EXECUTIVE SUMMARY

A. Introduction

The Dumangas-Barotac Nuevo Water District (DBNWD) was organized by virtue of Resolution No. 136, Series of 1982, of the Sangguniang Bayan of the Municipality of Dumangas, Province of Iloilo, in accordance with Presidential Decree No. 198. The Municipality of Dumangas transferred the supervision and administration of the municipality’s waterworks comprising of all the assets and liabilities including water rights to the District.

The District is mandated to provide sufficient, safe and potable water supply to the concessionaires as well as to improve the water supply system of the agency.

The Board of Directors which acts as the policy-making body of the district is composed of representatives from the different sectors of the community, namely: Professional, Business, Women, Education and Civic.

The agency is headed by Engr. Remus P. Braganza, the General Manager and are assisted by 17 personnel. Job-order workers were hired on a case–to-case basis.

B. Financial Highlights

The Financial Position and Profit and Loss and Other Comprehensive Income of Dumangas-Barotac Nuevo Water District for the years ended December 31, 2014, 2015 and 2016, are presented below:

Comparative Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>31,026,638.89</td>
<td>29,884,956.50</td>
<td>28,567,245.04</td>
</tr>
<tr>
<td>Liabilities</td>
<td>61,446,946.61</td>
<td>60,199,150.71</td>
<td>56,952,401.48</td>
</tr>
<tr>
<td>Equity</td>
<td>(30,420,307.72)</td>
<td>(30,314,194.21)</td>
<td>(28,385,156.44)</td>
</tr>
</tbody>
</table>

Comparative Profit and Loss and Other Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>18,626,226.73</td>
<td>24,344,657.64</td>
<td>32,065,168.66</td>
</tr>
<tr>
<td>Expenses</td>
<td>24,907,637.02</td>
<td>25,700,769.14</td>
<td>28,173,709.02</td>
</tr>
<tr>
<td>Net Income (Loss) from Operations</td>
<td>(6,281,410.29)</td>
<td>(1,356,111.50)</td>
<td>3,891,459.64</td>
</tr>
</tbody>
</table>
C. **Scope of Audit**

The audit covered the examination on a test basis of the accounts and financial transactions and operations of Dumangas-Barotac NuevoWater District for the period of January 1, 2014 to December 31, 2016 in accordance with State accounting principles. 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 2014, 2015 and 2016 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. The District does not maintain subsidiary ledgers of the Cash in Bank accounts, contrary to provisions of Section 114 of PD 1445 otherwise known as the “State Audit Code of the Philippines” and NGAS-Corporate, thus, the accuracy of the balances for CYs 2014, 2015 and 2016 amounting to ₱2,282,989.03, ₱3,253,789.48 and ₱1,503,192.59, respectively, could not be established.

   We recommend the Management, particularly the Senior Corporate Accountant to provide subsidiary ledgers for each of the bank accounts that the District maintains, whose total shall equal to the balance of the controlling account.

2. Monthly Bank Reconciliation Statements were not prepared for CYs 2014, 2015 and 2016 contrary to Section 74 of Presidential Decree 1445 otherwise known as the “State Auditing Code of the Philippines”, thus, the accuracy of the balance of its Cash in Bank accounts cannot be established.

   We recommend that the Senior Corporate Accountant regularly prepare the monthly bank reconciliation statements for all of its bank accounts, then submit them to the Auditor concerned for verification.

3. 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.

   We recommend the Management to comply with the provisions of GPPB Resolution No. 05-2010 and LWUA Memorandum Circular No. 009-16.
4. Failure of the Agency to strictly implement COA Circular No. 97-002 on the grant and liquidation of cash advances resulted in accumulated overdue balances at year end, understated the related expenses and overstated incomes for the pertinent years which constitute a valid cause for the withholding of the accountable officer’s salary and the institution of other sanctions.

We recommend that the Management strictly comply with COA Circular Nos. 97-002 and 2012-004, and cause prompt liquidation and settlement of cash advances. Otherwise, corresponding criminal and administrative proceedings may be instituted against the persons concerned.

5. Unreconciled difference amounting to ₱344,530.76 between the per audit balance of the account Due from Officers and Employees of GM Remus M. Braganza and the General Ledger and its related schedule, contrary to Section 58 of the Presidential Decree No. 1445, thus, rendered the accuracy of said account doubtful.

We recommend the Management, particularly the Senior Corporate Accountant to provide the basis or the supporting documents for the liquidations reflected in the subsidiary ledger that were not presented to us. We also recommend to regularly reconcile the subsidiary ledgers with the balance presented in the Trial Balance in order to reflect the correct balance of the account.

6. The General and Subsidiary Ledgers for Receivables (i.e. Accounts and Other Receivables) or collectibles from consumers and materials provided to concessionaires showed discrepancy due to non-reconciliation of ledger balances by the accounting unit contrary to provisions of Section 114 of Presidential Decree No. 1445; thus, the accuracy of said accounts are doubtful.

6.1 Accounts Receivable (10301010) or collectibles from consumers, showed discrepancy of ₱483,975.55, ₱386,521.21 and ₱286,134.42 for CYs 2014, 2015 and 2016, respectively.

6.2 Other Receivables (10305990) or materials provided to concessionaires, showed a discrepancy of ₱4.39, ₱431,430.24 and ₱220,459.90 for CYs 2014, 2015 and 2016, respectively.

We recommend that the accounting section verify the accuracy of the balances of subsidiary ledger accounts and take up the necessary adjusting/correcting entries. Request for write-off of dormant accounts deemed uncollectible maybe submitted to the COA thru the Auditor.

7. The District failed to provide Allowance for Impairment - Accounts Receivable for CYs 2013, 2014 and 2015 contrary to Philippine Financial Reporting Standards (PFRS) 9 – Financial Instruments and COA Circular No. 2015-010 dated December 1, 2015, thereby the Account Receivable was not measured at net realizable value as presented in the Statement of Financial Position.
We recommend that Management should develop its accounting policy based on PFRS 9 and Item C of the COA Circular No. 2015-010 dated December 1, 2015 on the Revised Chart of Accounts for Government Corporations on setting up Allowance for Impairment. The Accounting Section is instructed to set up the Allowance for Impairment and request for write-off of dormant accounts, if warranted.

8. Deferred Charges account amounting to ₱10,621.88 as of December 31, 2014, 2015 and 2016 is of doubtful validity due to absence of subsidiary ledgers and other supporting documents, contrary to provisions of PD No. 1445 and NGAS-Corporate.

We recommend that the Agency exert efforts to retrieve documents to support the balance of the account, if any, so that the validity and accuracy of the balance of the Deferred Charges account could be ascertained. It is also recommended that the Bookkeeper maintain subsidiary ledgers for all controlling accounts in the general ledger pursuant to NGAS-Corporate.

9. Failure of the District to conduct physical count of its Property, Plant and Equipment for CYs 2014, 2015 and 2016 amounting to ₱25,021,275.13, ₱22,481,848.67, and ₱24,021,357.50 respectively, and prepare a report thereon cast doubt on the existence and reliability in the valuation of the account.

We recommend that Management duly designate a committee to conduct an annual physical inventory. Also, the constituted committee should prepare the Physical Inventory Report and 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.

10. Properties under the Property, Plant and Equipment account with total cost of ₱25,021,275.13, ₱22,481,848.67, and ₱24,021,357.50 as of December 31, 2014, 2015 and 2016, were not insured with the General Insurance Fund of GSIS contrary to Section 11 of the Republic Act 656 (Property Insurance Law), thus insurable interest of the government is not adequately protected in case of loss or damage.

We recommend the Management to determine all of its insurable properties insured and accordingly apply for coverage with the General Insurance Fund of the GSIS. Henceforth, this should be done annually to ensure recovery of assets in case of perils to its properties.

11. Unserviceable properties with book value of ₱1,035,396.12 were disposed thru Negotiated Sale at a total amount of ₱101,000.00 and consequently closed in the books sans a Disposal Committee and without the proper appraisal of a technical personnel of the Commission on Audit. Furthermore, the Accumulated Depreciation related to the said assets were not properly closed resulting in an overstatement of the Accumulated Depreciation account.

We recommend that the District abide strictly with the laws, rules and regulations as to the disposal of unserviceable properties in conformance with Section 79 of PD 1445, Executive Order No. 309, Section 6 of Executive Order No. 888 and Guidelines in Disposal of
Unserviceable Properties as mandated in the COA Property and Supply Management System Handbook.

We also recommend that adjusting journal entry should be made to close the Accumulated Depreciation. Below is the proposed journal entry:

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retained Earnings</td>
<td>1,650,261.23</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
</tr>
<tr>
<td>– Office Equipment</td>
<td>161,104.33</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
</tr>
<tr>
<td>– Communication Equipment</td>
<td>248,514.48</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
</tr>
<tr>
<td>– Motor Vehicle</td>
<td>512,090.92</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
</tr>
<tr>
<td>– Other Machineries</td>
<td>323,466.50</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td></td>
</tr>
<tr>
<td>– Artesian Wells</td>
<td>405,085.00</td>
</tr>
</tbody>
</table>

12. Payment of Billing and Collection Management System (server only) amounting to ₱350,000.00 and Mobile System Software (including hardware) amounting to ₱350,000.00 without valid contract which is contrary to Section 58 of PD 1445 and Article 1305 of the Civil Code of the Philippines. Furthermore, no public bidding was conducted contrary to Section 2 of RA 9184, thereby, rendering the transactions to be questionable.

We recommend strict compliance with Section 58 of PD 1445, Article 1305 of the Civil Code of the Philippines and Section 2 of RA 9184 and subsequent transactions thereof as covered by this law.

13. Non-recognition of liabilities amounting to ₱128,395.75 which is contrary to Sections 30 and 119 of PD 1445 otherwise known as the “State Audit Code of the Philippines” thereby understating the Liabilities account.

We recommend that Agency comply with the requirements of Sections 30 and 119 of PD 1445 by ensuring that appropriate journal entry for both expense and liability has been set up and ultimately pay its obligations.

14. Discrepancies were noted between the general ledger ending balances in CYs 2014, 2015 and 2016 vis-a-vis subsequent remittance for amount withheld on BIR, GSIS Contribution, Pag-ibig Contribution and Philhealth Contribution casting doubt on the accuracy and validity of these accounts and might adversely affect the quality of service of these government agencies to its members.

We recommend that the District give priority and exert effort in reconciling and cleaning-up the records without delay. Pursue reconciliation with the concerned national offices such as the BIR, GSIS, PAGIBIG and Philhealth to clear up liabilities to those agencies
which appears in the general ledger, hence, records such as master lists and proof of remittances should remain intact for reconciliation.

15. Non-reconciliation of Loans Payable – Domestic between the District’s general ledger vis-à-vis the loan confirmation reply of Local Water Utilities Administration (LWUA) resulted in a difference of (P1,538,436.87), P390,779.00 and P1,198,972.84 as of December 31, 2014, 2015 and 2016 respectively, contrary to Section 111 (2) of PD 1445 otherwise known as the “State Audit Code of the Philippines”; thus, rendering the accuracy of the Loans Payable account doubtful.

We recommend that the Bookkeeper trace the transactions in CYs 2014, 2015 and 2016 and conduct analysis and reconciliations of the accounts with the LWUA’s confirmation reply before effecting entries in its books. Also, the Agency 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.

16. Absence of subsidiary ledgers of eleven (11) LWUA initiated loans with a total balances of P44,705,024.33, P39,696,776.27 and P38,022,942.21 for CYs 2014, 2015 and 2016, respectively 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 recommend that the Senior Corporate Accountant 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.

17. Payments totaling ₱1,740,172.51 to Local Water Utilities Administration (LWUA) were not supported with Official Receipts, Statements of Accounts, Acknowledgement Receipts and Orders to Accept Payment contrary to Section 4 (6) of Presidential Decree No. 1445 otherwise known as the “State Audit Code of the Philippines” thus, suspended in audit.

We recommend that management strictly adhere to the provisions of Section 4(6) of Presidential Decree No. 1445 to protect/enhance the integrity of their transactions by submitting the Official Receipts, Statement of Accounts, Acknowledgement Receipts and Order to Accept Payment.

18. Non-withholding of proper Creditable Value Added Taxes in the payment of water purchased from Mactan Rock Industries Inc. (MRII) amounting to P346,875.00 and P54,464.29 for CYs 2014 and 2015, respectively, as mandated in Sections 4.114 (B), (E), 5.116 (4b) of the Bureau of Internal Revenue Regulations No. 02-98 dated April 17, 1998, may result in incurring of liability or penalty for the District.
We recommend that the District should withhold taxes as mandated in Sections 4.114 (B), (E), 5.116 (4b) of the Bureau of Internal Revenue Regulations No. 02-98. The contractor should be billed for the taxes that should have been withheld.

19. **Overpayment of government share of Pag-ibig Fund (HDMF) contribution for the periods December 2013 to November 2016 amounting to ₱195,036.09 contrary to Section 1, Rule VI of Republic Act No. 9679, resulting to an unnecessary expenses on the part of the government.**

We recommend strict compliance with Section 1, Rule VI of Republic Act No. 9679 or the “Home Development Fund Law of 2009, otherwise known as Pag-IBIG Fund” and immediate refund the excess amount.

20. **Rice allowances were continuously paid to the officers and employees of the District for CYs 2014, 2015 and 2016 amounting to ₱648,000.00, ₱633,000.00 and ₱648,000.00 respectively, contrary to Administrative Order No. 37 and Section 9 of Executive Order No. 7.**

We recommend for the refund of said allowance for absence of express authority from the Office of the President as required by AO No. 37 and Section 9 of EO No. 7. The Management should ensure that authority and approval from the Office of the President be secured first before payments of allowance is made.

21. **The District granted CY 2015 Year-End Financial Assistance to its regular employees amounting to ₱630,000.00 contrary to Administrative Order No. 37 and LWUA Memorandum Circular 015-12, thus disallowed in audit.**

We recommend for the refund of said Financial Assistance for absence of express authority and approval from the Office of the President as required by AO No. 37 and LWUA MC 015-12. The Management should ensure that authority and approval from the Office of the President be secured first before payments of Financial Assistance is made.

22. **The District paid Anniversary Bonus in CY 2014 to its regular employees amounting to ₱51,000.00 contrary to Administrative Order (AO) 263 Item 2 (2.3 & 2.4) dated March 28, 1996, thus disallowed in audit.**

We recommend for the refund of said Anniversary Bonus for failure to comply with the rules and regulations as prescribed by AO No. 263. Observe the milestone requirement in Item 2 (2.4) of AO No. 263.

23. **Non-compliance with Section 5 (5.1) of DBM Circular No. 2014-3 dated December 2, 2014 and Section 4 (c) of the Executive Order (EO) No. 181 dated May 15, 2015 resulted in excessive payments of Productivity Enhancement Incentive (PEI) amounting to P270,000.00 and P252,101.00 for CYs 2014 and 2015, respectively, thus disallowed in audit.**

We recommend the refund of the excess PEI received for FY 2014 and 2015 due to the District’s failure to meet the conditions set in Section 5 (5.1) of DBM Circular No. 2014-3 dated December 2, 2014 and Section 4 (c) of the Executive Order (EO) No. 181 dated
May 15, 2015. The Management and the Board should ensure compliance with the condition of Circular and EO before granting and payment is made.

24. Communication allowance is paid to the General Manager of the District for CYs 2014, 2015 and 2016 amounting to ₱48,000.00, ₱59,000.00 and ₱60,000.00 respectively, contrary to Administrative Order No. 37, Section 9 of Executive Order No.7 and Section 4 (2) (6) of P.D. 1445., thus disallowed in audit.

We recommend for the refund of said allowance for absence of express authority from the Office of the President as required by AO No. 37 and Section 9 of EO No. 7. The Management should ensure that authority and approval from the Office of the President be secured first before payments of allowance is made. Also, use of government fund must be for public purpose only.

25. Cellphone load allowance is paid to the Department Heads of the District for CYs 2015 and 2016 amounting to ₱66,000.00 and ₱72,000.00 respectively, contrary to Administrative Order No. 37, Section 9 of Executive Order No.7 and Section 4 (2) (6) of P.D. 1445, thus disallowed in audit.

We recommend for the refund of said allowance for absence of express authority from the Office of the President as required by AO No. 37 and Sec. 9 of EO No. 7. The Management should ensure that authority and approval from the Office of the President be secured first before payments of allowance is made. The Management should stop the practice and may instead apply for an office phone plan in the name of the District for work use in accordance with existing COA rules, regulations and guidelines.

26. Non-disclosure in the Notes to Financial Statements of the pending lawsuit between the District and Mactan Rock Industries Incorporated (MRII) contrary to Philippine Accounting Standards (PAS) No. 37 on Provisions, Contingent Liabilities and Contingent Assets, thus resulting to improper presentation and disclosure.

We recommend that the District properly present and disclose the pending lawsuit and pertinent details in the Notes to Financial Statements relative to the Accounts Payable recorded to ensure proper presentation and disclosure in compliance with IAS No. 37.

27. The granting and liquidation of the cash advances totaling to ₱539,822.00 from CYs 2014 to 2016 were not properly supported contrary to Item Nos. 1.1.4.1 to 2 and 1.2.4.1 to 2 of COA Circular No. 2012-001 dated June 14, 2012, thereby, casting doubt on the validity of the transactions.

We recommend that the District submit the required documentary requirements as enumerated under Item Nos. 1.1.4.1 to 2 and 1.2.4.1 to 2 of COA Circular No. 2012-001 dated June 14, 2012. We further recommend that outstanding cash advances should be liquidation immediately.

28. Reimbursements/liquidations for taxi fares amounting to ₱91,306.54 from CYs 2014 to 2016 are supported only with Reimbursement Expense Receipt (RER) contrary to LTFRB Memorandum Circular No. 2009-003 and item 3.3.1(b) of COA Circular 2004-006 dated September 9, 2004.
We recommend strict compliance with LTFRB Memorandum Circular No. 2009-003 and Item 3.3.1(b) of COA Circular 2004-006 dated September 9, 2004.

29. Average annual non-revenue water (NRW) rate of the District reached 22.80%, 29.47% and 21.58% in CY 2014, 2015 and 2016, respectively, which is non-compliant with Local Water Utilities Administration (LWUA) Board Resolution No. 444 Series of 2009 adopted maximum acceptable level of 20% only.

We recommend 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.

30. The District did not allocate at least 5% of its total budget for Gender and Development (GAD) activities from CY 2014 to CY 2016 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 recommend the allocation of at least five percent (5%) of the District’s total budget and prepare a Gender and Development Plan that would address gender issues and concerns in compliance with the aforementioned 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”.

We recommend compliance with DBM CBM Nos. 34, 35 and 37 and subsequent Corporate Budget Memorandum in the preparation of COB for upcoming fiscal periods.

31. Failure to prepare and secure an approved Corporate Operating Budget for CYs 2014 to 2016 contrary to Department of Budget and Management (DBM) Corporate Budget Memoranda No. 34 dated December 28, 2012, No. 35 dated December 27, 2013 and No. 37 dated January 28, 2015 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 FYs 2014 to 2016.

We recommend compliance with DBM CBM Nos. 34, 35 and 37 and subsequent Corporate Budget Memorandum in the preparation of COB for upcoming fiscal periods.

32. Bacteriological testing were not done on a monthly basis for water productions at 8 pumping stations on CYs 2014 to 2016, contrary to Local Water Utilities Administration (LWUA) Memorandum Circular (MC) No. 004-15, which may affect the reputation of the District as a reliable service provider and may pose health risks to concessionaires.

We recommend Management to exert effort in order to consistently perform the monthly bacteriological testing and the annual physical and chemical tests on its water productions at the three pumping stations.
32.1 Water productions were not chemically tested for lead, cadmium, benzene and arsenic contrary to LWUA MC No. 004-15, thereby absence of these hazardous contaminant has been unestablished.

We recommended Management that water productions be completely subjected to all required chemical tests to ensure water safety. The designated laboratory should be requisitioned to perform chemical testing which also includes lead, cadmium, benzene and arsenic.

32.2 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 Management that drinking water quality management be enhanced by developing WSP for the District. 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.

F. Status of Implementation of Prior Years’ Audit Recommendations

Out of the thirty-one (31) audit findings and recommendations in prior years, nine (9) were implemented, twenty-one (21) were not implemented and one (1) is partially implemented. Details were presented in Part III of this Report.

G. Status of Suspensions, Disallowances and Charges as of December 31, 2016

The District has total suspensions, disallowances and charges amounting to P6,438,415.17 as of December 31, 2016 of which P1,865,753.89, P4,572,661.28 and P0.00 are suspensions, disallowances and charges, respectively.