



**EXECUTIVE SUMMARY**

**A. Introduction**

Dingle-Pototan Water District (DPWD) was created in 1978 by virtue of Resolution No. 163, series of 1978 enacted by the Municipal Council of Dingle in accordance with Presidential Decree No. 198, as amended by PD. Nos. 769 and 1479, which authorized the function of local water districts and providing for their administration. As amended by Law, the Municipalities of Dingle and Pototan transferred to Water District the supervision and administration of Municipality's waterworks system.

By virtue of LWUA Board of Trustees through Resolution No. 106, series of 2005 dated June 07, 2005, the Dingle-Pototan Water District has been in full take over of the Interim General Manager and five (5) members of Board of Directors.

The District's main function is to provide sufficient, safe and potable water supply for domestic and industrial use within the boundaries as well as, improve the water supply system of the agency.

The District is headed by Engr. Rufino D. Bicodo, Jr., the General Manager and is assisted by twenty-two (22) regular personnel, three (3) casual plantilla and fifteen (15) job hire workers.

**B. Financial Highlights**

The Financial Position and Profit and Loss and Other Comprehensive Income of Dingle Pototan Water District for the year ended December 31, 2017 are presented below:

**Comparative Financial Position**

	<b>2016</b>	<b>2017</b>
Assets	76,673,319.70	75,208,663.71
Liabilities	50,612,738.52	46,298,560.10
Equity	26,060,581.18	28,910,103.61

**Comparative Profit and Loss and Other Comprehensive Income**

	<b>2016</b>	<b>2017</b>
Income	31,976,595.45	32,198,909.04
Expenses	25,708,906.41	29,349,386.61
Net Income (Loss)from Operations	6,267,689.04	2,849,522.43

### **C. Scope of Audit**

The audit covered the examination on a test basis of the accounts and financial transactions and operations of Dingle Pototan Water District for the period of January 1 to December 31, 2017 in accordance with State auditing standards. The audit also involved performing procedures to ascertain the propriety of financial transactions and compliance of the water district to prescribed laws, rules and regulations.

### **D. Auditor's Opinion on the Financial Statements**

We rendered an adverse opinion on the fairness of the presentation of the 2017 financial statements because of the significance of the matters discussed in the Bases for Adverse Opinion paragraph in the Independent Auditor's Report.

### **E. Significant Findings and Recommendations**

Below is a summary of the significant findings and their corresponding recommendations which are discussed in detail in Part II of this Report.

1. Monthly Bank Reconciliation Statements were not prepared for CY 2017 contrary to Section 74 of Presidential Decree 1445 otherwise known as the "State Audit Code of the Philippines"; thus, the accuracy of balances of its Cash in Bank accounts cannot be established.

We recommended that the Senior Accounting Processor B regularly prepare the monthly bank reconciliation statements for all of its bank accounts, then submit them to the Auditor concerned for verification.

2. The accountable forms used by the District were not printed by Recognized Government Printers (RGPs) contrary to the provisions of Government Procurement Policy Board (GPPB) Resolution No. 05-2010 dated October 29, 2010 and Local Water Utilities Administration (LWUA) Memorandum Circular No. 009-16 dated August 5, 2016 which may result in possible duplication of Official Receipts and incapability of the receipts to be monitored as to completeness, consecutiveness and accountabilities.

We recommended that Management comply with the provisions of GPPB Resolution No. 05-2010 and LWUA Memorandum Circular Nos. 009-16.

3. The District failed to secure written authority to open deposit accounts and/or deposit Government Funds from the duly authorized official of the Bureau of Treasury/Department of Finance for its depository accounts, contrary to the provisions of Department of Finance (DOF) Department Circular No. 01-2017 dated May 11, 2017.

We recommended that Management comply with the Amended Guidelines on Authorized Government Depository Banks provided in Department of Finance Department Circular No. 01-2017 dated May 11, 2017.

4. Non-reconciliation of General and Subsidiary Ledger balances of Accounts Receivable (10301010) resulted in a discrepancy of ₱1,153,367.80 as of December 2017, contrary to Sections 111 and 112 of Presidential Decree No. 1445, thus, the accuracy of said account is doubtful.

We recommended that the accounting section be required to verify the accuracy of the balances of subsidiary ledger accounts and reconcile these with the balances reflected in the General Ledger. Consequently, the necessary adjusting/correcting entries for any discrepancies shall be recorded. Finally, to ensure proper safekeeping of records and to facilitate ease of monitoring the long term disconnected accounts should be integrated in the billing and collection system since no individual ledger cards are maintained.

5. Overdue accounts aged over 90 days reached 82.79% which amounts to ₱5,925,125.33 in CY 2017, may result in losses because of near nil possibility of collection.

We recommended that the District should issue demand letters to the delinquent concessionaires and seek the assistance of the barangay officials through their Lupong Tagapamayapa to enforce collection from them. Also, the billing section should provide a regular report to the Board of Directors on the status of inactive concessionaires for monitoring purposes as well as enable them to make policies and resolutions to reduce receivables from inactive accounts.

6. Inactive concessionaires reached 50.76%, which accounts for ₱5,362,678.39 of the District's Accounts Receivable as of December 31, 2017 having an impact on the District's financial position and profit and loss and other comprehensive income because of near nil possibility of collection.

We recommended that the District monitor the inactive concessionaires, issue demand letters and file necessary legal action against them. Also, the billing section should provide a regular report to the Board of Directors on the status of inactive concessionaires for monitoring purposes as well as enable them to make policies and resolutions to reduce receivables from inactive accounts.

7. Absence of policy on provision of Allowance for Impairment for Accounts Receivable – Trade for CY 2017 amounting to ₱3,530,769.38 contrary to Philippine Financial Reporting Standards (PFRS) 9 – Financial Instruments and Item C in Annex A of COA Circular No. 2015-010 dated December 1, 2015, rendered the account presented in the Statement of Financial Position without legal basis and unreliable.

We recommended that Management develop its accounting policy based on PFRS 9 and Item C in Annex A of COA Circular No. 2015-010 dated December 1, 2015 on the Revised Chart of Accounts for Government Corporations on setting up Allowance for Impairment and present this to the Board of Directors for approval. Consequently, the Accounting Section is instructed to set up the Allowance for Impairment and also request for write-off of dormant accounts, if warranted.

8. Subsidiary Ledger for Receivables – Disallowance/Charges (146) amounting to ₱242,788.48 was not specific as to the disallowances of the Board of Directors (BOD) amounting to ₱184,200.00, and has remained dormant in the books since CY 1990, contrary to provisions of PD No. 1445 and NGAS-Corporate, thereby, the validity and accuracy of these accounts could not be ascertained.

We recommended that the District exert extra effort to retrieve documents to support the balances and details of these accounts, if any, so that their validity and accuracy could be ascertained. It is also recommended that the Senior Accounting Processor V maintain subsidiary ledgers in detail and balances should not be lumped under one account. It is further recommended that the District exert effort to collect the said disallowance.

9. Other Receivables (149) account has remained dormant with an unreconciled difference of ₱22,025.04 between balances of General and Subsidiary Ledgers, contrary to Section 58 of the Presidential Decree No. 1445, thus, resulting in the doubtful accuracy of the account.

We recommended that the District exert effort to retrieve documents to support the balances of these accounts, if any, so that the validity and accuracy could be ascertained. It is also recommended that the Senior Accounting Processor V maintain subsidiary ledgers for all controlling accounts in the general ledger pursuant to NGAS-Corporate.

The District should enforce the collection of the above receivables and send out demand letters at the last known address of the employees. In case the District may opt for the write-off of dormant accounts, the guidelines and procedures specified in Items 7.8 and 8.0 of the COA Circular No. 2016-005 dated December 19, 2016 should be followed.

10. Five (5) accounts of the District is of doubtful validity due to absence of subsidiary ledgers and other supporting documents totaling to ₱352,292.79 which also remained dormant, contrary to provisions of PD No. 1445 and NGAS-Corporate; thereby, the validity and accuracy of these accounts could not be ascertained.

We recommended that the District exert effort to retrieve documents to support the balances of these accounts, if any, so that the validity and accuracy of these accounts could be ascertained. It is also recommended that the Senior Accounting Processor V maintain subsidiary ledgers for all controlling accounts in the general ledger pursuant to NGAS-Corporate.

11. Failure of the District to conduct physical count of its Property, Plant and Equipment for CY 2017 with carrying amount of ₱65,794,873.12 and prepare a report thereon cast doubt on the existence and reliability in the valuation of the account.

We recommended that the District conduct an annual physical inventory and prepare the Physical Inventory Report, reconcile it with the accounting and property records and adjust affected accounts and records for accurate balances of PPE accounts. It is important that the District prepare this report as this will facilitate a more accurate presentation of the concerned accounts in its financial statements.

12. Unreconciled balance of the Property, Plant and Equipment account as appearing in the General Ledger and physical inventory report for CY 2014 totaling to ₱1,379,525.28 remains unacted in CY 2017 casting doubt on the accuracy of the PPE account.

We recommended that both reports should always reconcile to ensure accuracy of information. After the physical count of the properties, these should be reconciled with the ledger balances or trial balance so that adequate adjusting entries are done.

13. Absence of appropriate proof of donation of the Morobo In-Take with cadastral lot no. 3077 with land area of 138,292 sq. m and market value of ₱27,785.80 located at Brgy. Lincud, Dingle is contrary to Section 58 of P.D.1445, thereby casting doubt on the ownership of the aforementioned properties by the District.

We recommended that in compliance with Section 58 of P.D. 1445, the District should secure the necessary documentation for the transfer of the property such as Deed of Donation/Transfer Certificate of Title for the said property to establish legal ownership. Also, the District should re-appraise the value of the property for appropriate recording of value in the books of the District.

14. The donated water supply system in Vida Grande Subdivision from Firm Builders Realty Development Corporation was not recorded in the books of the District thereby understating the Property, Plant and Equipment (PPE) account in the Financial Statements as of December 31, 2017 contrary to Section 58 of PD 1445.

We recommended that in compliance with Section 58 of P.D. 1445, the District should record the said donation based on cost, if available or re-appraised value of the property for appropriate recording of value in the books of the District. Also, Management should secure proper documentation on the status of the 100 sq. m lot and initiate appropriate procedures towards ownership of the property.

15. Absence of appropriate proof of turn-over/donation of the Water Treatment Plant Facilities by the Japan International Cooperation Agency (JICA) in favor of the District is contrary to Section 58 of PD 1445 resulting in the unrecorded value of the property and non-establishment of ownership.

We recommended that in compliance with Sec. 58 of P.D. 1445, Management should secure proper documentation (i.e Deed of Donation, Memorandum of Agreement) to establish ownership of the Water Treatment Plant as well as record in its books the cost or appraised value of the facilities.

16. Non-disposal of unserviceable properties amounting to ₱758,743.48 are not in accordance with Sections 76 and 79 of Presidential Decree No. 1445; thereby depriving the District of the benefits that may be derived from income of disposed properties and the salvage values of such properties may diminish due to wear and tear at the District's vicinity.

We recommended that the District write a letter request to COA for the appraisal of the unserviceable properties together with the Inventory and Inspection Report of Unserviceable Property (I&I Report) and current photographs in two positions.

17. Responsible officers were not made to account for the stolen 500 pieces of unserviceable water meters with a book value of ₱325,000.00 as provided under Sections 101 and 102 of P.D. 1445.

We recommended that the District determine the person responsible for the loss, determine the monetary value of the water meters and accordingly book this as liability of the pertinent employee as the appropriate Request for Relief from Accountability was not applied for. We also recommended that henceforth, the District conduct proper disposal of its unserviceable properties and file appropriate relief from accountability for lost properties.

18. Communication equipment amounting to ₱80,985.00 were not subjected to depreciation contrary to Sections 67 and 68 of the New Government Accounting System Manual, Volume I; thereby, overstating the carrying value of the said property in the Statement of Financial Position.

We recommended that a Journal Entry Voucher shall be prepared to record the accumulated depreciation.

19. Absence of subsidiary ledgers of four (4) LWUA loan accounts with a total balance of ₱68,080,904.45 for CY 2017, contrary to Section 111 of Presidential Decree No. 1445 otherwise known as "State Audit Code of the Philippines, resulted in difficulty in reconciling and establishing balances for each loan account.

We recommended that the Senior Accounting Processor V maintain subsidiary ledgers for each loan type to provide control and ease of monitoring of the loan in compliance with Section 111 of Presidential Decree No. 1445 so as to provide timely, accurate and reliable information.

20. Discrepancies in the balances of loans, interests and its corresponding penalties vis-a-vis LWUA confirmation contrary to Section 59 of Presidential Decree No. 1445 rendered the accuracy of the balances of the said accounts as of December 31, 2017 doubtful.

20.1 Loans Payable – Domestic resulted in differences of ₱24,188,468.85 as of December 31, 2017 between the District's general ledger vis-a-vis the loan confirmation reply of Local Water Utilities Administration (LWUA).

20.2 The District did not record penalties from loans amounting to ₱3,414,484.00 for CY 2017, thus understating liabilities.

We recommended that the Senior Accounting Processor V trace the transactions in CY 2017 and conduct analysis and reconciliations of the accounts with the LWUA's confirmation reply before effecting entries in its books. Also, the District should coordinate with LWUA to reconcile and update the two records maintained by both parties. Discrepancies cited should be reconciled and accordingly adjusted to ensure fair presentation of the account in the financial statement. Finally, strict compliance with Section 111 (2) of PD 1445 is enjoined.

21. Rice allowances were paid to the officers and employees of the District for CY 2017 amounting to ₱770,454.55, contrary to Administrative Order No. 37 and Section 9 of Executive Order No.7.

We recommended for the refund of said allowance and require Management to ensure that additional benefits accorded to its employees should have authority and approval from the Office of the President.

22. Legal fees paid from May 2017 – December 2017 amounting to ₱38,715.00 to Atty. Mabelle Dueñas-Ureta lacked the required approval of the Office of the Government Corporate Counsel and the written conformity of the Commission on Audit contrary to COA Circular No. 95-011 dated December 4, 1995.

We recommended for the refund of the payments made and strict compliance with COA Circular No. 95-011 dated December 4, 1995 for subsequent years.

23. Commutation of accumulated sick leave balances without applying first the accumulated vacation leave balances is contrary to Section 22 of the Omnibus Rules on Leave, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292.

We recommended that the District observe strictly the provisions of Section 22 of the Omnibus Rules on Leave, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292.

24. Non-reconciliation of ending balances of leave credits vis-à-vis recomputation of the employees' leave cards for CY 2017 casts doubt on the accuracy of the accumulated vacation and sick leave balances presented at each year end.

We recommended that the Human Resource Section re-compute the employees' leave cards to ensure correct balances of vacation and sick leaves, taking into consideration the Omnibus Rules on Leave and other Civil Service Commission rules and regulations. Careful examination be exercised by the personnel who are assigned to compute entries in the leave cards. Finally, the management should ensure that computation of leave balances are updated and thoroughly reviewed prior to approval of monetization of leave credits. It is emphasized that leave credits have monetary values thus, utmost care and diligence should be observed as this may affect the District's finances.

25. Cash advances were not promptly liquidated contrary to COA Circular No. 97-002 dated February 10, 1997, thus, resulted to overdue balances amounting to ₱455,101.64as of December 31, 2017.

We recommended that Management comply with Sections 4.1, 5.1.3 and 5.8 of COA Circular No. 2012-004 in the granting, utilization and liquidation of cash advances. Also, demand letters should be sent to employees and officers requiring them to immediately settle their outstanding cash advances.

26. Non-revenue water (NRW) rates of the District which averaged 22.06% for CY 2017 is non-compliant with Local Water Utilities Administration (LWUA) Board Resolution No. 444 Series of 2009 which adopted maximum acceptable level of 20% only.

We recommended the management to maintain its Non-Revenue Water (NRW) in the maximum acceptable level prescribed by the LWUA in order to enhance its operational efficiency and improve its financial viability.

27. A Water Safety Plan (WSP) was not developed contrary to LWUA MC No. 004-15, thereby activities to ensure water safety may be less effective and efficient.

We recommended that Management develop the required WSP so that its drinking water quality management will be enhanced. Personnel should be assigned and/or assistance of experts or other Districts should be engaged for this task. Industry best practices are encouraged to be adopted in the plan.

28. Non-compliance with LWUA Memorandum Circular 014-10 on performance audit of water meters.

We recommended that management should comply with Memorandum Circular 014-10 and prepare a formal documented result of performance audit conducted on water meters.

29. The District did not allocate at least 5% of its total budget for Gender and Development (GAD) activities from CY 2017 contrary to Sections 2.3 and 6.1 of Joint Circular No. 2012-01 of DBM, NEDA and PCW, and PCW Memorandum Circular No. 2015-03 dated May 19, 2015, hence depriving the District's employees of intended benefits.



We recommended for the allocation of at least five percent (5%) of the District's total budget and preparation of a Gender and Development Plan that would address gender issues and concerns in compliance with the aforesaid Joint Circular. Also, compliance to PCW Memorandum Circular No. 2015-03 dated May 19, 2015 on "Guidelines on the Review and Endorsement of Water District Annual Gender and Development Plans and Budgets".

30. Failure to prepare and secure an approved Corporate Operating Budget for CYs 2017 contrary to Department of Budget and Management (DBM) Corporate Budget Memoranda No. 38 dated January 15, 2016 did not afford the District the benefit that can be derived from proper review and scrutiny by the Development Budget and Coordination Committee (DBCC) which can recommend revisions for improvement of certain areas of concern and alignment with the over-all government thrust for FY 2017.

We recommended compliance with DBM CBM No. 38 and subsequent Corporate Budget Memorandum in the preparation of COB for upcoming fiscal periods.

**F. Status of Implementation of Prior Years' Audit Recommendations**

Of the fifty-two (52) audit findings and recommendations in prior years, two (2) were implemented, four (4) were partially implemented and forty-six (46) were unimplemented. Details were presented in Part III of this Report.

**G. Status of Suspensions, Disallowances and Charges as of December 31, 2017**

The District has total suspensions, disallowances and charges amounting to P3,252,308.00 as of December 31, 2017 which comprises of disallowances only.