.83**

A. According to the Department Manager B – Finance Services Department, the Non-Current Receivables in the amount of P118,430.49 or approximately 73.66% of the outstanding Other Receivables represent the Cost of Living Allowance (COLA) paid by the Water District to its personnel but were later disallowed in audit. The employment of the above-listed personnel with the Water District had long been ended. Management has even received information that several of those listed are already dead and therefore, the amount due them can no longer be collected. As of December 31, 2014, these accounts have been dormant for twelve (12) years.

On the other hand, there is a need for management to collect the remaining dormant Other Receivables – GSIS in the amount of P25,979.70. As gathered, Carcar Water District was not able to collect from GSIS their insurance coverage for a vehicular accident involving Driver, R. Victorioso due to lapse of time to file. Accordingly, this becomes a personal liability of the persons responsible for the delay in the submission of the papers to the GSIS.

Further, it was an error to treat the travel allowances of COA Personnel in the amount of P15,200.00 as Other Receivables - Commission on Audit. This expense will always form part of the audit fee/cost of audit services to be billed to the Water District under COA-DBM Joint Circular No. 88-1. Considering that the amount was already paid by the Water District in 2011, said amount was excluded in WD Bill No. 14-002 dated December 29, 2014 which covers the audit fees for Calendar Years 2010-2013.

The abnormal balance of P835.78 and the adjustment of P1,999.50 are recommended for second verification.

B. The Customer's Meter Deposits in the amount of P456,660.85 is the net amount arrived at after an adjustment of P2,314.00 from the beginning balance of P458,974.85. This balance has been dormant since January of 2007. As gathered, this liability account was established prior to 2007 when a customer was required to make a deposit for new water meter installation which arrangement indirectly transfers the ownership of water meters to the concessionaires. That set-up had been changed with a new policy where all water meters are now owned by Carcar Water District and recorded in its books of accounts as Property, Plant and Equipment (PPE). Thus, the present policy has left the account non-moving/dormant. Considering the lapse of time, which is approximately eight (8) years reckoned from January 2007, the originally installed water meters are most likely been replaced by new units. Therefore, the liability to the concessionaire has already been satisfied.

The Customer's Guarantee Deposits of P37,121.45 was a net figure after deducting from the beginning balance of P45,600.70 the amount of P8,479.25 (P13,479.25 less P5,000). As explained by the Finance Services Department, this balance represents the guarantee deposits for temporary water connection granted to various construction companies during their construction period.

Whereas, the abnormal (positive) balance in the Customer's Materials Deposits account, a sub-account under the Customer's Deposit account, could not be explained at the time of audit. The Finance Services Department has still to specifically identify the transactions that caused the abnormal balance. As explained, this liability account was established and will increase when a customer makes a deposit for various materials required for repair/upgrading of water installations which shall be paid either in full or on installment basis. The reductions in the account balance represent the cost of the various materials used for the work undertaken. Hence, from the resulting balance, it would appear that several of the works undertaken/requested by the customers have been completed but remained unpaid. This audit conclusion could not be validated because the Finance Services Department, as earlier stated, is still identifying the causes of the abnormal balance.

C. The Finance Services Department informed the Audit Team that the abnormal balance and the error pertaining to Provident Fund transactions which formed part of the account balance for Other Payables had been corrected in January 2015.

D. The circumstances that caused the abnormal balance of the Other Deferred Credits account are similar to that of the Customer's Materials Deposits sub-account. As practiced, all collections received for a new water installation in the amount of P2,350.00 shall be credited to this account. Subsequently, after installation, all materials used shall be debited to Other Deferred Credits. The difference between the fixed installation fee of P2,350.00 and the cost of the materials and supplies used/applied shall thereafter be treated as Other Business and Service Income. We find this accounting policy complicated and prone to errors as the recognition of the income portion is on per account basis. As gathered, management is planning to change this accounting policy.

We wish to reiterate that the following dormant account balances, which were brought to the attention of management in the Triennium Audit Report for Calendar Years 2010-2012, were still carried over in CY 2014, as follows:

Account Description	**Amount**	**Remarks**
Chemicals and Filtering Supplies Inventory (GL 158)	P (98.79)	No documents were available to validate this abnormal and dormant balance at the time of audit.
Construction Materials Inventory (GL 168)	(182,304.33)	No documents were available to validate this abnormal and dormant balance at the time of audit.
Due to Other GOCCs (GL 413)	76,307.15	This is a payable to Metropolitan Cebu Water District (MCWD) representing the various supplies they had furnished to Carcar Water District (CWD). As gathered from the Department Manager B – Finance Services Department, the issue slips to support this liability account are still to be signing by the responsible MCWD employees/officials.
TOTAL	**P (106,095.97)**	

To summarize, the following year-end account balances carry either an abnormal, dormant or erroneous balance:

Account Description	Abnormal Balance	Dormant Balance	Error OR For Adjustment	Total
Other Receivables GL 149	(835.78)	144,410.19	17,199.50	160,773.91
Chemicals and Filtering Supplies Inventory (GL 158)	(98.79)			(98.79)
Construction Materials Inventory (GL 168)	(182,304.33)			(182,304.33)
Due to Other GOCCs (GL 413)		76,307.15		76,307.15
Customer's Deposit (GL 451)	(191,357.78)	493,782.30		302,424.52
Other Payables (GL 429)	(253,005.07)	71,715.54	37,032.91	(144,256.62)
Other Deferred Credits (GL 459)	(70,025.98)			(70,025.98)
TOTAL	**(697,627.73)**	**786,215.18**	**54,232.41**	**142,819.86**

The Department Manager B – Finance Services Department, when asked about the plans for the dormant accounts, stated that the management is yet to discuss the issue in a meeting with the General Manager and the CWD Board of Directors so as to lay out policies and actions for the said accounts. This matter will be presented to the Board with the proposal to initiate the process of writing off these accounts.

As in their previous year's reply, management explained that all efforts have been exhausted to trace the supporting documents of these dormant accounts but to no avail. In part, this was due to the office transfers that Carcar Water District had undergone which resulted in the loss of some files.

Thus, until and unless the above deficiencies are corrected, the users of the financial statements cannot not be provided with reliable financial data for sound economic decisions.

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.

The Guidelines on the Proper Disposition/Closure of Dormant Funds and/or accounts are provided under COA Circular No. 97-001 dated February 5, 1997.

ON COMPLIANCE WITH GOVERNMENT REGULATIONS

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.**

Section 172 of the Government Accounting and Auditing Manual (GAAM), Volume I (reiterated under Item 2.0 of COA Circular No. 97-002 dated February 10, 1997) states the general principles in the handling of cash. Ideally, cash should be handled under the general principles of the imprest system, to wit:

a. Daily receipts on collections must be deposited intact with the proper bank.
b. All payments must be made by check.
c. Only payments in small amounts may be made through the petty cash fund. Replenishment of the petty cash fund shall be equal to the total amount of expenditures made therefrom.

In practice, however, there are certain instances when it may be very difficult, impractical or impossible to make payments by check. In such a case, payments may be made by the disbursing officer in the form of cash through his cash advance.

Test verification of the expenses incurred by Carcar Water District (CWD) for Calendar Year 2014 disclosed several expenses, mostly for GAD identified activities, that were paid by way of "reimbursement" to various CWD employees. The following were the samples taken:

Check No. Date	**DV No.**	**Payee**	**Amount**	**Expense Classification**	**Particulars**
315387 04.24.2014	14-04-0313	Felix Bargayo Jr.	P 24,650.20	Training and Scholarship Expense	Reimbursement of Expenses for Team Building Seminar on April 24-25, 2014 at

Check No. Date	DV No.	Payee	Amount	Expense Classification	Particulars
					Guanzon Beach Resort, San Fernando, Cebu Meals @ P85 per head (P15,980); Rental of V-Hire (P3,000); Softdrinks (P1,680); Supplies and Gadgets for the seminar including cost for the transporation of the items (P3,990.20)
43708041 05.15.2014	14-05-0397	Felix Bargayo Jr.	8,310.00	Advertising, Promotional and Marketing Expenses	Reimbursement of expenses for Feeding Program on May 16, 2014 Catering Services (P5,850); Bread and Softdrinks (P2,460)
43708053 05.21.2014	14-05-0410	Sheille Marie Alicaba	5,306.60	Advertising, Promotional and Marketing Expense	Kitchen tools and cooking ingredients for the Cooking Demo on May 23, 2014
43708059 05.27.2014	14-05-0416	Felix Bargayo Jr.	13,840.00	Representation Expense	Reimbursement of expenses for livelihood seminar conducted by DA on May 27, 2014 Honoraria (P4,000) and Food (P9,840)
43708072 05.30.2014	14-05-0437	Felix Bargayo Jr.	13,830.00	Representation Expense	Expenses Incurred during the CWD Anniversary Celebration on May 30, 2014 Light Rental (P3,500); Talent Fee (P5,000); Bread

Check No. Date	DV No.	Payee	Amount	Expense Classification	Particulars
					(P1,000); Mass Stipend (P2,000); Softdrinkgs (P1,380); Balloons (P750); Ice Cube (P150) and Ordinary Ice (P50)
47230882 09.22.2014	14-09-0817	Sheille Marie Alicaba	25,329.75	Other Maintenance and Operating Expenses	Reimbursement of Raffle Items, souvenir items and prizes for CWD Family Day on September 28, 2014
47230873 09.24.2014	14-09-0820	Ruby Angelica Galicano	21,434.00	Other Maintenance and Operating Expenses	Food and Mascot for CWD Family Day on September 28, 2014
47230886 09.25.2014	14-09-0824	Christine Q. Sandoy	5,826.00	Other Maintenance and Operating Expenses	Reimbursement of Expenses to be incurred during the CWD Family Day on September 28, 2014.
47230887 09.25.2014	14-09-0823	Eddies C. Inot	37,410.00	Other Maintenance and Operating Expenses	Reimbursement of the Expenses Incurred During the CWD Family Day on September 28, 2014 at Villa Dulce Resort, Naga City, Cebu Catering Services (P18,850); T-shirts (P14,560) and Ice Cream (P4,000)
47230888 09.25.2014	14-09-0825	Eddies C. Inot	50,000.00	Other Maintenance and Operating Expenses	Catering and Bus Rental for Family Day on September 28, 2014. Catering Services (P29,000) and Bus Rental (P21,000).

Check No. Date	DV No.	Payee	Amount	Expense Classification	Particulars
					The official receipts issued by the suppliers were all dated September 28, 2014.
27230890 09.26.2014	14-09-0830	Christine Q. Sandoy	7,657.95	Other Maintenance and Operating Expenses	Snacks and supplies for the Family Day on September 28, 2014
47230891 09.26.2014	14-09-0831	Sheille Marie Alicaba	10,613.00	Other Maintenance and Operating Expenses	Reimbursement of expenses for the CWD Family Day expenses on September 28, 2014 Engraving Services for the souvenir items (P6,645); Embroidery for souvenir items (P3,923) and parking fee (P45.00). Receipts of the above expenses were dated 09/25/2014
47231040 12.01.2014	14-12-1030	RA Solomon A. Enriquez	15,000.00	Advertising, Promotional and Marketing Expenses	Reimbursement of amount paid for lights and sound system during the CWD Night Presentation on November 22, 2014 The date of ALBERCA SOUNDS AND LIGHTS RENTAL Official Receipt (OR) No. 243 was altered.
		TOTAL	**P239,207.50**		

Our review of the supporting documents and further substantiated by the "date" of the checks disclosed that the shaded transactions are not really reimbursements but cash advances. Except for one case, we noted that CWD checks were issued either during or days prior to the scheduled activity. Hence, it can reasonably be concluded that the money from the encashed checks (some of which were enchased from collections) was the same cash that was used for the payment of the different expenses incurred and not the personal money of the employee. A clear example is Check No. 47230888 dated September 25, 2014 amounting to P50,000 which was issued to Ms. Eddies C. Inot for the CWD Family Day on September 28, 2014. Per bank statement, this was encashed on the day it was issued but was spent/disbursed only on September 28, 2014 per the official receipts issued by the suppliers. The amount paid for the Catering Services was acknowledged with the AYG Catering Service Official Receipt (OR) No. 0221 dated September 28, 2014 while the Bus Rental was covered by RAMSES LAPIS MINI-BUS OR No. 0001, also dated September 28, 2014. From this discussion, it is obvious that no personal money was used but instead a cash advance from CWD funds was drawn for the purpose. Therefore, this accounting treatment is not a faithful representation of the transaction that it purports to represent or could reasonably be expected to represent.

Moreover, the decision to pay by way of reimbursement is not in keeping with the rules and principles of good internal control. As discussed in the first paragraph, Section 172 of GAAM, Volume I, requires that all payments must be made by check and only payments in small amounts may be made through the petty cash fund.

Moreover, under the subject mode of payment, management was not able to withhold taxes from the gross amount due the suppliers. Government agencies as withholding agents are mandated by the Bureau of Internal Revenue (BIR) to withhold from money claims of suppliers the Expanded Withholding Tax, the Final Withholding Tax – VAT and other Percentage Taxes. A Government Money Payment Chart is provided under Revenue Memorandum Circular No. 5-2006 dated November 2, 2005 to guide the accounting personnel of government agencies when making payments to private entities.

On further verification, we noted that the honoraria paid to the facilitators of the team building activities were included in the payroll for job order personnel. The details are:

Name	Amount	Payroll Period	Particulars
1. Hannah Bautista	P 11,760.00	January 15-30, 2014	Payment of honorarium for Team Building activities held on January 31 to February 1, 2014 at Singli Mt. Resort, San Fernando, Cebu
2. Hyzell Montejo	11,760.00	January 15-30, 2014	Payment of honorarium for Team Building activities held on January 31 to February 1, 2014 at Singli Mt. Resort, San

Name	Amount	Payroll Period	Particulars
			Fernando, Cebu
3. Donnabeth Ann Montinola	11,760.00	January 15-30, 2014	Payment of honorarium for Team Building activities held on January 31 to February 1, 2014 at Singli Mt. Resort, San Fernando, Cebu
4. Charmaigne Barliso	6,700.00	April 1-15, 2014	Payment of honorarium for Team Building activities held on April 24-25, 2014 at Guanzon Beach Resort, Naga City, Cebu
5. Hyzell Montejo	6,700.00	April 1-15, 2014	Payment of honorarium for Team Building activities held on April 24-25, 2014 at Guanzon Beach Resort, Naga City, Cebu
6. Donnabeth Ann Montinola	6,700.00	April 1-15, 2014	Payment of honorarium for Team Building activities held on April 24-25, 2014 at Guanzon Beach Resort, Naga City, Cebu
7. Donnabeth Ann Montinola	6,030.00	April 16-30, 2014	Payment of honorarium for Team Building activities held on April 24-25, 2014 at Guanzon Beach Resort, Naga City, Cebu
8. Hyzell Montejo	6,030.00	April 16-30, 2014	Payment of honorarium for Team Building activities held on April 24-25, 2014 at Guanzon Beach Resort, Naga City, Cebu
9. Charmaigne Barliso	6,030.00	April 16-30, 2014	Payment of honorarium for Team Building activities held on April 24-25, 2014 at Guanzon Beach Resort, Naga City, Cebu
	P73,470.00	**TOTAL**	

The corresponding taxes for the said honoraria were not withheld since the payments were included as part of the compensation/payroll of the job order personnel whose gross annual salary are not subject to income tax.

The purchases of goods and services (listed in the first table) were likewise not supported with canvass of prices (Requests for Price Quotations) which is a requirement under Sections 52.1 and 52.3 of Republic Act (RA) No. 9184, the Government Procurement Reform Act or popularly known as the Procurement Law. Under the circumstance, there was no basis to conclude that the price obtained for each procured item/service was the most advantageous for the Water District.

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.

The Government Money Payment Chart, earlier mentioned, shows the rate for each type of tax to be withheld.

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.

Management, in its written reply, commits to abide by the applicable provisions of the different regulations cited above.

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.**

LWUA Memorandum Circular No. 010-10 enumerates the requirements/conditions on Foreign Travel Of Water District Officials. One of the requirements is for the Water District to submit a letter requesting LWUA to approve the Authority to Travel Abroad. Said requirement was not complied with in all foreign travels undertaken by the officials of Carcar Water District in CY 2014 with a total cost of P53,795.88. Also, only the Malaysia trip was covered by a Board Resolution.

Furthermore, 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 following were the foreign travels of the officials of Carcar Water Distrcit (CWD) in 2014:

Name and Position	**Destination**	**Purpose**	**Date Liquidated**	**Cost of Travel (DSA)**
Mr. Edward L. Remo General Manager	Malaysia	Attendance to the technical presentation of George Kent (Malaysia) Berhad on November 6-8, 2014 in Selangor, Malaysia	11.13.2014	P13,428.72
Ms. Sheille Marie A. Alicaba Customer Service Assistant B	Vietnam	Attendance to the 6th Edition VIETWATER Expo & Forum on November 13-14, 2014 in Ho Chi Minh City, Vietnam	11.24.2014	20,211.13
Ms. Eddies C. Inot Industrial Relations Management Officer B	Vietnam	Attendance to the 6th Edition VIETWATER Expo & Forum on November 13-14, 2014 in Ho Chi Minh City, Vietnam	11.24.2014	20,156.03
		TOTAL		**P53,795.88**

Per audit, the General Manager was still paid a Daily Subsistence Allowance (DSA) amounting to P12,678.72 (covers November 6-8, 2014) during his attendance in the training/technical presentation conducted by **George Kent (Malaysia) Berhad**, a manufacturer of water meters, held at **George Kent Technology Centre, Selangor, Malaysia** on November 7, 2014. This payment shall be disallowed in audit considering that the invitation was inclusive of air fare and accommodation. In fact, this arrangement was reiterated in CWD Board Resolution No. 47, Series of 2014, which was approved by the Board of Directors on October 28, 2014.

The Daily Subsistence Allowance (DSA), which is equivalent to the Allowable Travel Expenses under Section 8 of Executive Order No. 298, consists of: (a) fifty percent (50%) for hotel/lodging; (b) thirty percent (30%) for meals; and (c) twenty percent (20%) for incidental expenses. From the invitation, **George Kent (Malaysia) Berhad**, was expected to have shouldered all of the enumerated expenses.

On the other hand, the liquidation reports for the Vietnam trip were not supported with the Schedule of Activities, hotel room bills with official receipts, Certificate of Participation and the **Statement on the Travel Expenses and Allowances shouldered by the sponsoring organization**, making it difficult to determine the correct DSA due the employees. In the liquidation report of Ms. Eddies C. Inot, she further claimed reimbursement for taxi fare from hotel to venue on November 13-14, 2014 which expense is already covered by the full DSA paid to her.

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.

The regulations on foreign travel of government officials and employees are contained in the following issuances:

a) LWUA Memorandum Circular No. 010-10;
b) Memorandum Circular No. 7, s. 2010 issued by the Office of the President on November 19, 2010;
c) Executive Order No. 298 dated March 23, 2004 which prescribes Rules and Regulations and New Rates of Allowances for Official Local and Foreign Travels of Government Personnel;
d) COA Circular No. 96-004 dated April 19, 1996, and
e) The Section on the Use of Government Funds as contained in the Annual General Appropriations Acts.

In their written reply to the Audit Observation Memorandum on this subject matter, management stated the following:

- The concerned officials are now securing the necessary supporting documents for their foreign travel.

- As to the DSA granted to the official for the trip to Malaysia, management deemed it reasonable to grant a 50% of the UNDP rate to cover for incidental expenses for the said travel as the fare and accommodation were paid for by the sponsoring institution. If the concerned official should be required to reimburse the DSA, management deems it reasonable to appeal that at least he be entitled to 20% of the DSA for incidental expenses.

- Henceforth, management commits to abide by the rules on foreign travels.

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.

Section 56 of the Manual on the New Government Accounting System (NGAS), Volume II, states: "**Acknowledgement Receipt for Equipment (ARE).** The Acknowledgement Receipt for Equipment (*Appendix* 53) shall be used to acknowledge the receipt of property and equipment for official use from the Property Officer."

The above Appendix carries four instructions. The last instruction is: "D. The ARE shall be renewed **every three years** or everytime there is a change in accountability." (Emphasis Supplied)

Test verification of the Acknowledgment Receipts for Equipment (ARE), referred to by Carcar Water District as Property Acknowledgment Receipt (PAR), disclosed several PARs/AREs which have not been renewed/reissued after three years from date of issue. The samples taken were:

PAR No.	**Date of Issue**	**Property No.**	**Description of Equipment**	**Cost**	**Name of Accountable Employee**
075	02.11.2009	2009-02-202	Money Counter	P12,950.00	Priscilla Abellana
105	09.25.2009	2009-09-268	Portable Radio (HYT)	12,000.00	Leonilo Gabinete
131	02.15.2010	2010-02-310	Pipe Wrench 10"(rigid)	1,400.00	Hifols Zozobrado
177B	09.24.2010	2010-09-406	LCD Monitor 18.5"	6,150.00	Josefa S.N. Manugas
			TOTAL	**P32,500.00**	

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.

It shall be informed that the Acknowledgment Receipt for Equipment (ARE) has replaced the Property Acknowledgment Receipt (PAR). However, only the title of the form was changed since all the contents/required information are the same.

ON GENDER AND DEVELOPMENT

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.**

PCW-NEDA-DBM Joint Circular No. 2012-01 sets forth the revised Guidelines for the Preparation of Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Reports to Implement the Magna Carta of Women. This Joint Circular supersedes the DBM-NEDA-NCRFW Joint Circular No. 2004-1 dated April 5, 2004. It took effect beginning 2013 for the GAD planning and budgeting process of FY 2014 and the ensuing years until repealed.

Section 8.0 of the said Joint Circular discusses the topic on the Submission, Review and Endorsement of Agency GAD Plans and Budgets. Among others, this Section instructs the following:

- The GAD Focal Point System (GFPS) or the Chairperson of the GAD Focal Point shall submit the GAD Plan and Budget (GPB) and the corresponding GAD Accomplishment Report (GAD AR) to the Philippine Commission on Women (PCW) for review and endorsement.

- The agency submission to PCW shall include a letter signed by the head of agency informing the PCW that the GFPS of the agency has accordingly reviewed the GPB and GAD AR.

- PCW shall acknowledge in writing of the receipt of the GPB within two (2) working days. It shall then review and inform the agency of its comments or action on the GAD plans within fifteen (15) working days. If there are revisions to be made or questions to be answered about the submission, the agency shall be given thirty (30) days to resubmit the GPB. Upon receipt and acceptance of the revised GPB, PCW shall endorsed the revised GPB and return this to the different line departments or central agencies for their submission to DBM.

Hence, failure to submit the CY 2014 GAD Plan and Budget to PCW raises the question on whether the listed GAD activities are addressing women concerns and gender issues.

As clearly stated in the "FOREWORD" of the said Joint Circular, Republic Act 9710 or the Magna Carta of Women (MCW) and the subsequent effectivity of the Implementing Rules and Regulations in 2010 provided the Philippine Commission on Women (PCW) with a fresh and expanded mandate as oversight body and authority on women's concerns, as a catalyst for gender mainstreaming and as a lead advocate of women's empowerment, gender equity and gender equality. This landmark law further mandated the PCW to be the primary policy-making and coordinating body on women and gender equality concerns, to be the overall monitor and oversight on the MCW and its IRR and **to lead the capacity development of agencies to enable them to implement the MCW.** (Emphasis Supplied)

On the propriety of the listed GAD activities, we wish to bring to the attention of management two of the restrictions on the use of the GAD Budget as set forth in Annex A of the Joint Circular:

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

1. PAPs (Programs, Activities and Projects) that are not in the agency's **PCW-endorsed GAD Plan** (Emphasis Supplied)

7. The following expenses may NOT be charged to the GAD budget **UNLESS they are justified as clearly addressing specific gender issue:**

   7.1 Physical, mental and health fitness including purchase of equipment and information dissemination materials;
   7.2 Social, rest and recreation activities;
   7.3 Religious activities and implementation of cultural projects; and
   7.4 Construction expenses

All of the above expenses can be seen from the CY 2014 GAD Plan and Budget of Carcar Water District, thus, PCW's approval and endorsement is necessary.

Our verification further disclosed that P2,222,000.00 was budgeted for the CY 2014 GAD activities. The amount allocated was only about 2.34% of the BOD approved Corporate Operating Budget for CY 2014 which totaled P94,911,000.00. Obviously, the Water District had not complied with the instruction on the mandated budget for GAD activities as set forth in Section 6.1 of the Joint Circular.

As stated in the above-mentioned Section, at least five percent (5%) of the total agency budget appropriations authorized under the annual General Appropriations Act (GAA), which is equivalent to the approved Corporate Operating Budget for the corporate government agencies, shall correspond to activities supporting GAD plans and programs. The GAD budget shall be drawn from the agency's maintenance and other operating expenses (MOOE), capital outlay (CO), and personal services (PS). It is understood that the GAD budget does not constitute an additional budget over an agency's total budget appropriations.

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.

As also stated in the "FOREWORD" of the above Joint Circular, gender mainstreaming is the main strategy to implement the Magna Carta of Women. Hence, Section 33 of Republic Act (RA) No. 10633 (the General Appropriations Act of FY 2014), states:

> "Sec. 33. **Programs and Projects Related to Gender and Development**. All agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their concerned sectors or mandate and implement applicable provisions under R.A. No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Millennium Development Goals (2000-2015), the Philippine Plan for Gender-Responsive Development 1995-20125), and the Philippine Development Plan (2011-2016).
>
> **The GAD Plan shall be integrated in the regular activities of the agencies,** which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion, and fulfillment of women's human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of the GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies." (Emphasis Supplied)

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.

ON COMPLIANCE WITH TAX LAWS

Carcar Water District (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 Remitted	1,072,632.42
TOTAL		**P 2,619,633.34**