

EXECUTIVE SUMMARY

INTRODUCTION

The Kauswagan Water District (KWD) was created by the Sangguniang Bayan of Kauswagan, Lanao del Norte thru Sangguniang Bayan Resolution No. 69, series of 1994 on August 1, 1994. It was given the Certificate of Conditional Conformation by the Local Water Utilities Administration (LWUA) on August 31, 1994 numbered as CCC No. 540.

All Local Water Districts were declared as Government-Owned and Controlled Corporations (GOCC's) by the Supreme Court of the Philippines on September 13, 1991 in a case docketed as GR Nos. 95237-38.

HIGHLIGHTS OF FINANCIAL OPERATIONS

The total assets, liabilities and government equity as of December 31, 2012 were P13,102,731.64, P13,822,373.67 and P(719,642.03), respectively. An increase of 4.07% in assets, decrease of 5.38% in liabilities and increase of 64.35% in government equity was noted over last year's financial position of P12,589,787.35, P14,608,477.40 and P(2,018,690.05), respectively.

For the current year, the Water District generated a total income of P6,500,518.56 from waterworks system, other businesses, fines and penalties and miscellaneous income. An increase of P198,635.68 or 3.15% was noted compared to previous year's income of P6,301,882.88

SCOPE OF AUDIT

An audit was conducted on the accounts and operations of Kauswagan Water District, Kauswagan, Lanao del Norte for the Calendar Year 2012.

The audit consisted of testing the adequacy of the related systems and controls set by the agency, verification of the accuracy, legality and completeness of its financial transactions, and the application of the other audit procedures considered necessary under the circumstances.

It was also made to determine whether the district's financial statements present fairly its financial position and results of operations and cash flows, and whether applicable laws, rules and regulations were followed. Further, it was also conducted to determine whether the agency managed and utilized its resources economically, efficiently and effectively in the implementation of its programs, projects and activities.

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a Qualified Opinion on the financial position of the Kauswagan Water District, as of December 31, 2012 and the results of its operations and cash flows for the year then ended, as presented in the financial statements accompanying this Report.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

The following are the summary of significant findings and recommendations noted in the evaluation of the agency's operations. The audit findings and recommendations were officially communicated through Audit Observation Memorandum (AOMs). The agency's comments were incorporated in the report.

1. Collections made by the designated collecting officer of the district were not deposited intact and daily by the cashier, contrary to Section 69, Paragraph 1 of P.D. 1445 or the Government Auditing Code of the Philippines, and Section 22, Volume II of the NGAS Manual, thereby exposing the cash to misuse and misappropriation.

We have recommended to the management to require the collecting officer to deposit the collections intact and in full to the authorized government depository bank daily to prevent misuse and misappropriation of the same.

We have also recommended to require the General Manager to stop personally using the collections of the district in order for the funds to be deposited intact and daily.

2. Collections of the designated collecting officer of the district were found to be short by P145,767.00 during the conduct of cash examination, contrary to Section 69, Paragraph 1 of P.D. 1445 or the Government Auditing Code of the Philippines, and Section 22, Volume II of the NGAS Manual.

We have recommended to the management to require the collecting officer to remit and/or turnover the collections intact and in full to the Cashier daily to prevent misuse and misappropriation of the same.

We have also recommended to require the General Manager to stop personally using the collections of the district to prevent shortage.

3. Advances to officers and employees amounting to P93,183.39 which were overdue for more than 30 days, remained unliquidated as of December 31, 2012, due to failure of the district to observe pertinent rules and regulations in the granting, utilization and liquidation of cash advances as provided in Section 89 of Presidential Decree No. 1445 and COA Circular No. 97-002 dated February 1, 1997.

We have recommended to the management to require the officers and employees concerned to strictly observe the prescribed liquidation period of cash advances and to liquidate same at the end of the year.

We have also recommended to refrain from granting of additional cash advance if the previous cash advances are not yet liquidated, as required in the above-cited rules and regulations.

4. The district did not provide an Allowance for Doubtful Accounts for CY 2012 in the total amount of P95,251.67, contrary to Section 66 of the Manual on the New Government Accounting System (NGAS), Volume I, thus, overstating the trade receivables presented in the financial statements.

We have recommended to the management to provide an allowance for doubtful accounts to comply with the requirements in the NGAS.

5. The Working Fund custodian of the district did not maintain a separate cashbook to record transactions on petty operating expenses, contrary to Section 181 of the Government Accounting and Auditing Manual (GAAM) Volume I.

We have recommended that the designated working fund custodian maintain a separate cashbook for the working fund to record the replenishments and disbursements of the working funds.

6. The management of Kauswagan Water District (KWD) engaged and paid the services of a private legal counsel amounting to P18,000.00, net of withholding tax, without the written concurrence by the Commission on Audit, contrary to the provisions of COA Circular No. 86-225 dated April 2, 1986, and Rule 9 of the 2011 Office of the Government Corporate Counsel (OGCC) Rules and Regulations.

We have recommended that management strictly comply with the provisions of COA Circular No. 86-225 on the hiring of a private legal counsel to handle the legal matters of the district.

7. The Members of the Board of Directors of Kauswagan Water District (KWD) were paid Cash Gift and Year-End Financial Assistance/ Christmas Bonus amounting to P43,240.00 without legal basis, contrary to the provisions of Executive Order No. 65 dated January 2, 2012, and LWUA Memorandum Circular No. 015-12 dated November 22, 2012.

We have recommended that management stop the payment of additional allowances and benefits to the Members of the Board of Directors.

Refrain from making payments of incentives unless supported with sufficient legal basis.

8. Disbursements out of the Working Fund were not supported with complete documentation as required under COA Circular No. 2012-001 dated June 14, 2012, which prescribes the revised guidelines and documentary requirements for common government transactions, and Presidential Decree No. 1445.

We have recommended that management strictly comply with the documentary requirements to support payments of petty operating expenses out of the working fund as prescribed under COA Circular No. 2012-001.

9. Expenses for actual meals during Board of Directors' Meeting which were incurred and paid by the Cashier were not supported with complete documentation as required under Presidential Decree No. 1445, and COA Circular No. 2012-001 dated June 14, 2012, which prescribes the revised guidelines and documentary requirements for common government transactions.

We have recommended that management strictly comply with the documentary requirements to support payments of meal expenses, as prescribed under P.D. 1445 and COA Circular No. 2012-001.

10. Copies of contracts and purchase orders for procurements of various supplies and materials were not submitted to the Auditor within five (5) days from its consummation, thus, the needed review to determine its compliance with legal, auditorial and technical requirements was not made.

We have recommended that management regularly furnish copies of contract and purchase orders of various procurements of goods and infrastructure projects to enable the assigned auditor to conduct the necessary legal and auditorial reviews as well as future reference to COA-Technical Services Office in the conduct of technical review and inspection.

We have also recommended the prompt submission of the requested contracts including its complete supporting documents before the implementation of any project and make the necessary request for inspection of COA engineer upon completion of projects prior to its final payment.

11. The retention money representing 10% of every progress payments made has been released to the contractor even without the completion and final acceptance of the works, contrary to Item 6 of Annex E of the Revised IRR of R.A. 9184.

We have recommended that management strictly adhere to the provisions of the Revised IRR of R.A. 9184 as regards the release of the 10% retention money.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the nine audit recommendations embodied in the Annual Audit Report of the Water District for the Calendar Year 2011, two were fully implemented, three were partially implemented, and four were not implemented and were reiterated in this Report.