EXECUTIVE SUMMARY

INTRODUCTION

The Mati Water District (MWD) was created through SB Resolution No. 43 dated October 12, 1976 by virtue of Presidential Decree No. 198, also known as Provincial Water Utilities Act of 1973, as amended by PD 768. It was awarded Conditional Certificate of Conformance (CCC) No. 35 by Local Water Utilities Administration (LWUA) and started its operation on February 18, 1977. It is located in the center of the City of Mati, Davao Oriental.

The District stopped operations in June 1991 and revived operations through the LGU-Mati assistance in October 5, 1992. It developed three (3) water resources such as spring in Purok Sudlon in 1977; deep well in Conchita Subdivision in 1979; and deep well in Purok Riverside in 1992. The number of concessionaires grew from 200 in 1977 to 5,500 in 2012. Engr. Jesus Cesar P. Albarico serves as the general manager since 1983. The MWD is classified by LWUA as Category C Water District.

The MWD envisioned as a sustainable and self-reliant water utility serving the community of the City of Mati. Its mission is to endeavor to provide sufficient, clean drinking water at affordable cost 24 hours a day and deliver an appropriate sewerage services towards sustainable development.

With this mission and vision, the management and board of directors for calendar years 2011 and 2012 were expected to be guided accordingly in their discharge of duties and functions. During the two-year period, the MWD was manned by nineteen (19) regular employees and sixteen (16) job order employees headed by Engr. Jesus Cesar P. Albarico, coordinating with the offices of the Accounting Section, the Billing and Collection Section, and the Construction, Repair and Maintenance Section, with the support/guidance of the board of directors having five (5) members inclusive of the chairman, to wit:

Position	CY 2011	CY 2012
Chairman	Gil C. Nalogon	Gil C. Nalogon
Vice-Chairman	Manuel M. Lepardo	Eda E. Indelible
Secretary	Ludovina A. Villaruel	Ludovina A. Villaruel
Treasurer	Michael T. Lee	Michael T. Lee
Member	Eda E. Indelible	Alejandro A. Aquino

FINANCIAL HIGHLIGHTS

Comparative Financial Position:

The District's Assets, Liabilities and Equity were P40,590,784.08, P10,581,636.24 and P30,009,147.84 in CY 2012, which correspondingly increased by 17.40%, 55.11% and 8.12% over last year's P34,576,026.82, P6,821,827.83, and P27,754,198.99.

Particulars	CY 2011	CY 2012	Increase (Decrease)
Assets	34,576,026.82	40,590,784.08	6,014,757.26
Liabilities	6,821,827.83	10,581,636.24	3,759,808.41
Equity	27,754,198.99	30,009,147.84	2,254,948.85

Comparative Results of Operation:

For Calendar Year 2012, the MWD had realized a gross income of P22,084,668.73 with an increase of 19.30% over last year's P18,511,318.87. Its total expenditures of 19,688,750.18 had an increase of 11.81% over last year's P17,609,496.09. The net income was P2,395,918.55 with an increase of 165.68% over last year's P901,822.78. The total operating expenditures for CY 2011 and 2012 were 95.13% and 89.15%, respectively.

Particulars	CY 2011	CY 2012	Increase (Decrease)
Gross Income	18,511,318.87	22,084,668.73	3,573,349.86
Less: Expenses	17,609,496.09	19,688,750.18	2,079,254.09
Net Income	901,822.78	2,395,918.55	1,494,095.77

Budget and Utilization:

The District's budget for CY 2012 were P16,293,758.80 and P9,000,000.00 for Personal Services (PS)/Maintenance and Other Operating Expenses (MOOE), and Capital Outlay (CO) respectively, with an increase of 41.71% and 350.00% from the previous year's P11,497,834.00 and P2,000,000.00. The budget was prepared using LWUA accounts and budget classification for which PS and MOOE were combined.

Year/ Account	Annual Budget	Expenditures	Balance
CY 2011			
PS AND MOOE	11,497,834.00	15,621,228.12	(4,123,394.12)
CO	2,000,000.00	7,628,338.52	(5,628,338.52)
CY 2012			
PS AND MOOE	16,293,758.80	17,136,952.22	(843,193.42)
CO	9,000,000.00	4,291,848.46	4,708,151.54

SCOPE OF AUDIT

Financial and compliance audit was conducted on the accounts and operations of the Mati Water District, Mati, Davao Oriental for the years ended December 31, 2011 and December 31,2012, to ascertain the propriety of financial transactions, operations, and compliance to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports as well as the fairness of the presentation of the financial statements. The audit included review of operating procedures, interview of concerned government officials and employees, verification, reconciliation, analysis of accounts and such other applicable procedures.

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to the following:

a) Management's failure to ascertain the validity and propriety, and existence of reported Property, Plant and Equipment (PPE) totaling P43,048,783.09 and P47,048,372.65 and Inventories of P997,897.54 and P742,522.09 as of December 31, 2011 and December 31, 2012, respectively, due to unreconciled discrepancy of P20,209,153.68 and P22,739,856.16 of PPE accounts between books and inventory records and non-conduct of inventory of inventories;

b) Validity and propriety of receivable accounts of P2,115,263.34 and P2,604,139.14 and liability accounts of P 6,821,827.83 and P10,581,636.23 as of

December 31, 2011 and December 31, 2012, respectively, were affected due to P1,253,706.57 receivable accounts as of December 31, 2012 without records on names of debtors, addresses and other details, and net overstatement of liability accounts of P122,008.08 as of December 31, 2011 and net understatement of P39,641,264.40 as of December 31, 2012;

c) Understatement of income due to subsidy income recorded as credit directly to Government Equity instead of recording as operating income.

OBSERVATIONS AND RECOMMENDATIONS

The following are the significant audit observations revealed in the course of audit with the corresponding recommendations offered as remedial measures thereon.

1. **Various procurements of goods, services and capital expenditures were made despite the absence of an Annual Procurement Program and PPMPs, resulting in over-incurrence of P907M and P.8M for CY 2011 and CY 2012, respectively, over the approved budget for the same periods, notwithstanding the clear provisions of Sec. 7 of RA 9184 and its revised IRR.**

   We recommended that management should strictly adhere to the provisions on government procurement and budgeting. Prepare APP based on the PPMPs within the approved budget in prescribed GPPB format. In case of infrastructure projects, the APP should include engineering design and acquisition of right-of-way.

   We also recommended the submission of APP with PPMPs and revised annual budget for CY 2011 and 2012, including the ensuing year to provide basis for all the procurement activities during aforesaid years.

   In addition, detailed supplemental budget should be immediately prepared for those expenditures not covered by the approved annual budgets in CY 2011 and CY 2012 and also management’s justifications for the unutilized portion of the capital outlay budget in CY 2012 which should be discussed and approved by the Board of Directors.

2. **Cash advances were indiscriminately granted without specific purpose/s in the total amount of P1,583,000 to various officers in violation of Section 89 of PD 1445, and reimbursements in the total amount of P1,048,689.39 were made despite the absence of specific purpose and/or lack of supporting documents.**

   We recommended that the General Manager should stop from obtaining cash advances except for traveling expenses of pre-determined amounts as indicated in the approved itineraries of travel. He should also stop from asking/demanding reimbursements of various expenses.

Instruct the Accountant to stop the practice of debiting to Construction in Progress Account payments for labor of one (1) to six (6) or more job order employees relative to excavation – drilling activities and labor services supported with job order contract and acknowledgement receipt without any basis for payment.

Agency Head should be liable for violating RA 9184 and its revised IRR. Procurement shall be made through public bidding in general, and resort only to alternative modes of procurement if the situation warrants, with the recommendation of the BAC.

3. **Disbursements of P11,256,895.68 for CY 2011 and 2012 out of the Payroll Fund, Petty Cash Fund, and Due from Officers and Employees were not recorded in Cash Disbursements/Petty Cash Fund Records, paid by eight (8) disbursing officers (DOs), six (6) of which were not bonded, in violation of Section 100 of PD 1445 and Treasury Memorandum No. 5-82, exposing government funds to risk of loss thru theft or negligence.**

   We recommended that management should direct all Special Disbursing Officers to prepare monthly the CDR and PCF Record for all their cash advances, duly accomplished and signed. Instruct the Accounting Unit to maintain subsidiary ledger for every DO for check and balance in order to completely support the reported balances in the financial statements.

   We also recommended that non-bonded special disbursing officers should immediately file application for fidelity bond with the DOF.

4. **One hundred four (104) cash transfers in the total amount of P45,124,957.80 among six (6) out of 8 bank accounts during CY 2011 and 2012 entailed additional man-hours and office supplies for processing transfers, monitoring bank balances to avoid overdraft, and in preparing accounting reports without any benefits to the Agency.**

   We recommended that the management should strengthen control over funds through minimum bank accounts by maintaining only a combo account consisting of a savings account and a checking account for the Agency's operations, and the required LWUA account.

   We also recommended closing of the other bank accounts – savings and checking accounts – which are unnecessary; transfer the bank balances to the combo account, to facilitate the monitoring of bank balances and to minimize the time for the preparation of the bank reconciliation statements.

5. **Non-reconciliation of cash-collecting officer account per books and per cashbooks and the non-recording of reconciling items of cash in bank and sinking fund accounts affect the propriety, correctness, and validity of reported balances of P14,056.55 and P62,902.83, as of December 31, 2011 and 2012,**

respectively, and P819,287.75 and P335,963.30 for bank and sinking fund accounts, respectively, as of December 31, 2012.

We recommended that management should direct both the Accountant and the Cashier to reconcile monthly the cash – collecting officer account balances and effect immediately adjustments for all reconciling items with details.

We also recommended that the Accountant should immediately adjust the books to record the stale checks of P7,800.00 and the unrecorded interest income of P7,035.50.

Other recommendations made were monthly preparation and submission of bank reconciliation statements to the auditor concerned within 10 days after end of each month and close coordination with LWUA should be made on the interests earned by the Sinking Fund – Time Deposit for recording in the books.

6. **The validity, propriety and existence of PPE accounts as of year of 2011 and 2012 amounting to P43,048,783.09 and P47,048,372.65, respectively, could not be ascertained due to the failure of MWD to reconcile the PPE accounts per balance sheet with the RPCPPE, which showed a total discrepancy of P20,209,153.68 and P22,739,856.16 between the two records.**

   We recommended the following actions:

   a. Direct the Inventory Committee to conduct a complete physical inventory of all properties owned by the District at least once a year, prepare inventory report thereof using the RPCPPE prescribed form, properly accomplished and furnish the Accountant a copy of the report for reconciliation purposes.

   b. We also recommended to direct the accountant/general services officer to immediately perform the following: prepare and regularly update property cards and ledger cards; classify the accumulated depreciation and depreciation according to individual property account for CY 2011 and 2012, and the ensuing years; and review all records and draw journal entries to adjust the construction in progress accounts for recorded transactions which did not qualify as such.

7. **The validity, propriety and existence of inventories costing P997,897.54 and P742,522.09 as of 2011 and 2012 year-end could not be ascertained due to failure to conduct physical inventory-taking and to prepare the Report on the Physical Count of Inventories, affecting the balances of inventory accounts in the financial statements.**

   We recommended that the General Manager direct the Inventory Committee to conduct a complete physical count of the inventories at least twice a year and prepare inventory report of the same; and direct the accountant and general services officer to prepare and update regularly the supplies ledger card and supplies card, respectively for prompt monitoring and reconciliation of records.

8. **Receivable accounts totaling P2,115,263.34 and P2,604,139.14 (net of allowance for doubtful accounts) as of December 31, 2011 and 2012, respectively, were not closely monitored resulting to non-collection, non-liquidation and non-documentation of accounts, thereby affecting validity and propriety of its reported balances.**

   We recommended that management should direct the Accountant to exert extra efforts in gathering all the required documents to support the receivables and to prepare the needed schedules with aging and subsidiary ledgers to closely monitor the accounts.

   We also recommended that management should require the preparation of necessary billing statements/demand letters at least quarterly as proof that the district is exhausting all ways and means for possible collections of same; the results thereof will support future application for writing-off those receivables which are already dormant.

9. **The validity of liability accounts in the total amount of P6,821,827.83 and P10,581,636.24 as of December 31, 2011 and 2012, respectively, were doubtful due to various reasons such as non-reversion of accounts payable over two years for which no identified creditors and/or supporting documents as discussed in the report, most significant of which is the unreconciled discrepancy of loans payable of P39,715,719.85 between MWD and LWUA records.**

   We recommend that management should instruct the Accountant to recognize liability only at the time of goods and services are accepted or rendered and supplier/creditor bills are received pursuant to the NGAS Manual.

   We also recommended that management should direct the Accountant to exert extra efforts in gathering all the required documents to support the liability accounts and to prepare the needed schedules with aging and subsidiary ledgers. This includes sending letter-request for certificate of payments of all loans payable from LWUA from first to last payment to reconcile records.

10. **Out of the P670,491.47 representing total claims for monetization, the amount of P401,139.41 was charged to sick leave credits, contrary to Section 22 of the Omnibus Rules on Leave, thereby casting doubt as to the validity and propriety of the transactions.**

    We recommended that management should strictly adhere to the Omnibus Rules on Leave that sick leave credits should be used only for the purpose it was intended; the personnel in charge should closely monitor the leave credit balances of all regular plantilla personnel and follow strictly the provisions of CSC Omnibus Rules on Leave, particularly on leave monetization; and other actions discussed in details in the report.

We also recommended that the personnel in charge should closely monitor the leave credit balances of all regular plantilla personnel and follow strictly the provisions of CSC Omnibus Rules on Leave, particularly on leave monetization.

11. **Non-recording of undertimes and tardiness incurred by regular employees for the period January 2011 to December 2012 created doubt as to the accuracy of the vacation leave credit balances reflected in the personnel leave credit records, as well as, the legality and propriety of the monetization claims in consonance with Sec. 22 of the Omnibus Rules on Leave.**

    We recommended that the General Manager should direct the personnel in charge to effect the recording of all undertimes and tardiness incurred by every employee based undertimes as of December 2012 and in the succeeding years based on the monthly summary of tardiness and undertimes so that leave credit balances reflected in the personnel leave records/cards are accurate and reliable.

12. **Transportation allowances of P106,500 were paid monthly for CY 2011 and CY 2012 to the General Manager despite the actual use of government motor vehicle for the period, in violation of Section 51 of RA 10147 and Section 45 of RA 10155, resulting in the uneconomical wastage of government funds of the Agency.**

    We recommended that immediate refund of P106,500 transportation allowances should be effected and management should strictly adhere to Section 51 of RA 10147 and Section 45 of RA 10155.

13. **Legal services in the total amount of P142,710.70 were paid to private lawyers, inclusive of one directly connected to the MWD, for CY 2011 and 2012, in violation of COA Circular No. 86-255, as amended by COA resulting in unauthorized disbursements.**

    We recommended that the General Manager require the payees to immediately refund the amount of P142,710.70 for legal services paid to private lawyers as these are disallowable expenditures.

    Stop hiring private lawyers for legal services. In the event that such legal services cannot be availed or is justified under extraordinary or exceptional circumstances, the written conformity and acquiescence of the Office of the Government Corporate Counsel, and the written concurrence of the Commission on Audit shall first be secured before the hiring or employment of a private lawyer or law firm in accordance with Section 3, Rule VIII of the 2009 Revised Rules of Procedure of COA.

Strictly adhere to Section 108 of PD 1445 prohibiting pecuniary interest in all transactions of the MWD.

14. **The District did not completely conform to the prescribed Chart of Accounts and pro-forma Financial Statements (FS) as provided in COA Circular No. 2004-02 for the New Government Accounting System – Corporate and 2012.**

We recommended that management should submit revised financial statements for CY 2012 in view of the aforesaid corrections and strictly adhere to prescribed government standards for chart of accounts and presentation of financial statements in the ensuing years.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Ten (10) or 50% out of the twenty (20) audit recommendations in 2006, 2007 and 2010 Annual Audit Reports were partially implemented and the other ten (10) or 50% were not implemented consisting of two (2) in 2006, five (5) in 2007, and three (3) in 2010 audit recommendations as of December 31, 2012.