

EXECUTIVE SUMMARY

INTRODUCTION

The formation of the Cantilan Water District was initiated by the former Mayor Live M. Azarcon sometime in the year 1989 by virtue of Presidential Decree 198, also known as the Provincial Water Utilities Act of 1973.

On February 20, 1990, the Sangguniang Bayan of Cantilan, Surigao del Sur passed Resolution No. 25-1990 adopting and affirming the organization of the Cantilan Water District. On May 4, 1990, the Local Water Utilities Administration, thru Board of Trustees Resolution under the Chairmanship of Trustee Benjamin E. Diokno, issued the Conditional Certificate of Conformance (CCC 441) to the Cantilan Water District.

The first project of the Cantilan Water District was implemented in June 1993 and became operational on September 1994. As the number of connections reached 600 households in 1996, the system experienced water shortage problem. To augment water source, Cantilan Water District was given financial assistance thru the initiative of former Congressman of the First District of Surigao del Sur, Prospero "Butch" A. Pichay. This was used to develop additional source which is the Malitangtang Pumping Station.

In 2005, the District was able to avail a loan from the KfW loan window thru the Local Water Utilities Administration for the rehabilitation of the system. Out of the KfW loan, Cantilan Water District was able to develop its Calagdaan deep well.

Total service connections as of December 31, 2012 totaled to 2,324, composed of 1,884 active and 440 inactive connections.

The District was classified as a Category D Water District on March 14, 2012 with manpower complement of twenty five (25) personnel as of December 31, 2012, broken down as follows:

Permanent / Regular	-	7
Casual	-	12
Job Order	-	6
Total		<u>25</u>

FINANCIAL HIGHLIGHTS

The comparative presentation of the financial operations of the District for Calendar Years 2012 and 2011 are as follows:

	2012	2011	Increase (Decrease)
Assets	54,500,832.63	44,227,280.28	10,273,552.35
Liabilities	36,886,066.95	35,731,920.28	1,154,146.67

Government Equity	17,614,765.68	8,495,360.00	9,119,405.68
Total Income	9,561,015.12	9,348,450.79	212,564.33
Total Expenditures	8,178,572.46	8,324,350.98	(145,778.52)

SCOPE OF AUDIT

The audit covered the operations of Cantilan Water District for the Calendar Year 2012. The objective of the audit was to ascertain the fairness and reliability of the District's financial position and results of operation. It also aimed to ascertain the propriety of the financial transactions and compliance of the Water District with the prescribed rules and regulations.

STATE AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The auditor rendered an adverse opinion on the fairness of the presentation of the financial statements for the year ended December 31, 2012.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

Cantilan Water District was able to construct its administration building which was funded thru the Non-LWUA Initiated Funds (NLIF) received from Local Water Utilities Administration. CWD successfully transferred to the newly constructed building in June 2012.

On the other hand, audit of the accounts and operations of the Cantilan Water District for CY 2012 disclosed some deficiencies with the corresponding recommendations as follows:

1. **The account balances as reported in the Financial Statements as of December 31, 2012 were not fairly presented due to inaccurate, unreliable, incomplete or, in some instances, non-existent journals, ledgers and other accounting records and supporting schedules required to ensure fair presentation and reliable information on financial statements. Also, various errors, unreconciled balances, inconsistent figures, unconfirmed balances and other deficiencies were observed, contrary to Section 73 of the Manual on New Government Accounting System, Volume I and other pertinent rules and regulations.**
 - a. Review the current accounting and reporting system of the District starting from the determination of an accounting transaction, recording of the transactions, posting the transactions to the journals, registries, subsidiary and general journals, preparation of trial balance to the preparation of the financial statement to check and test whether it is in accordance with the established accounting standards, rules and regulations. Immediately correct and rectify all errors and inaccuracies observed.
 - b. Conduct trainings and re-orientations of all Accounting Personnel regarding the basic processes, established standards, rules and regulations of the Accounting System in the Public Sector.

c. Instruct the Accounting Section to immediately reconcile the material variances noted between its records and reports, more specifically the book balances of several Balance Sheet Accounts versus its corresponding balances in the General Ledgers (See Item (a) above); book balances of several Income Statement Accounts versus its corresponding balances in the Subsidiary Ledgers (See Item (b) above).

d. Strictly maintain General Ledgers (GL) for **EACH** (*emphasis given*) Balance Sheet and Income Statement Account, as well as, Subsidiary Ledgers (SL) to those accounts that are composed of several specific accounts/category/accounting responsibility. Ensure also that the account titles/names used and the amount which appears in the GL are the same with that of the SL and the Financial Statements.

e. Make sure also that beginning balances carried forward in a particular year in the General and Subsidiary Ledgers should be the same with the ending balances in the previous years.

f. Prepare General Ledger for each account presented in the Financial Statement

g. Discontinue the use of Yellow Papers in all of the District's transactions and recording. Instead, all transactions should be recorded in all official records and books of accounts maintained by the District in a manner that is easily understandable, readable, traceable and most especially, in a manner that will not cast doubts and uncertainties. Moreover, maintain all the necessary journals, registries, ledgers and other relevant supporting documents/reports required by established accounting standards.

h. Instruct the Property Section to include the actual cost of the item on its Physical Inventory Report of Property, Plant and Equipment (PPE) and consequently reconcile the same with the records of the Accounting Section. Likewise, instruct the Accounting Section to file all vouchers, records, and other pertinent documents that will act as its basis in creating lists/schedules or breakdowns of each category of PPE that appear in the Balance Sheet.

i. Disclose and present Accumulated Depreciation on a per PPE item basis in the Balance Sheet and Notes to Financial Statement.

j. Instruct the Accounting Section to prepare both Pre-Closing and Post-Closing Trial Balance for every accounting period.

k. Show the actual amount debited and credited to "Due to Other GOCCs" for BIR, GSIS, PAG-IBIG and PhilHealth in the General Ledgers and not just the net difference between the debit and credit for a particular month.

l. Fill up properly and completely the required data in the voucher registers. Also, recapitulation at the end of each month should be prepared to summarize the transactions that took place in that particular period.

m. Adhere to and observe strictly the policies and standards set forth in Section 73 of the Manual on New Government Accounting System, Volume I to achieve fair presentation and reliable information of the financial statements.

2. Accounts Receivable – Customers Account and Other Receivables – Tapping Fee book balances amounting to P 1,878,263.16 and P351,660.25, respectively, do not reconcile with the balances in the aging schedules provided by the Commercial Division which amounted only to P 1,062,628.10 and P279,529.70, respectively, resulting in a variance of P 815,635.06 and P 72,130.55, respectively, or a total variance of P887,765.61; thus, the validity, reliability and accuracy of the reported net book balances of the above accounts as of December 31, 2012 is doubtful, in violation of Section 73 of the Manual on New Government Accounting System, Volume 1.

a. Instruct the Accounting Section to maintain a separate subsidiary ledger for Accounts Receivable – Customer and Other Receivables – Tapping Fee Account. Likewise, the Commercial Division must maintain updated schedules of these receivables to establish outstanding balances monthly.

b. Require both Accounting Section and Commercial Division to reconcile their records monthly and ensure that whatever is recorded in the books of the District tally with that of the Commercial Division. This is to ensure the accuracy and reliability of its Receivables balance.

c. Discontinue the recognition of Tapping Fee as Other Receivables – Tapping Fee and instead record payment of Tapping Fees to appropriate accounts.

d. Review and upgrade the current system of the District in identifying and recording its various receivables to ensure that such system provides adequate data control and accurate information.

e. Adhere and observe strictly to the policies and standards set forth in Section 73 of the Manual on New Government Accounting System, Volume I to achieve fair presentation and reliable information of the financial statements.

3. Accounts Receivable – Customer Account amounting to P 1,878,263.16 per Accounting Record was not fairly presented at its net realizable value as of December 31, 2012 due to non-provision of Allowance for Doubtful Accounts despite repetitive findings by the previous auditors in violation of Section 66 of the New Government Accounting System (NGAS), Volume 1.

a. Instruct the Accounting Division to maintain separate subsidiary ledgers for Accounts Receivable – Customer and reconcile the same with the records of the Commercial Division every month. This will be the basis in the preparation of Aging of Accounts Receivable and consequently, the basis for the determination of the provision for Allowance for Doubtful Accounts.

b. Set up provision for Allowance for Doubtful Accounts every month to present fairly its Accounts Receivable - Customers at its net realizable value.

c. Strictly observe Section 66 of the New Government Accounting System, Volume I and other pertinent rules and regulations.

- 4. Payment for local travels and training fees in the total amount of ₱237,152.00 were granted in advance but were treated as direct charges to travel and training expenses in violation of Item 2.1 of COA Circular No. 96-004 dated April 19, 2012. The same were likewise not supported with complete documents as required in the Revised Documentary Requirements for Common Government Transactions prescribed under COA Circular No. 2012-001 dated June 14, 2012. Also, rates of allowable per diems prescribed under Executive Order No. 298 were not observed, thereby, excess claims of travelling expenses amounting to ₱7,440.00 was incurred.**

a. Instruct the personnel concerned to discontinue the practice of directly charging claims for travels and trainings to expense accounts. Instead, record all claims for travel and training expenses prior to the actual date of travel as debit to "Advances to Officers and Employees". Also subsequently require all concerned officers and employees to liquidate the said claim duly supported with **ALL** the required supporting documents.

b. Observe the proper entitlement to travel allowances taking into consideration the actual time of arrival at the place of destination and the actual time of departure.

c. Instruct the accountant to monitor the grant and liquidation of all cash advances for travel. Verify the liquidation voucher and supporting documents attached and record the same in the books of accounts as debit to Travel and/or Training expenses, where appropriate.

d. Strictly observe COA Circular No. 96-004 dated April 19, 1996, COA Circular 2012-001 dated June 14, 2012 prescribing the Revised Documentary Requirements for the granting and liquidation of cash advances for local travels and Executive Order No. 298 dated March 23, 2004.

- 5. Payments of loan amortization to LWUA were erroneously recorded to Other Deferred Charges / Debits which resulted in an accumulated balance of P11,825,551.99 and caused misstatements in the asset and loan payable accounts, in violation of Section 73 of the Manual on New Government Accounting System, Volume I and Section 112 of Presidential Decree No. 1445, thus affecting fair presentation in the financial statements.**

a. Instruct the Accounting Section to reclassify "Other Deferred Charges/Debits" to appropriate loan payable and interest payable accounts. Also, upon payment of loan amortization, coordinate immediately with LWUA and follow up monthly Official Receipt and Order to Accept Payment

to immediately effect adjustments and avoid accumulation of “Other Deferred Charges/Debits”.

b. Discontinue recognition of current portion of long term debt every month. Instead, make adjustments at the end of the accounting period showing the current portion which is equivalent to 12 months amortization rather than one month only.

c. Instruct the Accounting Section to set up the current portion of its other long term debt aside from the three (3) Loan Accounts namely Account # 3-379R, 3-379S and 3-782R.

d. Adhere to and observe strictly the policies and standards set forth in Section 73 of the Manual on New Government Accounting System, Volume I and Section 112 of Presidential Decree No. 1445 to achieve fair presentation and reliable information of the financial statements.

6. The Cash in Bank – LBP Checking Account balance as of December 31, 2012 was doubtful due to negative/abnormal balance totaling (P 138,931.82), thus rendering the reported account balance unreliable, which is not in accordance with Sections 31 and 33 of the Manual on New Government Accounting System, Volume 1 and generally accepted accounting principles on the reporting and recognition of Disbursement by Checks.

a. Instruct the Accounting Section to effect the necessary adjustment in recording and reporting of unreleased/unissued checks as of the end of an accounting period.

b. The amount of fund transfer should be the exact amount of collections for a particular day that were deposited in the RBCI instead of basing it on the total amount of checks that need to be funded. This is to ensure that all checks prepared by the District are all funded and to monitor its daily collections.

c. Prepare Bank Reconciliation Statement based on the balance reported in the Financial Statement and the balance of the Bank Statement instead of using the cash book or the records kept by the Cashier.

d. Adhere to and observe strictly the policies and standards set forth in Section 31 and 33 of the Manual on New Government Accounting System, Volume I.

7. Remittances of GSIS and HDMF premium contributions and loan repayments to Surigao City were sometimes done separately instead of having them remitted on one occasion only, considering the distance of these offices and the time spent for the remittance of such, in violation of Section 123 of PD 1445 and resulting in incurrence of additional traveling expenses of P4,960.00 which should have been used to defray other operating expenses of the District.

a. Require the Cashier to take extra care in the issuance of checks thereby eliminating errors in every issuance. Prior to remittance and once the check have already been signed, all data/entries on the check should be properly reviewed.

b. Ensure that future remittances of GSIS and HDMF premium contributions and loan amortizations will be made once a month only.

8. Non-Revenue Water (NRW) for Calendar Year 2012 cannot be ascertained and evaluated as prescribed by LWUA Memorandum Circular No. 014-10 dated December 2, 2012 and LWUA Resolution No. 444, series of 2009 due to failure of the Management to execute appropriate and effective measures to monitor its total water production, thus operational efficiency of the District might be at risk.

a. Require the Management to adopt a scheme in monitoring total water production so as to determine the total non-water revenue and unbilled water for every period.

b. Instruct the Commercial Department to monitor possible sources of unaccounted water and adopt measures to reduce such in order to achieve the 20% non-revenue water target.

9. The Cashier of the District did not maintain a separate cashbook/ cash disbursement record (CDR) and such other records or their equivalents to record cash advances/replenishments/disbursements and other transactions for the payment of salaries, wages, allowances and authorized petty operating expenses, contrary to Section 181 of the Government Accounting and Auditing Manual (GAAM) Volume 1, resulting in unverifiable accounts balances at a given period during the year.

a. Require the Cashier to maintain a separate cashbook for cash disbursement, working fund and cash advances/replenishments received and disbursed.

b. Strictly follow the rules and regulations set forth in Section 181 of the Government Accounting and Auditing Manual (GAAM), Volume 1 and other applicable provisions on Cash Management.

10. The District does not maintain a safety vault or its equivalent for its collections and other funds, in violation of Section 123 of PD 1445 thereby exposing public funds to loss or wastage and misuse through illegal or improper disposition.

a. Require the Management to purchase safety vault or steel cabinet with vault where collections are kept before they are deposited.

b. Provide a separate office for the Cashiering Department wherein no other personnel will have access to such except the cashier and the collecting officer/s.

11. Gender and Development (GAD) plans and activities were not incorporated in the District's overall plans, programs and budget for CY 2012 in violation of the Joint Circular No. 2004-1 of the DBM, NEDA and the National Commission on the Role of Filipino Women (NCRFW), thus, gender issues and concerns within their sector may not be properly addressed.

a. Create or develop an effective and operational Annual Gender and Development Plan which will be incorporated in their overall plans, programs and activities every year for them to attend to the gender issues and concerns of the District as required in the aforementioned joint circular.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the twenty (22) audit recommendations embodied in the 2011 and previous year's Annual Audit Reports, none was fully implemented, while nine (9) were partially implemented and thirteen (13) were not implemented.