

## EXECUTIVE SUMMARY

### BACKGROUND

The Malaybalay City Water District (MCWD) was formed pursuant to Presidential Decree No. 198 as amended and was created by virtue of Municipal Resolution No. 3-26-75 dated September 2, 1975. The district was issued the Conditional Certificate of Conformance (CCC) by the Local Water Utilities Administration (LWUA) on February 4, 1976.

The operations of the district is managed by a General Manager and assisted by three division managers. The district is complemented with a total of 45 regular employees, 10 casual, and 30 employees are under job order status assigned in four different divisions. The Board of Directors which is composed of five members is the policy-making body of the district.

As of December 31, 2012, the district was recategorized as big water district under Category B based on the implementing guidelines on the Revised Local Water District on Categorization, Re-categorization and other Related Matters (LWD – MaCRO).

### Financial Highlights

The comparative figures for CY 2012 and 2011 financial data showed an increase of the district assets, liabilities, equity, gross income, and operating expenses, as summarized below:

<b>Particulars</b>	<b>2012</b>	<b>2011</b>	<b>Increase/ (Decrease)</b>
Total Assets	₱128,950,331.91	₱ 120,925,858.20	₱ 8,024,473.71
Total Liabilities	14,473,545.64	12,353,979.70	2,119,565.94
Total Equity	114,476,786.27	108,571,878.50	5,904,907.77

Gross Income	72,512,771.85	68,777,460.57	3,735,311.28
Operating Expenses	62,679,091.99	58,691,687.63	3,987,404.36
Net Income	₱ 3,946,703.27	₱ 4,588,310.83	₱ (641,607.56)

## **Operational Highlights**

As of December 31, 2012, the district is serving a population of 85,475. It has total service connections of 18,623 of which 13,150 are active and metered while 13,150 connections are billed. Total water sales billed was computed at ₱70,347,204.80 and collected a total of ₱69,257,897.74, thereby, registering a collection efficiency of 93% as at year-end.

Water production as of December 31, 2012 reached 5,082,275.6 cubic meters of which the total accounted water was computed at 3,677,134.0 cubic meters or 72.35%.

## **SCOPE OF AUDIT**

An audit examination was conducted on the CY 2012 accounts and operations of Malaybalay City Water District (VCWD), Malaybalay City, Bukidnon pursuant to COA Office Order No. 2013-086 dated January 11, 2013.

The objectives of the audit are:

1. To ascertain propriety of financial transactions and compliance of the district as to existing laws, rules and regulations;
2. To ascertain the accuracy of financial records and reports of the district;
3. To ascertain the fairness of presentation of the financial statements of MWD for CY 2012.

## **INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENT**

An adverse opinion was rendered on the financial statements due to inaccurate recording of monthly deposited collections in CY 2012 as the same were supported by deposit slips with tampered dates in the average of 25 counts in a month with total amounts ranging from ₱2.400 million to ₱3.300 million for the months from January to November, 2012; the accuracy of the recorded accounts receivables-others totaling ₱5.370 million representing the CY 2011 to 2012 undeposited collections and unauthorized disbursements of funds by the former cashier could not be relied on as the amount of undeposited collections per audit was ₱3.347 million for the period from January, 2007 to December 31, 2012 with a computed variance of ₱2.023 million or 37.66% of the book balance of accounts receivables-others.

In addition, there was an unreconciled balance of Accounts Receivables-Customers per book and per aging schedule amounting to ₱1.929 million or 39.37% of the book balance of the said receivables due to defective computer-based billing and collection system; the balance of accounts receivables-customers includes ₱1.77 million inactive accounts or 38% of the total book balance of the said receivables which overstates the current assets; and, the account receivables-customer was not presented at its net realizable value as there was no provision of reasonable allowance for doubtful accounts for CY 2012.

Overstatement of operating expenses and understatement of retained earnings were also noted due to unauthorized payments of the following: unauthorized salary increase amounting to ₱767,252.50 for CY 2009 to CY 2012; payments made without valid basis for various allowances and benefits totalling ₱2.782 million to the district officers and employees; Cost of Living Allowance (COLA) and amelioration differential amounting to ₱126,769.95 paid to separated employees of the district; Payments of representation and communication allowance to the board of directors totaling ₱162,060.00 for CY 2012; reimbursements made for various expenses incurred by the members of the Board of Directors totaling ₱267,236.96 were in excess of the allowable amount as prescribed in Executive Order No. 65; and payment made for guaranty deposit, first monthly rental and other expenses totaling ₱417,762.00 intended for one unit of Toyota HiLux under lease purchase agreement.

Furthermore, irregularities in the financial transactions were noted as there were instances of double encashment/issuance of checks for payment of the same transactions and the same were approved accordingly in the total amount of ₱105,379.00; and, the district has a very weak internal control system as it failed to adopt measures against wastage of financial resources, safeguard its assets, adhere to existing government laws, rules and regulations, and provide reliable accounting information.

Also, there were erroneous classification of the following: Joint savings account of MCWD and LWUA amounting to ₱2,394,708.74 was erroneously classified as Investment CBU instead of Special Deposits while deposits made to various suppliers amounting to ₱109,808.35 was erroneously classified as Special Deposits.

## **SUMMARY OF SIGNIFICANT AUDIT FINDINGS AND RECOMMENDATIONS**

- 1. The district's former cashier accumulated ₱3.347 million undeposited collections for the period from April, 2009 to November 30, 2012 and the same was concealed due to weak internal control system.**

Based on our review of collections and deposit transactions, the former cashier was able to conceal the undeposited collections in the accumulated amount of ₱3.347 million as of December 31, 2012 due to the following control deficiencies in handling cash transactions:

- 1.a The amount of daily deposits recorded in the CRR were supported with tampered/photocopied deposit slips in the average of 25 counts in a month with total amounts ranging from ₱2.400 million to ₱3.300 million for the period from January to November, 2012 which were not immediately detected by the accounting unit, thus, enabled the former cashier to conceal an accumulated undeposited collections of ₱3.347 million.**

We have recommended that the Board of Directors take appropriate action on the erring former district cashier for the undeposited collections including the official and accounting personnel responsible in the preparation and review of CRR. Also, require the accounting unit to have a thorough review of documents submitted to support the daily deposits and collections. Also, revisit the accounting controls implemented in the recording of collections and deposits and study the possibility to improve the same so as to detect immediately any unauthorized use of government funds. Exert extra efforts for possible restitution of the amount fraudulently taken by the former cashier.

- 1.b Erroneous presentation of undeposited collections ranging from ₱127,000 to ₱7.667 million which were reflected as reconciling items in the bank reconciliation statements for the period from April, 2009 to November, 2012 had attributed to the accumulation of ₱3.347million of undeposited collections by the former cashier.**

We have recommended that the Board of Directors take appropriate action against the official and accounting personnel responsible in the preparation and review of BRS for the period from April, 2009 to November, 2012 which attributed to the accumulation of undeposited collections of ₱3.347million.

- 2. The accuracy of the recorded accounts receivables-others totaling ₱5.370 million representing the undeposited collections and unauthorized disbursements of funds by the former cashier could not be relied on and the collectability of the same is very low as the said former cashier was already dismissed from the service.**

We have recommended that management require the Accounting Unit to review thoroughly the recorded adjustments to Accounts Receivables-Others and effect adjustments in the books when necessary.

- 3. The former Cashier issued checks twice for payment of the same disbursement transactions in the total amount of ₱105,379.00.**

We have recommended that management revisit the control procedures to prevent the same fraudulent activity to recur in the future transactions.

- 4. The Accounts Receivable-Customers account is not fairly presented as there was an unreconciled balance, inclusion of inactive accounts, and non-provision of allowance for doubtful accounts.**

The following observations are reiterated from prior years' audit findings as the district did not implement the recommendations.

- 4.a The book balance of Accounts Receivable-Customers account amounting to ₱4.900 million does not reconcile with the aging schedule of accounts receivables totaling ₱6.829 million, with a variance of ₱1.929 million due to defective computer-based billing system.**

We have recommended that management facilitate the installation of new billing and collection system that could generate a more reliable aging schedule. Direct the Finance and Commercial Services Divisions to reconcile the balance per book and per aging schedule of Accounts Receivable-Customers so as to present fairly the said account in the financial statement.

- 4.b ₱1.77 million or 38% of the total balance of accounts receivables-customers was considered inactive accounts and the same was included as part of the current assets.**

We have recommended that management initiate sending confirmation letters/collection letters to verify the existence of the concessionaires in their indicated addresses. Require the Accountant to make necessary adjustment to reclassify the inactive accounts to other assets account. Also, we reiterate our previous recommendations as follows:

- a. Conduct thorough investigation on inactive accounts and recommend appropriate action for the writing off of accounts that have been dormant in the books of the district;
- b. File a request to write-off dormant accounts receivables and submit documents to support such request to the Commission on Audit, for approval; and
- c. Regularly update the aging schedule of accounts receivables-customers to provide basis of setting up reasonable allowance for doubtful accounts.

- 4.c The district has no provision of Allowance for Doubtful Accounts in CY 2012, contrary to Section 66 of the Manual on the New Government Accounting System (NGAS), Volume I, thus, the account receivables-customer was not presented at its net realizable value.**

We have recommended that management strictly adhere on the provision of allowance for doubtful accounts so as to present fairly the accounts receivables account in the financial statements.

- 5. The book balance of the Utility Plant In-Service (UPIS) and the Accumulated Depreciation accounts is overstated by ₱607,449.00 and ₱190,656.42, respectively, due to inclusion of expenses on repairs and maintenance.**

We have recommended that the district exclude the expenses for repairs and maintenance totaling ₱607,449.00 from the schedule of UPIS account. Also, effect necessary adjustments to the UPIS and the Accumulated Depreciation accounts so as to present fairly the said accounts in the financial statements.

- 6. Special Deposits of the district with DBP-Malaybalay City amounting to ₱2,394,708.74 as of December 31, 2012 were erroneously classified as Investment Account - Capital Build Up, which is not in conformity with the Commercial Practices Manual of the Water Districts as prescribed by LWUA.**

We have recommended that management require the Accountant to reclassify the investment account to special deposits account to correct the presentation of the same in the financial statement.

- 7. Deposits made to various suppliers of goods and services amounting to ₱109,808.35 as December 31, 2012 were classified as Special Deposits, instead of Accounts Receivable-Others, contrary to the Commercial Practices Manual of the Water Districts as prescribed by LWUA.**

We have recommended that management require the Accountant to reclassify the Special Deposits account to Accounts Receivable-Others account.

- 8. The district has a very weak internal control system as it failed to adopt measures against wastage of financial resources, safeguard its assets, adhere to existing government laws, rules and regulations, and provide reliable accounting information.**

We have recommended that the Board of Directors shall take appropriate action on the inability of the district to install, implement, and monitor a sound internal control system of the district. Revisit the control procedures to ensure reliability of financial information.

- 9. Various claims of travel expenses totalling P940,316.57 for foreign travels of the district officials and selected employees to attend international conferences in Malaysia and the United States of America were not supported with the required authority to travel abroad and two other conditions as detailed in the Office of the President Memorandum Circular No. 7 series of 2010 and LWUA Memorandum Circular No. 010-10 were not complied with.**

We have recommended that management exercise due prudence in approving payments for foreign travel expenses. Strictly comply the conditions set as detailed in LWUA Memorandum Circular No. 010-10 and Memorandum Circular No. 7 series of 2010 of the Office of the President in sending participants to international conventions/conferences. Also, management shall observe and adopt austerity measures as directed per Administrative Order No. 103 dated August 31, 2004.

- 10. Various payments were made for unauthorized salary, representation and transportation allowance, and extraordinary and miscellaneous expenses.**

The following observations are reiterated from prior years' audit findings as the district did not implement the recommendations.

- 10.a The monthly basic salary paid to the general manager and division managers for CY 2012 was based on Board Resolution No. 14, series of 2009 which is higher than the rate per plantilla of personnel as approved by the Department of Management resulted to unauthorized payment totaling P117,600.50.**

We have recommended that management exercise due prudence in approving payments of salary and benefits to personnel which should be in accordance with approved plantilla of personnel and existing laws, rules and regulations. Effect payments of authorized monthly salary rate to the general manager and division managers based on the approved plantilla.

- 10.b Payments of monthly transportation allowance of P6,500.00 to the general manager was not in conformity with Section 45 of the General Provisions of the General Appropriations Act for CY 2012 due to regular use of an office vehicle.**

We have recommended that management exercise due prudence in the payment of monthly transportation allowance to the General Manager as the use of luxury vehicles can be availed of by the GM. Discontinue the payment of monthly transportation allowance to the General Manager.

- 10.c Payments of reimbursement for various representation expenses totaling P74,503.19 was without valid basis as the same was incurred without sufficient valid basis.**

We have recommended that management exercise due prudence in approving payments for reimbursement of representation expenses which should be supported with sufficient valid basis and with complete documentation.

- 10.d The district incurred extraordinary and miscellaneous expenses (Account 843-A) for the General Manager amounting to P78,992.00 which were not in conformity Section 23 of the General Provisions of the General Appropriations Act.**

We have recommended that management exercise due prudence in approving payments for extraordinary and miscellaneous expenses which should be in accordance with the aforementioned existing laws, rules and regulations.

- 11. Various payments of leave monetization was not in conformity with the Omnibus Rules on Leave (Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292), and Item 5.14 of the Revised Documentary Requirements for Common Government Transactions as prescribed under COA Circular No. 2012-001 dated June 14, 2012.**

The following deficiencies were noted on various payments of leave monetization:

- 11.a Monetization of leave credits totaling P61,491.60 was processed and paid without available vacation/sick leave as the number of leave credits previously monetized were not duly posted in the leave credits card.**

We have recommended that management strictly observe the provisions of the Omnibus Leave Rules. Direct the human resource officer to exercise due prudence in recommending the approval of leave credit monetization. Require submission of leave credit cards of employees who will avail of leave monetization prior to processing payments of the same.

- 11.b Payment of monetization of leave credits to the general manager and division managers for CY 2012 was excessive by P19,263.68 as the monthly salary rate used in the computation of leave monetization was not based on the approved plantilla.**

We have recommended that management exercise due prudence in the payment of leave monetization and other benefits to the district official and employees which should be in accordance with the approved personnel plantilla. Also, the general manager and division managers are hereby required to refund the overpayment of P19,263.68 on or before December 31, 2013.

- 11.c Monetization of leave credits totaling P151,082.94 were processed and paid even the required minimum balance of five (5) days after the monetization was not complied.**

We have recommended that management exercise due prudence in the approval and payment of leave credits monetization. Strictly comply with the pertinent provisions of the Omnibus Rules on Leave specifically the requirement of minimum balance of five (5) days after the monetization. Also, direct the Human Resource Officer to fill-up properly and completely the accumulated balance of vacation and sick leave credits of the applicant in the space provided for in the application for monetization.



- 11.d Payment of monetization of leave credits of more than 30 days for CY 2012 totaling ₱433,121.80 was not in compliance with Sections 22 and 23 of the Omnibus Rules on Leave.**

We have recommended that management require the Human Resource Officer to exercise due prudence in recommending approval for the grant of more than 30 days leave monetization which should be in accordance with Sections 22 and 23 of the Omnibus Rules on Leave. Also, direct the Accounting Section to check the completeness of the required supporting documents before processing payments of leave monetization.

- 12. Unauthorized allowances and benefits to the district officer and employees and separated employees totalling ₱2.909 million were paid without valid basis in Calendar Year 2012.**

The following observations are reiteration of prior years' finding wherein it was recommended that the district discontinue the grant of additional benefits to its employees unless covered with valid basis.

- 12.a Various allowances and benefits to the district officer and employees totalling ₱2.782 million for Calendar Year 2012 were paid without valid basis.**

We have recommended that management exercise due prudence in approving payments of additional benefits to officers and employees which should be in accordance with the existing laws, and other statutory authority, and the rules and regulations promulgated by competent authority.

- 12.b Payments made for the Cost of Living Allowance (COLA) and amelioration differential to separated employees of the district amounting to ₱126,769.95 were without legal basis.**

We have recommended that management exercise due prudence in approving payments of additional allowances and benefits to the separated employees which should be in accordance with the existing laws, and other statutory authority, and the rules and regulations promulgated by competent authority.

- 13. The Board of Directors received per diems, reimbursable expenses, and other allowances which were not in conformity with the provisions in Executive Order No. 65.**

The following deficiencies were noted on various payments made on per diems, reimbursable expenses and other allowances to the Board of Directors:

- 13.a Payments of per diem to the Board of Directors for their attendance to the board meetings amounting to ₱58,730.40 were in excess of maximum allowable amount as provided for in Executive Order No. 65.**

We have recommended that management strictly observe the provisions as provided for in EO 65 and LWUA Memorandum Circular No. 015-12 in approving payments of per diem to the board meetings.

**13.b Payments of representation and communication allowance to the board of directors totaling ₱162,060.00 for CY 2012 were made without legal basis.**

We have recommended that management strictly observe the pertinent provisions of EO Nos. 24 and 65 in approving payments of allowances which should be supported with valid authority.

**13.c Reimbursements of various expenses incurred by the members of the Board of Directors totaling ₱267,236.96 were in excess of the allowable amount as prescribed in Executive Order No. 65.**

We have recommended that management observe strictly the pertinent provisions of E.O. No. 65 in approving payments of reimbursable expenses to the board of directors which should not exceed 25% of the actual per diems received for Regular and Special Board meetings.

**14. The procurement of equipment, supplies and materials were not in conformity with the pertinent provisions of RA 9184.**

The following deficiencies were noted on various payments for the procurement of equipment, supplies and materials:

**14.a The District did not prepare and submit the required Annual Procurement Plan as basis for the procurement of various materials and equipment.**

We have recommended that management require the Corporate Budget Officer in coordination with the Supply Officer and end-users to prepare and submit the required Annual Procurement Plan.

**14.b Procurement of nine units of iPad 3 4G and nine pieces of iPad 3 casings for the use of the Board of Directors, General Manager, and Division Managers amounting to ₱322,400.89 and ₱14,054.46, respectively were unnecessary and extravagant expenditures incurred by the district.**

We have recommended that management exercise due prudence in the procurement of communication gadgets which shall be within the bounds as to its necessity and responsiveness to the exigencies of the service and of observing economy in the interest of the government.

**14.c The district procured a luxury vehicle (Mitsubishi Montero Sport) via lease purchase agreement in August 2012 from Orix Metro Leasing and Finance Corporation without securing the required approval from the Office of the President as prescribed in Paragraph 3.2 of Budget Circular No. 2010-2.**

We have recommended that management secure an authority to purchase such vehicle from the Office of the President or immediately dispose the subject luxury vehicle by public auction or sale in compliance with applicable laws, rules and regulations and the proceeds of which shall be turned over to the its corporate operating funds.

**15. Procurement of motor vehicle via lease purchase agreement was not in conformity with the revised Implementing Rules and Regulations on the Government Procurement Act.**

The following deficiencies were noted on the procurement of motor vehicle:

**15.a The ownership of the SUV Mitsubishi Montero vehicle acquired by the District in August, 2012 via lease-purchase agreement was not transferred and registered under the name of MCWD. Said vehicle did not bear government plate and not marked “For Official Use Only” under which no corresponding official name and logo of the district was placed, as required in Item V par. (2) and (4) of COA Circular No. 75-6 dated November 7, 1975.**

We have recommended that management facilitate the transfer the ownership of Montero vehicle and the corresponding registration under the name of MCWD. Mark the said vehicle with the required markings “For Official Only” together with the name and logo of the district.

**15.b The district leased an SUV Mitsubishi Montero and Toyota 4X4 HiLux vehicles from Orix Metro Leasing and Finance Corporation in July, 2009 and September, 2012, respectively for a lease period of 36 months which is not conformity with DBM National Budget Circular No. 446 series of 1995 and COA Circular No. 85-55-1.**

We have recommended that management exercise due prudence in the acquisition and of leasing service vehicles which should be in conformity with National Budget Circular No. 446 and COA Circular No. 85-55-a. Also, immediately dispose the subject vehicles as required under Budget Circular No. 2010-12. In addition, discontinue the payment of rental expense for Toyota 4X4 Hilux as payments of the same has no valid authority.

**15.c Payment of guaranty deposit, first monthly rental and other expenses totaling ₱417,762.00 intended for one unit of Toyota HiLux under lease purchase agreement was without valid basis.**

We have recommended that management exercise due prudence in approving payment of operating expenses which should be in conformity with existing rules and regulations.

**16. The district leased two units of motorcycle at a monthly rental of ₱6,000.00 for the period of 12 months which is not in conformity with DBM National Budget Circular No. 446 series of 1995 as there was no prior approval from the Sectary of Budget and Management.**

We have recommended that management exercise due prudence in executing lease contracts for rental of transport equipment which should be in accordance with the National Budget Circular No. 446. Also, terminate the contract of lease and discontinue the payment of the same if the said lease agreement was renewed for CY 2013.

- 17. Procurement of equipment, supplies and materials were undertaken without the required public bidding.**

The following deficiencies were noted on the procurement of equipment, supplies and materials:

- 17.a The procurement of three service vehicles in prior years without public bidding was not in conformity with the Government Procurement Act.**

We have recommended that management exercise due prudence in the procurement of motor vehicles which should be in accordance with the Government Procurement Act and other pertinent provisions of laws, rules, and regulations on the purchase of vehicles.

- 17.b Procurement of various materials totaling ₱779,544.83 was not in accordance with RA 9184 as there was splitting of requested materials intended for the installation of Sumpong-Depot Transmission Line.**

We have recommended that management exercise due prudence in the procurement of materials which should be in accordance with the revised IRR of RA 9184 of 2009.

- 18. Payment for reconditioning and repainting of Isuzu Trooper in the total amount of ₱212,039.40 was considered unnecessary.**

We have recommended that management exercise due prudence in approving payment for expenses on major repairs of motor vehicle taking into consideration the necessity of such expenditures.

- 19. The District procured various band instruments totaling ₱983,372.11 which could not be used in line with the mandated functions and operations of the district in providing potable water.**

We have recommended that management exercise due prudence in the procurement of equipment taking into consideration the necessity of its usage which should be in line with the mandated functions and operations of the district.

- 20. Payment of notarial fees totalling ₱14,800.00 to its legal retainer was not in conformity with the terms and conditions embodied per Legal Retainer Review No. 2012-069 dated June 18, 2012 of the Commission on Audit Legal Services Sector.**

Discontinue the payment of notarial fees to its legal retainer and strictly comply with the conditions embodied in the legal retainer review of the Commission on Audit. Also, require the legal retainer to refund the payments made for notarial fees or the district has the option to deduct the amount of ₱14,800.00 from the succeeding payments of monthly retainer fees.

## **STATUS OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

As to the status of CY 2009-2011 audit recommendations, our evaluation disclosed that one recommendation was fully implemented and six recommendations were not implemented as of December 31, 2012.