



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 10

J.V. Serina Street, Carmen, Cagayan de Oro City



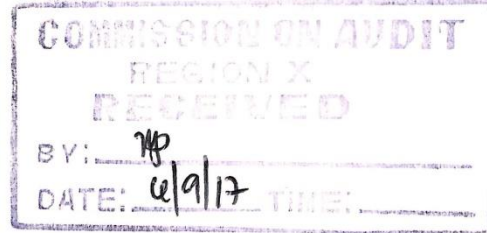
OFFICE OF THE REGIONAL DIRECTOR

February 24, 2017

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MS. BUENALITA B. RAÑISES

General Manager
Kapatagan Water District
Kapatagan, Lanao del Norte



Dear Manager Rañises:

We are pleased to transmit the Annual Audit Report on the audit of the **Kapatagan Water District**, Kapatagan, Lanao del Norte, for the calendar year 2016, in compliance with Section 43 of the Government Auditing Code of the Philippines (PD 1445).

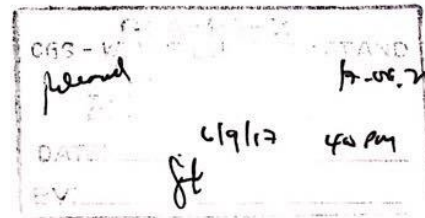
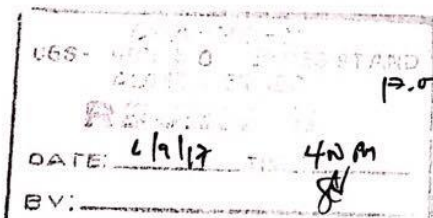
The audit was conducted to: (a) ascertain the degree of reliance that may be placed on the management's assertion on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

The attached report consists of Part I – Audited Financial Statements, Part II – Observations and Recommendations, Part III – Status of Implementation of Prior Year's Audit Recommendations, which were discussed with the officials and staff concerned, and Part IV – Appendices.

We conducted our audit in accordance with the Philippine Public Sector Standards on Auditing and we believe these standards provided a reasonable basis for the audit results.

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements because the effect of the deviations from prescribed procedures materially affected the account balances. One of the significant observations contained in the report which were discussed with concerned officials and employees of the District during the exit conference conducted on February 7, 2017, is as follows:

1. The accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the district contrary to PAS 19 on the accounting for employee benefits.



We recommended that The Management shall provide annual budget for the earned leave benefits of the employees, and require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability.

We appreciate the invaluable support and cooperation extended by the officials and staff of that Agency to the Audit Team during the audit engagement.

We request that a status report, by accomplishing the attached Agency Action Plan and Status of Implementation form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 93 of the General Provisions of the General Appropriations Act FY 2016.

Very truly yours,


CELSO L. VOCAL
Director IV
Regional Director

Copy furnished:

*The President of the Philippines
Malacañang Palace, Manila*

*The Vice-President of the Philippines
Coconut Palace, F. Maria Guerrero St.
CCP Complex, Pasay City*

*The President of the Senate
Senate of the Philippines
Roxas Boulevard, Pasay City*

*The Chairman-Senate Finance Committee
Senate of the Philippines
Roxas Boulevard, Pasay City*

*The Speaker of the House of Representatives
HOR Complex, Constitution Hills, Quezon City*

*The Chairman- Appropriations Committee
House of Representatives
HOR Complex, Constitution Hills, Quezon City
The Secretary of the Budget and Management
Department of Budget and Management
Gen. Solano St., San Miguel, Manila*

*The Administrator
Local Water Utilities Administration (LWUA)
MWSS-LWUA Complex, Katipunan Avenue
Balara, Quezon City*

*The Director
National Library of the Philippines
T.M. Kalaw, Ermita, Manila*

*The Chief of Office
UP Law Center, UP, Diliman, Quezon City*

File



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 10
J.V. Serina Street, Carmen, Cagayan de Oro City

OFFICE OF THE REGIONAL DIRECTOR

February 24, 2017

MS. ANGELITA P. ROBLES
Chairman, Board of Directors
Kapatagan Water District
Kapatagan, Lanao del Norte

Dear Board Chairman Robles:

We are pleased to transmit the Annual Audit Report on the audit of the **Kapatagan Water District**, Kapatagan, Lanao del Norte, for the calendar year 2016, in compliance with Section 43 of the Government Auditing Code of the Philippines (PD 1445).

The audit was conducted to: (a) ascertain the degree of reliance that may be placed on the management's assertion on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

The attached report consists of Part I – Audited Financial Statements, Part II – Observations and Recommendations, Part III – Status of Implementation of Prior Year's Audit Recommendations, which were discussed with the officials and staff concerned and Part IV – Appendices.

We conducted our audit in accordance with the Philippine Public Sector Standards on Auditing and we believe that these standards provided a reasonable basis for the audit results.

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements because the effect of the deviations from prescribed procedures materially affected the account balances. One of the significant observation contained in the report which was discussed with concerned officials and employees of the District during the exit conference conducted on February 7, 2017 was:

1. The accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the district contrary to PAS 19 on the accounting for employee benefits.

We have recommended that Management should provide annual budget for the earned leave benefits of the employees, and require the Human Resource Officer to furnish the Accounting Section a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability.

We appreciate the invaluable support and cooperation extended by the officials and staff of that Agency to the Audit Team during the audit engagement.

We request that a status report, by accomplishing the attached Agency Action Plan and Status of Implementation form, on the actions taken on the audit recommendations be submitted within 60 days from receipt of this report, pursuant to Section 96 of the General Provisions of the General Appropriations Act FY 2016.

Very truly yours,


CELSO L. VOCAL
Director IV
Regional Director

Copy furnished:

*The President of the Philippines
Malacañang Palace, Manila*

*The Vice-President of the Philippines
Coconut Palace, F. Maria Guerrero St.
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File



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 10

J.V. Serina Street, Carmen, Cagayan de Oro City

OFFICE OF THE SUPERVISING AUDITOR
Water Districts and Other CGS Stand Alone Agencies

February 24, 2017

ATTY. CELSO L. VOCAL

Regional Director
Commission on Audit
Regional Office No. 10
Cagayan de Oro City

Sir:

In compliance with Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we audited the accounts and operations of the **Kapatagan Water District** for the year ended December 31, 2016.

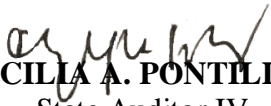

The audit was conducted to ascertain the propriety of the agency's financial transactions; its compliance with laws, rules and regulations; and the efficiency of its operations. It was also conducted to ascertain the accuracy of the financial records and reports and the fairness of presentation of the financial statements.

Our report consists of four parts, namely, Part I – Audited Financial Statements, Part II – Observations and Recommendations, Part III – Status of Implementation of Prior Years' Audit Recommendations and Part IV – Appendices. The observations and recommendations were communicated to Management thru Audit Observation Memorandum and discussed with management officials and staff. Their comments are included in the appropriate portion of this report.

In our opinion except for the effects of the matter described in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Kapatagan Water District as of December 31, 2016 and of its financial performance and its cash flows for the year ended in accordance with state accounting principles.

Our audit was conducted in accordance with the Philippine Public Sector Standards on Auditing (PPSSA) and we believe that the audit evidence we have obtained provide reasonable basis for our audit results. We rendered a qualified opinion on the fairness of presentation of the financial statements.

Very truly yours,


CECILIA A. PONTILLAS
State Auditor IV
Acting Supervising Auditor 



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 10
J.V. Serina Street, Carmen, Cagayan de Oro City

OFFICE OF THE AUDIT TEAM LEADER
CGS Team R10-05, Water Districts

February 24, 2017

Ms. CECILIA A. PONTILLAS
State Auditor IV
Acting Supervising Auditor
Water Districts & Other CGS Stand Alone Agencies

Madam:

In compliance with Section 43 of Presidential Decree No. 1445, we audited the accounts and operations of the **Kapatagan Water District**, Kapatagan, Lanao del Norte, for the year ended December 31, 2016.


The audit was conducted on a test basis to ascertain the propriety of financial transactions and compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports and the fairness of the presentation of the financial statements.

Our audit report consists of four parts, Part I – Audited Financial Statements, Part II – Observations and Recommendations which were discussed with concerned management officials and staff during the exit conference conducted on February 13, 2016, Part III – Status of Implementation of Prior Year's Recommendations, and Part IV – Appendices.

In our opinion, except for the effects of the matters discussed in Part II of this report, there is reasonable assurance that the financial statements are free from material misstatement(s) and were prepared in accordance with applicable laws, rules and regulations and in conformity with generally accepted state accounting principles.

Our audit was conducted in accordance with generally accepted state auditing standards, and we believe these standards provide reasonable basis for the results of audit.

Very truly yours,


AMADO PETER A. GARBANZOS
State Auditor III
Acting Audit Team Leader



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 10
Carmen, Cagayan de Oro City

ANNUAL AUDIT REPORT

ON THE

KAPATAGAN WATER DISTRICT
Kapatagan, Lanao del Norte

For the Year Ended December 31, 2016

EXECUTIVE SUMMARY

A. INTRODUCTION

The Kapatagan Water District (KAPWD) was created under a special law, Presidential Decree 198 as amended by PD Nos. 768 and 1479 better known as the “Provincial Water Utilities Act of 1973.” KAPWD was awarded with the Certificate of Conditional Conformance No. 228 by the Local Water Utilities Administration (LWUA) on November 8, 1982.

The KAPWD is presently categorized as “Category C” Water District serving a total population of 16,485 as of December 31, 2016 with 3,308 total service connections.

As of December 31, 2016, the governing board is composed of personalities representing the different sectors and organizations within the Municipality of Kapatagan who were appointed by the Local Chief Executive. They exercise corporate powers and determine policies for the operations of the District. They are as follows:

Chairperson: Angelita P. Robles
Members: Enrico P. Eya
Lito P. Castellano, Sr.
Raul C. Carreon, Sr.
Romulo R. Insoy

All local water districts were declared as Government-Owned and Controlled Corporations (GOCC) by the Supreme Court on September 13, 1991 in the case docketed as GR Nos. 95237-38.

B. HIGHLIGHTS OF FINANCIAL OPERATIONS

As of December 31, 2016, there was an increase of 3.80% in assets, decrease of 4.91% in liabilities and increase of 11.46% in government equity, summarized as follows:

Financial Condition

	2016	2015	Increase/(Decrease)
Assets	₱ 75,362,806.04	₱ 72,499,675.64	₱ 2,863,130.40
Liabilities	35,273,782.24	37,005,805.02	(1,732,022.78)
Government Equity	₱ 40,089,023.80	₱ 35,493,870.62	₱ 4,595,153.18

Results of Operations

	<u>2016</u>	<u>2015</u>	<u>Increase/(Decrease)</u>
Income	P-31,518,639.68	P- 29,402,225.21	P- 2,116,414.47
Expenditures	26,923,486.50	24,718,276.89	2,205,209.61
Net Operating Income	P- 4,595,153.18	P- 4,683,948.32	P- (88,795.14)

D. SCOPE OF AUDIT

An audit was conducted on the accounts and operations of Kapatagan Water District for calendar year 2016. 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.

E. INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the financial statements because the accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the District contrary to PAS 19 on the accounting for employee benefits.

F. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

- 1. Monthly allowances were granted to the Board of Directors (BODs) and payments of per diem for their attendance to board meetings exceed the maximum allowable amount per month contrary to Executive Order No. 65 and Local Water Utility Administration (LWUA) Memorandum Circular No. 015-12 dated November 22, 2012.**

We recommended that the Management require the BOD to refund the full amount received in connection to the overpayment of per diems and allowances for lack of legal basis, and stop the granting of monthly allowances and other benefits to its BODs without legal basis. Also the Management should strictly

adhere to Executive Order No. 65 and LWUA Memorandum Circular No. 015-12 relative to the compensation of the BODs of the District.

- 2. Reimbursements and liquidations of travels totaling P94,630.52 by Officials and employees of the District were not duly supported by Certificates of Travel Completed as required under COA Circular 2012-001.**

We recommended that the management strictly adhere to COA Circular 2012-001 relative to the required set of documentary requirements on the liquidation/reimbursement of travel claims, and to further require the employees to properly accomplish their Itinerary of Travel.

- 3. The different department units of the District did not prepare and submit their Project Procurement Management Plans (PPMP) to the BAC Secretariat to support the Annual Procurement Plan (APP) contrary to Section 7.3 of the Implementing Rules and Regulations (IRR) of Republic Act 9184 resulting in non-attainment of an efficient procurement of the District.**

We recommended that the Management should require the different department units to submit their respective PPMPs as supporting documents of the APP, and the BAC Secretariat to review and consolidate them into the APP pursuant to Section 7.3 of the Implementing Rules and Regulations (IRR) of Republic Act 9184. Also, require the Requisitioning Office to include in the PPMPs, provisions for foreseeable emergencies. And the management must require the regular review and update of individual PPMPs and the APP, at least once every six months or as often as necessary pursuant to Section 7.4 of the Implementing Rules and Regulations (IRR) of Republic Act 9184.

- 4. Payment of leave monetization to employees of the District are not in accordance with Section 22 and 23, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292 or the Revised Administrative Code of 1987, thereby casting doubt as to the regularity and validity of the transactions.**

We recommended that the management should strictly comply with Section 22 and 23, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292 and Civil Service Commission Resolution No. 00034 as regards the monetization of leave credits. Also the management must instruct the Personnel-in-charge to make necessary adjustment in the leave cards of employees whose monetization were deducted from the sick leave instead of vacation leave.

- 5. Payments of salaries to Job Order personnel totaling P170,968.77 were not duly supported with Job Order contracts as required under COA Circular 2012-001 dated June 1, 2012.**

We recommended that the management should execute a Job Order Contract for the JO Personnel and to instruct the designate Accounting in-charge not to process

payments without complete documents attached pursuant to COA Circular 2012-001.

- 6. Purchase of materials and supplies actually received by were recorded only upon payment understating the inventory and liability balances in the aggregate amount of P394,954.46, contrary to the accrual concept of accounting prescribed under Philippine Accounting Standards (PAS) 1 and National Guidelines on Internal Control System.**

We recommended that the management should implement accrual basis of accounting in recording of assets, liabilities, income and expenses in compliance with PAS 1 on the Presentation of Financial Statements. Also, the Management must instruct the Accounting Unit to ensure that the Bookkeeper is furnished with copies of all Purchase Orders and other documents necessary for recording; and effect the necessary accounting entries to bring the inventory and liability account to its correct balances.

- 7. Official receipts were procured from a private printing service provider without securing prior certification from the recognized government printers (RGPs) as required under the General Appropriations Act (GAA) of 2016.**

We recommended that the management should strictly comply with Section 23 of the General Appropriations Act (GAA) of 2016 in contracting the services of private printers in the production of accountable forms and sensitive, high quality or high volume printing requirements.

- 8. The accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the district contrary to PAS 19 on the accounting for employee benefits.**

We recommended that the management should provide annual budget for the earned leave benefits of the employees; and require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability.

- 9. Purchase Orders were not properly accomplished contrary to Section B of COA Circular No. 96-010 dated August, 15, 1996, resulting to the inability to ascertain that the delivery of materials and supplies conform to the terms and conditions of the agreement.**

We recommended that the Management require the Accountant and officials concerned to fill-up the relevant and required information on the Purchase Order and that the document must be signed and approved only when the required data are complete to ensure that the supplier will deliver the goods in accordance with the terms and conditions of the contract.

10. The General Manager was granted with Representation and Transportation Allowance (RATA) amounting to P17,000 while on a 2-month Special Leave contrary to Department of Budget Management (DBM) National Budget Circular No. 548 dated May 15, 2013.

We recommended to require the Management to strictly comply with the guidelines in the grant of RATA to the General Manager pursuant to DBM National Budget Circular No. 548; and that the General Manager refund the RATA received.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the 15 audit recommendations contained in the Annual Audit Report on the Water District for the calendar year 2015, 13 were fully implemented, two were partially implemented and one remained unimplemented in 2016.

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PART – I

AUDITED FINANCIAL STATEMENTS



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. 10
Cagayan de Oro City

INDEPENDENT AUDITOR'S REPORT

MS. BUENALITA B. RAÑISES

General Manager

Kapatagan Water District

Kapatagan, Lanao del Norte

We have audited the accompanying financial statements of Kapatagan Water District which comprise the Statement of Financial Position as of December 31, 2016, and the Statement of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

The audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness on the entity's internal control. The audit also includes evaluating the appropriateness of

accounting policies used and the reasonableness of accounting estimates made by The Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our audit opinion.

Bases for Qualified Opinion

As discussed in detail in Part II of this report, the accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the district contrary to PAS 19 on the accounting for employee benefits.

Qualified Opinion

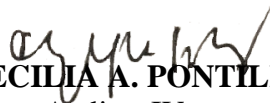

In our opinion except for the effects of the matter described in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Kapatagan Water District as of December 31, 2016 and of its financial performance and its cash flows for the year ended in accordance with state accounting principles.

Other Matters

The exit conference for the results of the financial and compliance audit of the CY 2016 operations was conducted on February 7, 2017.

COMMISSION ON AUDIT

By:


CECILIA A. PONTILLAS
State Auditor IV
Acting Supervising Auditor 

February 24, 2017



Republic of the Philippines
COMMISSION ON AUDIT
Regional Office No. X
Cagayan de Oro City

INDEPENDENT AUDITOR'S REPORT

MS. ANGELITA P. ROBLES

Chairman, Board of Directors
Kapatagan Water District
Kapatagan, Lanao del Norte

We have audited the accompanying financial statements of Kapatagan Water District which comprise the Statement of Financial Position as of December 31, 2016, and the Statement of Comprehensive Income, Changes in Equity and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements and are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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the entity's internal control. The audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by The Management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis of our audit opinion.

Bases for Qualified Opinion

As discussed in detail in Part II of this report, the accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the district contrary to PAS 19 on the accounting for employee benefits.

Qualified Opinion



In our opinion except for the effects of the matter described in the Bases for Qualified Opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of Kapatagan Water District as of December 31, 2016 and of its financial performance and its cash flows for the year ended in accordance with state accounting principles.

Other Matters

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COMMISSION ON AUDIT

By:


CECILIA A. PONTILLAS
State Auditor IV
Acting Supervising Auditor 

February 24, 2017





Republic of the Philippines
KAPATAGAN WATER DISTRICT
Kapatagan, Lanao del Norte

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS**

The Management of the **Kapatagan Water District, Kapatagan, Lanao Del Norte** is responsible for all information and representation contained in the Statement of Financial Position as of **December 31, 2016** and the related Statement of Comprehensive Income, Statement of Cash Flows and Statement of Changes in Equity for the period then ended. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on best estimates and informed judgement of the Management with an appropriate consideration of materiality.

In this regard, the Management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.


LEEVENA S. BALILI
Accounting Processor


GM BUENALITA B. RANISES
General Manager

February 24, 2017



**KAPATAGAN WATER DISTRICT
CONDENSED STATEMENT OF FINANCIAL
POSITION**

As at December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
ASSETS			
Current Assets			
Cash and Cash Equivalents	3	₱ 9,236,888.69	₱ 7,566,349.01
Receivables	4	2,823,537.33	2,879,402.93
Inventories	5	3,253,825.41	3,077,103.46
Other Current Assets	6	3,910.68	139,069.88
Total Current Assets		₱ 15,318,162.11	₱ 13,661,925.28
Non – Current Assets			
Property, Plant & Equipment	7	60,047,372.22	58,837,750.36
Total Non-Current Assets		₱ 60,047,372.22	₱ 58,837,750.36
TOTAL ASSETS		₱ 75,365,534.33	₱ 72,499,675.64
LIABILITIES			
Current Liabilities			
Financial Liabilities	8	₱ 3,238,061.38	₱ 3,162,928.44
Inter-Agency Payables	9	410,258.53	331,332.53
Trust Liabilities		810,230.81	685,473.53
Deferred Credits/Unearned Income		45,000.00	10,000.00
Total Current Liabilities		₱ 4,503,550.72	₱ 4,189,734.50
Non-Current Liabilities			
Financial Liabilities	8	30,770,231.52	32,816,070.52
Total Non-Current Liabilities		₱ 30,770,231.52	₱ 32,816,070.52
Total Liabilities		₱ 35,273,782.24	₱ 37,005,805.02
EQUITY			
Government Equity		₱ 4,000,013.34	₱ 4,000,013.34
Retained Earnings		36,091,738.75	31,493,857.28
Total Equity		₱ 40,091,752.09	₱ 35,493,870.62
TOTAL LIABILITIES AND EQUITY		₱ 75,365,534.33	₱ 72,499,675.64

(See accompanying Notes to Financial Statements)



KAPATAGAN WATER DISTRICT
CONDENSED STATEMENT OF COMPREHENSIVE
INCOME

For the Year Ended December 31, 2016

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Income			
Service and Business Income	10	₱ 31,522,050.47	₱ 29,402,225.21
Total Income		<u>₱ 31,522,050.47</u>	<u>₱ 29,402,225.21</u>
Expenses			
Personnel Services	11	12,878,312.48	10,674,842.45
Maint. & Other Operating Expenses	12	9,337,218.34	9,090,808.23
Financial Expenses	13	1,647,661.00	1,881,246.47
Non-Cash Expenses	14	3,060,977.18	3,071,379.74
Total Expenses		<u>₱ 26,924,416.90</u>	<u>₱ 24,718,276.89</u>
Profit/(Loss) Before Tax		<u>₱ 4,597,881.47</u>	<u>₱ 4,683,948.32</u>
Net Income/(Loss)		<u>₱ 4,597,881.47</u>	<u>₱ 4,683,948.32</u>
Other Comprehensive Income/(Loss) for the Period		0.00	0.00
Comprehensive Income/ (Loss)		<u>₱ 4,597,881.47</u>	<u>₱ 4,683,948.32</u>

(See accompanying Notes to Financial Statements)



KAPATAGAN WATER DISTRICT STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash Inflows: (note 11)		
Proceeds from sale of goods and services	₱ 322,623.83	₱ 224,724.42
Collection of Income/Revenue	31,955,268.47	29,634,283.38
Collection of Receivables	131,319.57	123,437.05
Trust Receipts	547,757.05	511,647.47
Other Receipts	189,894.47	126,917.18
Adjustments (Petty Cash Fund Set-up in Transit)	20,000.00	
Total Cash Inflows	₱ 33,169,590.96	₱ 30,621,009.5
Cash Outflows:		
Payment of expenses	₱ 9,096,414.48	₱ 10,878,753.72
Purchase of Inventories	2,169,916.16	0.00
Grant of Cash Advances	9,355,464.74	7,421,584.51
Payments of Accounts Payable	3,879,840.53	5,341,491.57
Remittance of personnel Benefit		
Contributions and Mandatory Deductions	2,823,131.96	2,497,108.01
Total Cash Outflows	₱ 27,324,767.87	₱ 26,138,937.81
Net Cash Provided by (Used in) Operating Activities	₱ 5,844,823.09	₱ 4,482,071.69
CASH FLOW FROM INVESTING ACTIVITIES		
Cash Inflows:		
Receipt of Interest earned	23,110.96	26,490.39
Total Cash Inflows	₱ 23,110.96	₱ 26,490.39
Cash Outflows:		
Purchase/Construction of Property, Plant and Equipment	501,430.37	1,733,831.27
Total Cash Outflows	₱ 501,430.37	₱ 1,733,831.27
Net Cash Provided by (Used In) Investing Activities	₱ (478,319.41)	₱ (1,707,340.88)
CASH FLOW FROM FINANCING ACTIVITIES		
Cash Outflows:		
Payment of Long-Term Liabilities	₱ 3,695,964.00	₱ 3,659,004.00



KAPATAGAN WATER DISTRICT STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

	<u>2016</u>	<u>2015</u>
Total Cash Outflows	₱ 3,695,964.00	₱ 3,659,004.00
Net Cash Provided by (Used in) Financing Activities	₱ (3,695,964.00)	₱ (3,659,004.00)
Increase/(Decrease) In Cash And Cash Equivalents	₱ 1,670,539.68	₱ (884,273.19)
CASH AND CASH EQUIVALENTS, JAN. 1	₱ 7,566,349.01	₱ 8,450,622.20
CASH AND CASH EQUIVALENTS, DEC. 31	₱ 9,236,888.69	₱ 7,566,349.01



KAPATAGAN WATER DISTRICT STATEMENT OF CHANGES IN EQUITY

For the Year Ended December 31, 2016

	Contributed Capital	Retained Earnings/ (Deficit)	Total
Balance at January 31, 2015	₱ 4,000,013.34	₱ 26,840,476.96	₱ 30,840,490.30
ADJUSTMENTS:			
Add/(Deduct):			
Changes in Accounting Policy			
Prior Period Errors			
Other Adjustments			
RESTATED BALANCE AT JANUARY 1, 2015	₱ 4,000,013.34	₱ 26,840,476.96	₱ 30,840,490.30
CHANGES IN EQUITY FOR 2015			
Add/(Deduct):			
Additional Capital from National Government			
Comprehensive Income for the year		4,683,948.32	4,683,948.32
Other Adjustments		(30,568.00)	(30,568.00)
BALANCE AT DEC. 31, 2015	₱ 4,000,013.34	₱ 31,493,857.28	₱ 35,493,870.62
CHANGES IN EQUITY FOR 2016			
Add/(Deduct):			
Additional Capital from National Government			
Comprehensive Income for the year		4,597,881.47	4,597,881.47
Other Adjustments			
BALANCE AT DEC. 31, 2016	₱ 4,000,013.34	₱ 36,091,738.75	₱ 40,091,752.09



KAPATAGAN WATER DISTRICT
Kapatagan, Lanao del Norte

Notes to Financial Statement

1. General/Brief Historical Background

The Kapatagan Water District (KAPWD) is a Government-Owned & Controlled Corporation (GOCC) that was officially created on September 12, 1988 by virtue of SB Res. No. 177-C in accordance with Sec. 6 P.D. 198 of the Provincial Water Utilities Act of 1973.

On October 24, 1989 KAPWD was issued a Certificate of Conditional Conformance (CCC418) by the Local Water Utilities Administration (LWUA).

2. Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles and standards and pertinent provisions contained in the Commercial Practices Manual for Local Water Utilities Administration and the Philippine Financial Reporting Standards adopted on January 1, 2016.

The accrual method of accounting is adopted for both income and expenses.

In recording expenditures, the voucher system is followed in which vouchers is credited prior to payment and debited when paid.

Property, Plant and Equipment is carried at cost less accumulated depreciation. Depreciation is computed on a straight line method based on the estimated useful life ranging from five (5) to ten (10) years in accordance with COA Circular No. 2003-007 dated December 11, 2003.

3. Cash and Cash Equivalents

This account consists of:

<i>Accounts</i>	<u>2016</u> <i>Amount</i>	<u>2015</u> <i>Amount</i>
Cash on Hand	₱ 139,496.49	₱ 43,954.52
Cash in Bank – Local Currency	9,097,392.20	7,522,394.49
Total Amount	₱ 9,236,888.69	₱ 7,566,349.01

Details of the Cash in bank account are as follows:

	<i>Acct. Number</i>	<u>2016</u>	-	<u>2015</u>
Cash in Bank – LCCA (FVB)	22-00008-5	₱ 277,699.91	₱	2,495,961.88
Cash in Bank – LCCA (LBP)	0802-1078-11	2,506,779.04		215,081.65
Cash in Bank – LCCA (LBP)	0805-0712-14	10,013.16		
Cash in Bank – LCSA (LBP)	0801-0610-87	5,467,032.62		4,478,728.01
Cash in Bank – LCCA (LBP)	0802-1148-50	-		82,250.2
Cash in Bank – LCSA (FVB)	102-051-121235	385,867.47		250,372.75
Cash in Bank – LCSA (LBP)	0802-1169-18	450,000.00		250,372.75
Total		₱ 9,097,392.20		₱ 7,522,394.49

- The 1st Valley Bank (22-00008-5) is the depository bank of the district pertaining to daily deposit of collections and withdrawal of funds for operations;
- LBP Account No. 0802-1078-11 is also a depository bank of the district where the amount of total deposits at 1st Valley Bank that exceeds to P500,000 will be transferred to this account;
- LBP Account no. 0805-0712-14 is a bank account intended for the electronic payment/remittances for PAG-IBIG/HDMF contributions which they call EFPS.
- LBP Account No. 0801-0610-87 served as the joint savings account between LWUA and KAPWD.
- LBP Account No. 0802-1148-50 served as account for LWUA Project Fund for 3Brgys particularly Lapinig, Suso & Bansarvil. Said account was closed last April 27, 2016 since the project was already completed.
- FVB Account No. 102-051-121-235 served as trust fund for the amount collected from concessionaires for Water Meter Maintenance fee.
- LBP Account no. 0802-1169-18 is a savings account for Terminal Leave.

4. Receivables

This account consists of:

	<u>2016</u>	<u>2015</u>
Accounts Receivable	₱ 828,737.33	₱ 733,057.79
Allowance for Impairment	0.00	(9,654.86)
Receivables – Disallowances/Charges	1,994,800.00	2,156,000.00
Total	₱ 2,823,537.33	₱2,879,402.93

5. Inventories

This account consists of:

	<u>2016</u>	<u>2015</u>
Inventory Held for consumption		
Office Supplies Inventory	₱ 19,636.00	₱ 14,430.00
Accountable Forms, Plates & Stickers Inventory	78,000.00	0.00
Non – Accountable Forms Inventory	102,700.00	45,500.00
Chemical and Filtering Supplies Inventory	57,539.72	15,935.68
Other Supplies and Materials Inventory	2,101,131.72	2,234,956.86
Semi-Expendable Machinery and Equipment		
Semi – Expendable Office Equipment	66,782.33	47,683.33
Semi – Expendable Information and Communication Technology Equipment	181,276.02	155,517.30
Semi – Expendable Communication Equipment	264,505.00	208,505.00
Semi – Expendable Other Machinery and Equipment	235,367.80	235,367.80
Semi-Expendable Furniture, Fixtures & Books	146,886.82	119,207.49
Total	<u><u>₱ 3,253,825.41</u></u>	<u><u>₱ 3,077,103.46</u></u>

6. Other Current Assets

This account consists of:

	<u>2016</u>	<u>2015</u>
Advances		
Advances for Operating expenses	₱ 0.00	₱131,240.00
Prepayments	3,910.68	7,829.88
Total	<u><u>₱ 3,910.68</u></u>	<u><u>₱139,069.88</u></u>

7. Property, Plant and Equipment

This account consists of:

	<u>2016</u>	<u>2015</u>
Land	₱ 3,529,309.23	₱ 3,529,309.23
Infrastructure Assets		
Water Supply Systems	6,280,563.45	6,025,563.45
Accumulated Depreciation	(2,528,452.04)	(2,287,137.83)

	<u>2016</u>	<u>2015</u>
Plant – Utility Plant in Service (UPIS)		
<i>Reservoir & Tanks</i>	3,826,444.12	3,826,444.12
Accumulated Depreciation	(1,457,157.19)	(1,286,047.20)
<i>Transmission & Distribution mains</i>	53,363,129.31	52,552,493.52
Accumulated Depreciation	(8,711,141.43)	(6,439,935.75)
Other Infrastructure Assets	1,590,661.01	1,549,801.01
Accumulated Depreciation	(799,114.13)	(728,083.91)
Machinery and equipment		
Office Equipment	323,401.34	281,205.08
Accumulated Depreciation	(151,997.98)	(134,946.78)
Information and Communication		
Technology Equipment	447,801.34	447,801.34
Accumulated Depreciation	(305,155.87)	(273,560.28)
Communication equipment	50,600.00	50,600.00
Accumulated Depreciation	(12,297.75)	(10,836)
Other Equipment	1,060,028.13	479,028.13
Accumulated Depreciation	(141,613.25)	(101,714.45)
Transportation Equipment	933,475.89	1,063,475.89
Accumulated Depreciation	(638,206.43)	(601,812.68)
Construction in Progress - Land Improvements	928,463.47	896,103.47
Construction in Progress - Buildings & Structures	2,458,631.00	0.00
Total Property, Plant and Equipment	₱ 60,047,372.22	₱ 58,837,750.36

8. Financial Liabilities

This account consists of:

	<u>2016</u>	<u>2015</u>
<i>Current Financial Liabilities</i>		
Payable		
Accounts Payable –	₱ 3,090,297.90	₱ 2,879,423.61
Due to Officers & Employees	147,763.48	283,505.00
	₱ 3,238,061.38	₱ 3,162,928.61
<i>Non-Current Financial Liabilities</i>		
Bills/Bonds/Loans Payable		
Loans Payable – Domestic	30,770,231.52	32,816,070.52
Total Financial Liabilities	₱ 34,008,292.90	₱ 35,978,999.13

9. Inter – Agency Payables

This account consists of:

	<u>2016</u>	<u>2015</u>
Inter – Agency Payables		
Due to BIR	₱ 140,228.77	₱ 110,409.24

	<u>2016</u>	<u>2015</u>
Due to GSIS	204,186.29	166,213.03
Due to Pag-ibig	55,393.47	41,860.26
Due to Philhealth	10,450.00	12,850.00
Total Inter – Agency Payables	<u>₱ 410,258.53</u>	<u>₱ 331,332.53</u>

10. Service and Business Income

This account consists of:

	<u>2016</u>	<u>2015</u>
Waterworks System Fees	₱ 30,820,434.02	₱ 28,658,129.44
Interest Income	28,627.68	34,936.42
Fines & Penalties	588,231.32	632,096.35
Other Service and Business Income	84,757.45	77,063.00
Total Service Business Income	<u>₱ 31,522,050.47</u>	<u>₱ 29,402,225.21</u>

11. Personnel Services

This account consists of:

	<u>2016</u>	<u>2015</u>
Salaries and Wages	<u>₱ 7,665,675.86</u>	<u>₱ 6,139,323.63</u>
Other Compensation		
Personnel Economic Relief Allowance (PERA)	868,000.00	781,000.00
Representation Allowance (RA)	156,000.00	129,000.00
Transportation Allowance (TA)	156,000.00	129,000.00
Clothing/Uniform Allowance	180,000.00	155,000.00
Overtime & Night Pay	615,455.97	913,290.83
Year – end Bonus	1,280,466.00	515,291.25
Cash Gift	182,500.00	163,750.00
Other Bonuses & Allowances	182,500.00	527,317.00
Total Other Compensation	<u>₱ 3,620,921.97</u>	<u>₱ 3,313,649.08</u>
Personnel Benefit Contribution		
Retirement and Life Insurance Premiums	917,522.44	741,673.24
Pag-IBIG Contributions	44,000.00	39,500.00
PhilHealth Contributions	82,437.50	68,937.50
Employees Compensation Insurance Premiums	43,872.94	39,390.80
	<u>₱ 1,087,832.88</u>	<u>₱ 889,501.54</u>
Other Personnel Benefits	<u>₱ 503,881.77</u>	<u>₱ 332,368.20</u>
Total Personnel Services	<u>₱ 12,878,312.48</u>	<u>₱ 10,674,842.45</u>

12. Maintenance & Other Operating Expenses

This account consists of:

	<u>2016</u>	<u>2015</u>
Traveling Expenses	₱ 350,004.26	₱ 391,470.77
Training and Scholarship expenses	₱ 143,865.96	₱ 162,631.28
Supplies & Materials Expenses		
Office Supplies Expenses	₱ 265,286.00	₱ 203,198.00
Fuel, Oil & Lubricants expenses	154,762.17	192,924.76
Chemical & Filtering Supplies expenses	418,971.31	353,709.92
Total Supplies & Materials Expenses	₱ 839,019.48	₱ 749,832.68
Utility Expenses		
Water expenses	₱ 28,488.86	₱ 28,453.50
Electricity	8,303.19	5,380.75
Total Utility Expenses	₱ 36,792.05	₱ 33,834.25
Communication Expenses		
Postage & Courier Services	₱ 19,670.00	₱ 22,155.00
Telephone expenses	48,002.00	34,562.85
Internet Subscription Expenses	18,264.15	14,400.00
Total Communication Expenses	₱ 85,936.15	₱ 71,117.85
Generation, Transmission & Distribution expenses	₱ 167,046.47	₱ 684,289.71
Extraordinary & Miscellaneous expenses	₱ 537,792.69	₱ 334,617.27
Professional Services		
Legal Services	₱ 2,300.00	₱ 6,500.00
Auditing Services	158,984.00	130,271.98
Other Professional Services	14,700.00	82,000.00
Total Professional Fees	₱ 175,984.00	₱ 218,771.98
General Services	₱ 664,915.87	₱ 672,027.24
Repairs & Maintenance		
Repairs & Maintenance - Infrastructure Assets	₱ 3,434,817.99	₱ 3,141,651.09
Repairs & Maintenance - Machinery & Equipment	77,154.68	77,565.67
Repairs & Maintenance - Transportation Equipment	116,616.73	104,684.82
Total Repairs & Maintenance	₱ 3,628,589.40	₱ 3,323,901.58
Taxes, Insurance Premiums &		

	<u>2016</u>	<u>2015</u>
Other Fees		
Taxes, Duties & Licenses	₱ 738,839.77	₱ 543,418.44
Insurance expenses	121,393.84	119,027.25
Total Taxes, Insurance Premiums & Other Fees	₱ 860,233.61	₱ 662,445.69
Other Maintenance and Operating Expenses		
Advertising, Promotional & Marketing Expenses	₱ 250,571.00	₱ 193,778.50
Representation Expenses	112,368.14	122,102.32
Transportation & Delivery expenses	14,875.00	13,128.17
Rent expenses	120,000.00	120,000.00
Donations	17,000.00	9,035.00
Directors & Committee Member's Fees	1,073,772.01	1,090,993.26
Other Maintenance & Operating expenses	258,452.25	236,830.68
Total Other Maintenance & Other Operating Expenses	₱ 1,847,038.40	₱ 1,785,867.93
TOTAL MAINTENANCE & OTHER OPERATING EXPENSES	₱ 9,337,218.34	₱ 9,090,808.23

13. Financial Expenses

This account consists of:

	<u>2016</u>	<u>2015</u>
Interest Expenses	₱ 1,647,661.00	₱ 1,881,246.47
Bank Charges	-	-
Total Financial Expenses	₱ 1,647,661.00	₱ 1,881,246.47

14. Non-Cash Expenses

This account consists of:

	<u>2016</u>	<u>2015</u>
Depreciation	3,023,967.84	3,061,724.88
Impairment Loss – Other Receivables	-	9,654.86
Discounts & Rebates	37,009.34	-
TOTAL NON – CASH EXPENSES	₱ 3,060,977.18	₱ 3,071,379.74

PART – II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART II - OBSERVATIONS AND RECOMMENDATIONS

FINANCIAL AND COMPLIANCE

- 1. Procured materials and supplies actually received by the District were recorded only upon payment understating inventory and liability balances in the aggregate amount of P394,954.46, contrary to the accrual concept of accounting prescribed under Philippine Accounting Standards (PAS) 1 and National Guidelines on Internal Control System.**

Philippine Accounting Standards (PAS) 1 on the Presentation of Financial Statements requires an entity to prepare its financial statements, except for cash flow information, using the accrual basis of accounting.

Under the accrual concept, an entity should recognize items as assets, liabilities, equity and income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework, i.e an asset is recognized when it is probable that future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. In other words, the effects of transactions are recognized when they occur and not as cash or its equivalent is received or paid. The Framework defines Inventories as assets that are: (a) held for sale in the ordinary course of business; (b) in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Moreover, Item 3.4.1 of the National Guidelines on Internal Control System provides that prompt recording and proper classification of transactions and events is a precondition to reliable and relevant information. Relevant information should be identified, captured and communicated in a form and timeframe that enable personnel to carry out internal controls and other responsibilities. The internal control system and all transactions and significant events should be fully documented.

Review of the financial records as of August 31, 2016 disclosed that purchased materials and supplies in the aggregate amount of P394,954.46 were not reflected yet as inventories and the corresponding liabilities were not also set up in the books. It was observed that it has been the practice of the District to record some of its procured materials and supplies as inventories only upon payment or settlement of the amount thru check rather than based upon actual delivery and receipt.

Verification from the Accounting Unit disclosed that these purchases were not recorded promptly in the inventory account because there were instances that copies of documents which are to be the basis of recording, such as Purchase Orders, Delivery Receipts and Sales Invoices, were not forwarded to the Bookkeeper for recording. The Bookkeeper is only notified to record upon

payment of the amount owed. Hence, the understatement of the inventory and liability accounts in the financial statements. As a result, unrecorded inventories may already have been issued to operating and maintenance activities of the District.

The untimely recording and updating of records render the presentation of the financial statements inaccurate. Moreover, it showed inefficiency of the District's internal control to eliminate the susceptibility of its assets to misappropriation and other risk of loss.

We recommended that the Management should implement accrual basis of accounting in recording of assets, liabilities, income and expenses in compliance with PAS 1 on the Presentation of Financial Statements. Also, the Management must instruct the Accounting Unit to ensure that the Bookkeeper is furnished with copies of all Purchase Orders and other documents necessary for recording; and effect the necessary accounting entries to bring the inventory and liability account to its correct balances.

The Management commented and we quote:

“It happened because the Accounting Processor – A was not provided with a copy of DR as reference in recording of received materials. The recording will only be made during payments since the necessary documents are already attached to the DV.”

2. The accrual of liability for the earned leave benefits of employees totaling P2,702,878.98 was not provided by the District contrary to PAS 19 on the accounting for employee benefits.

Philippine Accounting Standards (PAS) No. 19 prescribes the accounting and disclosure for employee benefits. The standard requires an entity to recognize a liability when an employee has provided service in exchange for employee benefits to be paid in the future.

The Manual on the New Government Accounting System provides that in view of the preparation of the Statement of Profit and Loss and other Comprehensive Income, there is a need for a proper matching of revenues and expenses. Under the matching principle, adjustment should be made for economic activities that have taken place but are not yet recorded at the time the financial statements are prepared. Adjustments are of two main types: accrued items and deferred items.

Verification and review of the financial statements disclosed that there was no provision for the monetary value of unused earned leaves of the District's employees. The said provision should be treated and recorded as liability in the books. Based on the balances of Accumulated leave credits of employees per

records of the Human Resource Management Officer as of August 31, 2016, the estimated accrued payable for terminal leave benefits that should have been set up amounts to P2,702,878.98.

Interview with the Accounting personnel confirmed that accrued payable on terminal leave benefits earned by each employee per year is not taken up in the books of accounts. It was further observed that expenses are only recognized every time an employee monetized his/her leave for the year by debiting Employees Pension & Benefits expense account.

The non-recognition of the peso value of earned leave credits of District personnel understates the total liabilities and consequently overstates the income and government equity accounts.

We recommended that the Management should provide annual budget for the earned leave benefits of the employees; and require the Human Resource Officer to furnish the Accounting Section with a copy of the schedule of earned leave credits of District personnel with the corresponding money value as basis in accounting of the accrued liability.

The Management commented and we quote:

“The Management opens new account at Land Bank intended for the terminal leave and deposits P75, 000 per month. The Management also allocated an amount in the budget intended for the monetization of 10days leave credits of each employee.”

- 3. Monthly allowances were granted to the Board of Directors (BODs) and payments of per diem for their attendance to board meetings exceed the maximum allowable amount per month contrary to Executive Order No. 65 and Local Water Utility Administration (LWUA) Memorandum Circular No. 015-12 dated November 22, 2012.**

Section 3 of Executive Order No. 65 prescribing the rules to govern the compensation of members of the Board of Directors of Local Water Districts, states that Salaries, Allowances, Benefits, and other Bonuses shall not be allowed unless specifically authorized by law or Charter and approved by the President, provided that the total of the foregoing compensation and per diems shall not exceed the limits stipulated under Sections 4 and 5 thereof.

Section 4 the same EO provides that the maximum per diem per Regular or Special Board meeting actually attended by members of the Board of Directors of LWDs shall be based on the classification of the LWD under Section 2 thereof but shall not exceed the maximum annual amount as specified in Section 4.

It is further emphasized in Local Water Utility Administration (LWUA) Memorandum Circular No. 015-12 that each director shall receive a per diem corresponding to the category of the water district for each board meeting attended, but no director shall receive per diems in any given month **in excess of the equivalent of two (2) meetings**. Thus, the BODs of KAPWD shall only be entitled to a maximum of P3,675.00 per meeting, or at a maximum of P7,350 for two meetings per month or P88,200.00 annually for 24 meetings.

Our review of the disbursement vouchers for the payment of per diems to the BODs for their attendance in Board meetings disclosed that the District paid its BODS per diems good for three meetings for the month of January and February 2016 which is in excess of the allowable meetings allowed equivalent to two meetings in any given month as provided for in the afore-cited LWUA Circular, details are shown in **APPENDIX A** attached. Audit records further disclosed that the BODs were allowed to receive monthly allowances in the amount of P1,837.50 each or for a total amount of P9,187.50 per month (**APPENDIX B**) contrary to Section 3 of EO 65 which explicitly provides that no salaries, allowances, bonuses of any form shall be granted unless specifically authorized by law or Charter, or approved by the President.

The payment of per diem for more than two board meetings per month and the granting of monthly allowances in contradiction to prescribed rules and regulations render the transactions proper subject of disallowance for lack of legal basis. In addition, it has caused the District overpayments in the amount of P82,687.50 as shown in APPENDIX A and APPENDIX B. In effect, there was an overstatement of expenses and understatement of the Net Income due to the overpayment of per diems and allowances without legal basis.

We recommended that the Management require the BODs to refund the full amount so received in connection to the overpayment of per diems and allowances for lack of legal basis, and stop the granting of monthly allowances and other benefits to its BODs without legal basis. Also the Management should strictly adhere to Executive Order 65 and LWUA Memorandum Circular No. 015-12 relative to the compensation of the BODs of the District.

The Management commented and we quote:

“The Management granted allowances to the board of directors for their load expenses to be used in case there were reports of leaking and other WD related problems and for their gasoline expenses during board meeting.

The board of director’s were paid in excess of their allowable per diem because there were instances that they will conduct an emergency /special meeting and the Management will compensate their attendance since they had met for the good of the Water District.

But it was already stop last October 2016 after the auditor furnished a copy of their AOM.”

4. Reimbursements and liquidations of travels totaling P94,630.52 by officials and employees of the District were not duly supported with Certificates of Travel Completed as required under COA Circular 2012-001.

COA Circular No. 2012-001 prescribes the revised guidelines and documentary requirements for common government transactions. Item 1.2.4.1 of the same Circular on the liquidation of cash advances for travels provides, among others, the submission of the Certificate of Travel completed as one of the required documentary requirements.

Audit of disbursement vouchers disclosed that reimbursements and liquidation for travels totaling P94,630.52 were not duly reported with the required Certificate of Travel Completed as detailed in the **APPENDIX C** attached.

It was also noted that some Itinerary of travels were not properly accomplished, failing to include the details of the time of departure and arrival, thus, our audit could not properly assess the appropriateness of the claims for per diems.

The Management explained that the said Certificate was not included in liquidation as this was not introduced as one of the required documentary requirements. In addition, The Management commented that with regard to the Itinerary of travels not properly accomplished, the employees concerned were not aware that details for the time of arrival and departure are vital information for audit.

We recommended that the Management strictly adhere to COA Circular 2012-001 relative to the required set of documentary requirements on the liquidation/reimbursement of travel claims, and to further require the employees to properly accomplish their Itinerary of Travel.

The Management commented and we quote:

“The Management is not aware that there is a particular form to be filled up, the Certificate of Travel completed, all we did is to attached a details of expenses during the travel.

In the case of the incomplete data in the Itinerary of travel, the accounting is now doing a double check before the papers will be filed.”

5. **The Annual Procurement Plan (APP) was not supported by Project Procurement Management Plan (PPMP) of the different Departments of the District contrary to Section 7.3 of the Implementing Rules and Regulations (IRR) of Republic Act 9184.**

Section 7 of Article II of RA 9184 states:

“No government Procurement shall be undertaken unless it is in accordance with the approved Annual Procurement Plan of the Procuring Entity...”

In addition, Section 7.3 of the Implementing Rules and Regulations (IRR) of RA 9184, as amended, provides among others that:

7.3.2. *The end-user units of the procuring entity shall prepare their respective Project Procurement Management Plan (PPMP) for their different programs, activities, and projects (PAPs). The PPMP shall include:*

- a) information on whether PAPs will be contracted out, implemented by administration in accordance with the guidelines issued by the GPPB, or consigned;*
- b) the type and objective of contract to be employed;*
- c) the extent/size of contract scopes/packages;*
- d) the procurement methods to be adopted, and indicating if the procurement tasks are to be outsourced as provided in Section 53.6 of this IRR;*
- e) the time schedule for each procurement activity and for the contract implementation; and*
- f) the estimated budget for the general components of the contract...*

7.3.3. *The PPMP shall then be submitted to the procuring entity’s Budget Office. The procuring entity’s Budget Office shall evaluate each end-user’s submitted PPMP and, if warranted, include it in the procuring entity’s budget proposal for approval by the Head of the Procuring Entity.*

7.3.4. *After the budget proposal has been approved by the Head of the Procuring Entity and/or other oversight bodies, the procuring entity’s budget office shall furnish a copy of the procuring entity’s budget proposal as well as the corresponding PPMPs to the BAC Secretariat for its review and consolidation into the proposed APP. The proposed APP shall be consistent with the procuring entity’s budget proposal.*

7.4 Updating of the individual PPMPs and the consolidated APP for each procuring entity shall be undertaken every six (6) months or as often as may be required by the Head of the Procuring Entity. The updating of the PPMPs shall be the responsibility of the respective end-user units of the Procuring Entities, while the consolidation of these PPMPs into an APP shall be lodged with the BAC Secretariat, subject to approval of the Head of the Procuring Entity.”

Based on the above regulations, the formulation of a sound Annual Procurement Plan (APP) begins from the different departments/offices or end-user units thru the preparation and submission of the PPMP to the Budget Office for evaluation into the agency’s proposed budget which will be approved by the head of the procuring entity and other oversight bodies. The Budget Office shall then furnish a copy of the procuring entity’s budget proposal along with the corresponding PPMP to the BAC Secretariat for its review consolidation into the proposed APP to be approved by the head of the procuring unit.

Consequently, all items to be procured by the District during the year shall be included in the APP consistent with its duly approved budget. Hence, no procurement shall be undertaken unless it is in accordance with the approved APP.

Review and verification of the District’s APP disclosed that the department units or end-user units did not prepare the required PPMP for their different programs, activities, and projects, which shall be submitted to the Budget Office for evaluation into the agency’s proposed budget before furnishing the BAC Secretariat copies of the required PPMPs for consolidation into the APP as provided for in the aforementioned Act. It was also noted that the proposed budget was approved without requiring first the preparation and submission of the PPMP through the Budget Office.

Further review of the APP revealed that purchase of the Ultra Filtration Machine worth P280,000.00 paid in three installments (**APPENDIX D**) was not included in the APP of the District contrary to what the IRR explicitly provides that no procurement shall be undertaken unless it is in accordance with the approved APP. Moreover, the purchase or installment payments were not duly supported with the required documentary requirements as noted in the APPENDIX attached. It was also observed that the review and updating of the APP was not regularly done or per semester as set forth in the above-mentioned regulations

Inquiry from the BAC disclosed that the preparation of the APP was based on estimates or historical data from previous years’ usage gathered from the Supply and Property Unit, not from the respective PPMPs that should have been prepared by each end-user. The Management further explained that the purchase

of the Ultra Filtration Machine was an emergency purchase of the District and so this was not included in their APP.

As a result, procurement of goods, consulting services and infrastructure projects were not properly planned, thus defeating the purpose of the Annual Procurement Plan in the meticulous and judicious planning of the procurement program plan prescribed under RA 9184 and its IRR.

We recommended that the Management should require the different department units to submit the their respective PPMPs as supporting documents of the APP, and the BAC Secretariat to review and consolidate them into the APP pursuant to Section 7.3 of the Implementing Rules and Regulations (IRR) of Republic Act 9184. Also, require the Requisitioning Office to include in the PPMPs, provisions for foreseeable emergencies. And the Management must require the regular review and update of individual PPMPs and the APP, at least once every six months or as often as necessary pursuant to Section 7.4 of the Implementing Rules and Regulations (IRR) of Republic Act 9184.

The Management commented and we quote:

“The district is not yet aware at that time on the procedure of preparing PPMP. But fortunately for CY 2017 the individual employee had prepared their own PPMP in writing and was forwarded to the BAC Secretariat for review and consolidated into APP.”

6. Payments of leave monetization to employees of the District are not in accordance with Section 22 and 23, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292 or the Revised Administrative Code of 1987, thereby casting doubt as to the regularity and validity of the transactions.

CSC Memorandum Circular (MC) No. 16, series of 2002 provides for the amendments to Rules I and XVI of the Omnibus Rules Implementing Book V of the Administrative Code of 1987 (Executive Order 292). Pertinent provisions of Rule XVI were amended to read as follows:

***Section 22. Monetization of leave credits.** – Officials and employees in the career and non-career service whether permanent, temporary, casual or coterminous, who have accumulated fifteen (15) days of vacation leave credits shall be allowed to monetize a minimum of ten (10) days:*

- (1) Provided, that at least five (5) days is retained after monetization and*
- (2) Provided further that a maximum of thirty (30) days may be monetized in a given year.*

Section 23. Monetization of 50% or more of vacation/sick leaves credits. – Monetization of fifty percent (50%) or more of the accumulated leave credits may be allowed for valid and justifiable reasons such as health, medical and hospital needs, financial aid brought about by force majeure, educational needs of the employee and the immediate members of his/her family x xx.

The monetization of 50% or more of the accumulated leave credits shall be upon the favorable recommendation of the agency head and subject to availability of funds.”

In light of Section 22, Civil Service Commission Resolution No. 00034 dated January 5, 2000 further states:

“Wherefore, the Commission resolves to rule that sick leave credits may be monetized if an employee has no available vacation leave credits in accordance with the general rule under Section 23 of the Omnibus Rules on leave, that vacation leave credits must be exhausted first before sick leave credits may be used.” (Underscoring supplied)

From the foregoing provisions, it clearly shows that as a general rule what are allowed to be monetized are the accumulated vacation leave credits. By way of exception, an employee may monetize 50% or more of vacation/sick leave credits as an extraordinary measure to relieve an employee from financial difficulties that may be allowed only for valid and justifiable reasons subject to the discretion of the agency head and the availability of funds. Hence, Sec. 23 should be construed in light of Section 22 thereof. Accordingly, monetization for 30 days or 50% are considered valid and justifiable when it is intended for the following purpose:

- | | |
|------------|---|
| Priority 1 | Medical expenses of employees and/or members of the family |
| Priority 2 | Educational expenses of Immediate Family Member |
| Priority 3 | Housing problems due to Imminent foreclosure of Housing Loan evidenced by documents |

In case of monetization of 30 days or 50% of the total vacation and sick leave credits, officials and employees are required to attach the following documents to justify and support the said request.

- a. Hospital bills, medical results and other pertinent documents;
- b. Statement of school accounts for tuition fees; and
- c. Bill statement from PAG-IBIG or related financial institution

Audit of the disbursements of the District as of May 31, 2016 disclosed that it has allowed a monetization of leave credits as shown in **APPENDIX E**. In the review of claims processed, the following observations were noted:

- a) The vouchers relative to these disbursements were supported with duly approved application of leave but the letter-request of the employees who claimed the monetization for 30 days or more were not supported with Statement of Account or any proof for that matter to justify the reason of their claims for monetization;
- b) Monetization was deducted from the Sick Leave Credits without exhausting first the Vacation Leave of an employee whose vacation leave credits are enough to cover his monetization leave contrary to CSC Resolution No. 000034;
- c) Vacation leave credits of employees were exhausted below the mandatory 5-day balance that should be retained after monetization for vacation leave credits.

Hence, the improper implementation of procedures on monetization of vacation and sick leave credits of employees may cast doubt as to the regularity and validity of the transactions.

We recommended that the Management should strictly comply with Section 22 and 23, Rule XVI of the Omnibus Rules Implementing Book V of Executive Order No. 292 and Civil Service Commission Resolution No. 00034 as regards the monetization of leave credits. Also the Management must instruct the Personnel-in-charge to make necessary adjustment in the leave cards of employees whose monetization were deducted from the sick leave instead of vacation leave.

The Management commented and we quote:

“The designate HRMO has already made the necessary adjustments.”

7. Payments of salaries to Job Order personnel totaling P170,968.77 were not duly supported with Job Order contracts as required under COA Circular 2012-001.

COA Circular No. 2012-001 prescribes the revised guidelines and documentary requirements for common government transactions. The Circular requires that claims against government funds should be supported with complete documentations and there should be sufficient and relevant documents to establish validity of the claim. Item 4.1.3 of the same Circular provides, among others, the

necessary documentary requirements for the payment of salary of casual/contractual personnel, as enumerated below:

Required documents for salary of Job Order:

1. *Certified copy of the pertinent contract/appointment/job order marked received by the CSC;*
2. *Certification by the LCE/Personnel officer that the activities/services cannot be provided by the regular or permanent personnel of the agency;*
3. *Accomplishment Report;*
4. *Approved DTR.*

Review and verification of disbursement records disclosed that salary payments to JO personnel totaling P170,968.77 were paid without complete documentation (**APPENDIX F**). It was observed that there was no Certification from the General Manager or from the Personnel Officer that the activities/services cannot be provided by the regular or permanent personnel of the agency. It was further noted that there was no Accomplishment Report prepared and attached to the claim.

Inquiry and verification from the Management further disclosed that the Job Order personnel were hired without any contract, nevertheless, their employment is justified because their services were necessary due to lack of manpower of the District.

Hence, the validity of the claims for salaries by the JO personnel cannot be established due to the absence of contract and failure of the District to support their claims with complete documentation.

We recommended that the Management should execute a Job Order Contract for the JO Personnel and to instruct the designate Accounting in-charge not to process payments without complete documents attached pursuant to COA Circular 2012-001.

The Management commented and we quote:

“The designate HRMO will furnish a copy of the Job Order contract to the Senior Accounting Processor - B for DV attachment starting January 2017.”

8. Official receipts were procured from a private printing service provider without securing prior certification from the recognized government printers (RGPs) as required under the General Appropriations Act (GAA) of 2016.

Section 23 of the General Appropriations Act (GAA) of 2016 provides for the requirements of printing expenditures of government agencies, which states that:

“Sec. 23. Printing Expenditures. All agencies of the government shall engage the services of the National Printing Office, Bangko Sentral ng Pilipinas and APO Production Unit as recognized government printers (RGPs) for the printing of accountable forms and sensitive, high quality or high volume requirements, subject to the following:

- (a) The recognized government printers shall undertake the printing requirements themselves and shall not sub-contract any portion thereof to other printers; and*
- (b) Any agency may be allowed to engage private printers for the printing of accountable forms and sensitive, high quality or high volume requirements upon certification by the RGPs that they are unable to service said requirements.” (underscoring supplied)*

Based on the above-cited provision, if an entity is to contract the services of private printers in the production of accountable forms, it must first secure the certifications required from the RGPs mentioned: the National Printing Office, APO Production Unit and the *Bangko Sentral ng Pilipinas*.

Review of the procurements of the District as of August 31, 2016 showed that the District engaged the services of a private printing service provider in printing the official receipts (continuous form) without securing prior certification from the RGP for the recourse to private printers as required under Section 23 of the abovementioned Act. Details of the procurement are shown below:

Check Date	Check No.	DV No.	Payee	Particulars	Amount
3/17/16	900004156	2016-03-201	Real Printing & Marketing	Partial payment for the printing of 20 boxes continuous form ORs	130,000.00
4/21/16	900004128	2016-04-261	Real Printing & Marketing	Full payment for the printing of 20 boxes continuous form ORs	130,000.00
TOTAL					P260,000.00

Verification from The Management confirmed the observation that the printing of their official receipts were procured directly from a private printing service provider without the required certifications from the RPGs as they were not aware that such certification requirement exists.

It was further observed that the Purchase Orders do not indicate the mode of procurement for the said transactions. Moreover, the disbursement vouchers lack some documentary requirements such as the Request for Quotations, Abstract of Bids and BAC Resolution, casting doubt on whether the purchase has gone through the proper procurement process required under Republic Act (RA) 9184 such as bidding or thru alternative modes of procurement.

We recommended that the Management should strictly comply with Section 23 of the General Appropriations Act (GAA) of 2016 in contracting the services of private printers in the production of accountable forms and sensitive, high quality or high volume printing requirements.

The Management commented and we quote:

“The Management thought that it will be fine to procure official receipts at the private printing service provider since the said printing press is also accommodating government agencies.

But we will ask them to secure a certification from RGP’s for this purpose.”

9. Purchase Orders were not properly accomplished contrary to Section B of COA Circular No. 96-010 dated August, 15, 1996, resulting to the inability to ascertain that the delivery of materials and supplies conform to the terms and conditions of the agreement.

Item B of COA Circular No. 96-010 provides the basic data which should invariably appear in the Purchase Order, as enumerated below:

- (a) Purchase Order Number*
- (b) Date of Purchase Order*
- (c) Complete name of supplier*
- (d) Complete address of supplier*
- (e) Information whether the supplier is a manufacturer or exclusive distributor; registered with SEC, DTI or both*
- (f) Telephone and fax number of supplier, if any*
- (g) Date of delivery*
- (h) Complete item name*
- (i) Complete detailed item specification, including accessories i.e., narrative description, size/dimension/volume, model, use of item,*

color, capacity, horsepower, voltage, watts, gauge, kind of equipment where spare part is to be used whether replacement or original (for spare parts), part number of spare parts, type and classification of material, brand new or second hand, etc.

- (j) Price (individual unit price; if lot price any document showing the detailed breakdown of the cost should likewise be submitted)*
- (k) Unit of measure when it is not universally accepted indicate numbers or weight, or lineal measure, i.e., if stated as per "roll", indicate the number of yards/meter per roll; if per "box", state number/pcs. contents; if per bag how many pounds or kilos*
- (l) Quantity or number of units*
- (m) Brand name. If no brand, state "none"*
- (n) Country of manufacture or origin of item; i.e., local (or RP), or if foreign origin, specify country.*
- (o) Terms; i.e., COD, n/30 days, etc.*
- (p) Mode of procurement; i.e., public bidding, canvass, negotiated sale, and such other authorized modes. If "repeat order" indicate previous Purchase Order and date which was used as basis.*
- (q) Taxes paid by agency; i.e., VAT, etc. If taxes are paid by supplier, do not Indicate.*

Review of Purchase Orders (POs) on various procurement of materials and supplies disclosed that these lack the necessary information as required to be reflected in every PO, thus defeating the purpose for which these were prescribed. The following deficiencies were noted:

1. The mode of procurement was not indicated.
2. Date of delivery, delivery term and payment term (*i.e., COD, n/30 days, etc.*) were not properly indicated.

The above-noted deficiencies render the Purchase Orders/contracts of the District incomplete as they do not clearly indicate the responsibility of the supplier for the faithful performance and compliance of the terms and conditions of the contract with respect to the delivery of the goods.

We recommended that the Management require the Accountant and officials concerned to fill-up the relevant and required information on the Purchase Order and that the document must be signed and approved only when the required data are complete to ensure that the supplier will deliver the goods in accordance with the terms and conditions of the contract.

The Management commented and we quote:

“The Senior Accounting Processor – B is not aware of this following data to be indicated in the Purchase order. But by CY 2017 we will be using this required Purchase Order.”

10. The General Manager was granted with Representation and Transportation Allowance (RATA) amounting to P17,000.00 while on a 2-month Special Leave contrary to Department of Budget The Management (DBM) National Budget Circular No. 548 dated May 15, 2013.

DBM National Budget Circular No. 548 provides the amended rules and regulations on the grant of Representation and Transportation Allowances (RATA). Item 6.1 provides that the grant of RATA shall be based on the number of days of *actual work performance* on workdays by the official/employee concerned. Item 6.3 of the same Circular further states that:

*“6.3 For purposes of RATA, the following leaves, notwithstanding that such are paid and are authorized time-off from work, shall **not** be construed as actual work performance:*

6.3.1 Vacation Leave with pay in excess of the five (5) day forced or mandatory leave;

6.3.2 Sick Leave with pay

6.3.3 Maximum of three (3) days Special Leave Privileges in accordance with CSC MC No. 41, series of 1998;

6.3.4 Maximum of seven (7) days Paternity Leave in accordance with CSC MC No. 41, series of 1998;

6.3.5 Maximum of seven (7) days Parental Leave to Solo Parents in accordance with CSC MC No. 08 series of 2008;

6.3.6 Maximum of ten (10) days Leave for Victims of Violence Against Women and their Children in accordance with CSC Resolution No. 051206;

6.3.7 Maximum of sixty (60) days Maternity Leave in accordance with CSC MC No. 41, series of 1998;

6.3.8 Maximum of two (2) months Special Leave Benefits for Women under Republic Act (RA) 9710 in accordance with in accordance with CSC MC No. 25, series of 2010; (emphasis and underscoring supplied)

6.3.9 Xxxxxxx; and

6.3.10 Xxxxxxx.

Review of the disbursement records disclosed that the General Manager who recently availed of the 2-month Special Leave Benefits for Women under RA 9710 otherwise known as “The Magna Carta for Women” was granted with RATA amounting to P17,000 for the month of October 2016 contrary to the provisions of the above-cited circular. Therefore, the grant of RATA to the General Manager while she is on the 2-month Special Leave is without legal basis. Hence, the said amount is recommended for disallowance and refund.

We recommended to the Management to strictly comply with the guidelines in the grant of RATA to the General Manager pursuant to DBM National Budget Circular No. 548; and that the General Manager refund the RATA so received.

The Management commented and we quote:

“GM received her RATA in good faith. The previous auditor knew that GM will be having a surgical operation but she did not inform GM about this rule.

But since it is not allowable, GM will make a refund of P1, 000 per month until it will be fully paid.”

COMPLIANCE WITH TAX LAWS AND REGULATIONS

The Management as a withholding agent of the Bureau of Internal Revenue fully complied with BIR Regulations on withholding of taxes.

PART – III

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

**PART III - STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT
RECOMMENDATIONS**

Audit Observations	Recommendations	Ref.	Status of Implementation	Auditor's Validation
<p>1. The members of the Board of Directors (BOD) were granted Performance-Based Bonus (PBB) for CY 2014 totaling P176,400 without legal basis, contrary to Executive Order No. 65 dated January 2, 2012.</p>	<p>We have recommended to The Management to cause the settlement/refund of the amounts due from the BOD and strictly adhere with Executive Order No. 65 with respect to the granting of Performance-Based Incentives to the members of the Board of Directors.</p>	<p>2015 AAR Finding No. 1</p>	<p>Partially implemented</p>	<p>Partially Implemented . The Board of Directors are paying their refund in installment basis, P2,000 per month for all disallowances.</p>
<p>2. The District paid its employees Performance-Based Bonus (PBB) for CY 2014 totaling P471,450.00 without complying with the requirements under Department of Budget and Management (DBM) and Local Water Utilities Administration(LWUA) Joint Memorandum Circular No. 2014-02 dated August 29, 2014.</p>	<p>We have recommended The Management to require all concerned officers and employees of the District to refund the amount of PBB and to comply strictly with the requirements for entitlement of PBB prior to payment to prevent incurrence of irregular expenditures.</p>	<p>2015 AAR Finding No. 2</p>	<p>Partially implemented</p>	<p>Partially Implemented . All employees are paying their refund in installment basis in P200 month.</p>
<p>3.The Torrens Title of the parcel of land with a book value of P 529,309.23 and an aggregate land area of 13,827 square meters were not transferred in the name of the District contrary to Section 112 of PD 1445 and Section 449 of GAAM Volume 1 thus, rendering the ownership of the land and the accuracy of records questionable.</p>	<p>We have recommended that The Management secure the Transfer Certificate of the Title for all untitled parcels of land of the District to ensure ownership and dominion over the property. The Officer-in-Charge should coordinate with the officials of the District concerned in the titling of the parcels of land.</p>	<p>2015 AAR Finding No. 3</p>	<p>Fully implemented</p>	<p>Fully implemented. The Transfer Certificate Title of the property is already under the District's name.</p>

Audit Observations	Recommendations	Ref.	Status of Implementation	Auditor's Validation
<p>4. The District's reported income was understated by P84,248.00 due to water sales being recorded net of withholding tax instead of gross sales contrary to Section 112 of Presidential decree (PD) No. 1445 and PAS 18 thereby affecting the fair presentation of the income account in the balance sheet.</p>	<p>We have recommended The Management to make use of the BIR Form 2307, recompute the amount of tax withheld equivalent to 2% and record it as input tax, to be applied as credit to franchise tax payment and to record the senior citizen's discount as discount expense not as a deduction from gross water sales</p>	<p>2015 AAR Finding No. 4</p>	<p>Fully implemented</p>	<p>Fully implemented. The District reported its gross sales properly.</p>
<p>5. Purchase of parcels of land through installment amounting to P 3,000,000.00 was paid without proper and complete documentation as prescribed under the Required Documentary Requirements of COA Circular No. 2012-001 dated June 14, 2012 and in violation of Section 4 of PD 1445, thus, hampering the timely auditorial and legal review of the purchase of land by the District.</p>	<p>We have recommended that The Management adhere strictly to COA Circular No. 2012-001 and Section 4 of PD 1445 and submit lacking supporting documents for auditorial and technical evaluation of the purchase.</p>	<p>2015 AAR Finding No. 5</p>	<p>Fully implemented</p>	
<p>6. Various disbursements amounting to P3,690,724.76 were not adequately supported with relevant documentary requirements contrary COA Circular No. 2012-001 and Republic Act (RA) 9184.</p>	<p>We have recommended The Management to strictly comply with the provisions of the IRR of RA 9184 and to thoroughly check the supporting documents for each disbursement using as reference the documentary requirements enumerated under COA Circular No. 2012-001.</p>	<p>2015 AAR Finding No. 6</p>	<p>Fully implemented</p>	<p>Partially Implemented. There are still transactions that were fully supported with the required documents. Notice of Suspension was issued for these disbursements.</p>

Audit Observations	Recommendations	Ref.	Status of Implementation	Auditor's Validation
<p>7. The district did not observe the prescribed use of NGAS forms of Disbursement Voucher (DV) and Budget Utilization Request (BUR) in the utilization and disbursement of the district's funds pursuant to COA Circular No. 2006-004 dated January 31, 2006, thus, accountability for expenditures is not properly established.</p>	<p>We have recommended The Management to comply strictly with the provisions of COA Circular No. 2006-004.</p>	<p>2015 AAR Finding No.7</p>	<p>Fully implemented</p>	<p>Fully implemented. The District is using the prescribed form of Disbursement Voucher (DV) and Budget Utilization Request (BUR)</p>
<p>1. The members of the Board of Directors (BOD) were granted Performance –Based Bonus (PBB) for CY 2013 totaling P220,500.00 without legal basis, contrary to Executive Order No. 65 dated January 2, 2012.</p>	<p>We recommended and The Management agreed to strictly observe the pertinent provisions of E.O. 65 in the granting of PBB which should be supported with legal basis.</p>	<p>2014 AAR Finding No.1</p>	<p>Partially implemented</p>	<p>Partially Implemented. The Board of Directors are paying their refund in installment basis, P2,000 per month for all disallowances.</p>
<p>2. Performance Based Bonus (PBB) was paid to the District's personnel for CY 2013 totaling P245,000.00 without complying the requirements set by the Inter-Agency Task Force created under Administrative Order No. 25, dated December 21, 2011.</p>	<p>We recommended and The Management agreed to strictly comply with the guidelines set by the Inter-Agency Task Force pursuant to AO 25.</p>	<p>2014 AAR Finding No.2</p>	<p>Partially implemented</p>	<p>Partially Implemented. All employees are paying their refund in installment basis in P200 month.</p>
<p>3. The District failed to post invitation or request for price quotation for shopping/small value procurement of supplies and materials to the PhilGEPS website contrary to Section 21.2.1 of the revised IRR of RA 9184.</p>	<p>We recommended and The Management agreed to comply with Section 21.2.1 & 8.3.1 of the Revised IRR of RA 9184.</p>	<p>2014 AAR Finding No.3</p>	<p>Fully implemented</p>	<p>Fully Implemented. The District is posting invitation or request for price quotation for shopping/small value procurement.</p>

Audit Observations	Recommendations	Ref.	Status of Implementation	Auditor's Validation
<p>4. The district have adopted the other modes of procurement such as repeat order thru credit and shopping in the procurement of goods which is not in conformity with Revised IRR of the Government Reform Procurement Law.</p>	<p>a) Ensure that all procurements of the district should be through competitive public bidding as required in Section 10 Article IV of RA 9184 and shopping should only be an alternative mode if the situation calls for it, Further, all procurement during the year should be in accordance with approved APP and based on this plan schedule the bidding of all supplies, materials and construction materials;</p> <p>b) The BAC shall recommend to the head of the agency the use of alternative methods through a resolution;</p> <p>c) Observed the regulations on repeat order that the quantity should not exceed 25% from the original purchased; and) Strictly adhere to the provisions of RA 9184 in the procurement of equipment and materials and attach pertinent supporting documents to the disbursement voucher</p>	<p>2014 AAR Finding No.4</p>	<p>Fully implemented</p>	<p>Fully Implemented. The District discontinued their practice of adopting other modes of procurement such as repeat orders thru credit and shopping and making sure that if such mode of procurement was adopted that it is in conformity with the Revised IRR of RA 9184.</p>

Audit Observations	Recommendations	Ref.	Status of Implementation	Auditor's Validation
<p>5. All purchases of commonly used supplies totaling P631,842.21, were not made through Procurement Services (PS) of the DBM as required in AO No. 17 but instead all were done through shopping or direct contracting without the BAC's recommendations to adopt these alternative modes of procurement in violation of RA 9184 thereby not helping the government owned institution.</p>	<p>a) Prepare a BAC Resolution indicating the mode of procurement to be recommended for approval by the Head of Procuring Entity (HOPE) in each procurement activity.</p> <p>b) For goods to be purchased but not available in the PS-DBM, secure a certification from that unit that requisitioned goods are not available before recommending other alternative modes of procurement.</p> <p>c) Prepare the APP for the commonly used supplies and submit to the PS-DBM at the start of the year.d. Personnel involved in the procurement process should attend seminar-workshop on RA 9184 for an efficient and effective implementation thereof.</p>	<p>2014 AAR Finding No.5</p>	<p>Not Implemented</p>	<p>The Management did not purchase the supplies at PS DBM since the amount of supplies we were using is very little and to purchase our supplies at PS DBM it will be costly. Moreover, most of the supplies we needed are not available. But by CY 2017 we will send our APP to their email for them to know the supplies we will be using for the whole year.</p>

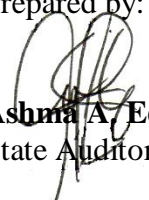
PART – IV

APPENDICES


APPENDIX – A
AAR Finding No. 1

KAPATAGAN WATER DISTRICT						
SCHEDULE OF BOARD MEETINGS						
MONTH	DISBURSEMENT VOUCHER	PAYEE	Nature of Transactions	Amount	Allowable	Disallowable
January	2016-01-045	Angelita P. Robles, et. al	BOD Meetings on Dec. 15, Jan. 12 & 13, 2016	55,125.00	36,750.00	18,375.00
February	2016-02-120	Angelita P. Robles, et. al	BOD Meetings on Feb. 11, 15 & 17, 2016	55,125.00	36,750.00	18,375.00
March	2016-03-192	Angelita P. Robles, et. al	BOD Meetings on March. 10 & 16, 2016	36,750.00	36,750.00	-
April	2016-04-248	Angelita P. Robles, et. al	BOD Meetings on April 10 & 16, 2016	36,750.00	36,750.00	-
May	2016-05-339	Angelita P. Robles, et. al	BOD Meetings on May 11 & 13, 2016	36,750.00	36,750.00	-
					TOTAL	36,750.00
<i>Note: The per diem claimed in January by each BOD for the 12/15/2015 Board Meeting is disallowable because the BODs had convened twice already in December.</i>						

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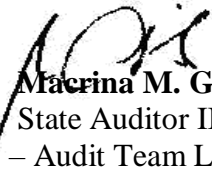
APPENDIX – B
AAR Finding No. 1

Kapatagan Water District						
Schedule of Monthly Allowances Claimed by the BODs						
Date	Check No.	DV. No.	Payee	Nature of Payment	Amount	Disallowable
13-Jan-16	9000026080	2016-01-044	Dir. Robles, et.al	BODs monthly allowance for January 2016	9,187.50	9,187.50
9-Feb-16	9000041067	2016-02-119	Dir. Robles, et.al	BODs monthly allowance for February 2016	9,187.50	9,187.50
15-Mar-16	9000041147	2016-03-193	Dir. Robles, et.al	BODs allowance for March 2016	9,187.50	9,187.50
15-Apr-16	9000041213	2016-04-249	Dir. Robles, et.al	BODs monthly allowance for April 2016	9,187.50	9,187.50
12-May-16	9000041285	2016-05-315	Dir. Robles, et.al	BODs monthly allowance for May 2016	9,187.50	9,187.50
					TOTAL	45,937.50

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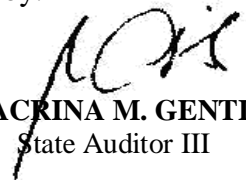
APPENDIX – C
AAR Finding No. 2

Kapatagan Water District				
Schedule of Travel Claims without Certificate of Travel Completed				
DISBURSEMENT VOUCHER	Check No.	PAYEE	Amount	REMARKS
2016-01-008	9000026021	GM Rañises	7,734.27	
2016-01-017	9000026042	Clyde F. Hingpit	550.00	time of arrival and departure not indicated in the IT
2016-01-020	9000026048	Clyde F. Hingpit	700.00	time of arrival and departure not indicated in the IT
2016-01-022	9000026050	Jennifer A. Sumapig	830.00	
2016-01-030	9000026061	Daryl Engelbert C. Eya	600.00	
2016-01-037	9000026071	GM Rañises	1,672.00	time of arrival and departure not indicated in the IT
2016-01-046	9000026084	N. Mahanlud	320.00	
2016-01-031	9000026062	Cheribelle T. Devaras	630.00	
2016-01-056	9000026097	Cheribelle T. Devaras	1,422.00	
2016-01-061	9000041003	Engr. Roberto Manatom	540.00	
2016-02-096	9000041043	Cheribelle T. Devaras	860.00	time of arrival and departure not indicated in the IT
2016-02-097	9000041045	GM Rañises	1,264.00	time of arrival and departure not indicated in the IT
2016-02-102	9000041050	Dino Galbinez	435.00	time of arrival and departure not indicated in the IT
2016-02-106	9000041054	Clyde F. Hingpit	720.00	
2016-02-124	9000041073	GM Rañises	9,513.73	
2016-02-107	9000041055	Clyde F. Hingpit	600.00	
2016-02-136	9000041087	Clyde F. Hingpit	1,935.00	time of arrival and departure not indicated in the IT
2016-02-149	9000041101	Engr. Roberto Manatom	1,320.00	time of arrival and departure not indicated in the IT
2016-03-166	9000041118	Jennifer A. Sumapig	775.00	time of arrival and departure not indicated in the IT
2016-03-178	9000041132	GM Rañises	4,071.00	
2016-03-167	9000041119	Cheribelle T. Devaras	630.00	time of arrival and departure not indicated in the IT
2016-03-186	9000041140	Clyde F. Hingpit	590.00	
2016-03-188	9000041142	Clyde F. Hingpit	740.00	
2016-03-189	9000041143	Clyde F. Hingpit	520.00	
2016-03-190	9000041144	Daryl Engelbert C. Eya	600.00	
2016-03-208	9000041163	Clyde F. Hingpit	1,880.00	
2016-03-215	9000041172	Daryl Engelbert C. Eya	600.00	
2016-03-219	9000041176	GM Rañises	4,880.10	
2016-04-239	9000041199	Cheribelle T. Devaras	400.00	
2016-04-242	9000041202	Daryl Engelbert C. Eya	600.00	
2016-04-254	9000041219	Jennifer A. Sumapig	7,460.00	time of arrival and departure not indicated in the IT
2016-04-256	9000041223	R. Carreon	6,890.00	time of arrival and departure not indicated in the IT
2016-04-257	9000041224	R. Carreon	3,700.00	
2016-04-258	9000041225	Daryl Engelbert C. Eya	4,650.00	
2016-04-263	9000041230	Dino Galbinez	1,320.00	
2016-04-264	9000041231	Daryl Engelbert C. Eya	610.00	
2016-05-279	9000041247	GM Rañises	4,497.70	
2016-05-307	9000041278	Clyde F. Hingpit	770.00	
2016-05-308	9000041279	Clyde F. Hingpit	620.00	
2016-05-324	9000041295	Jennifer A. Sumapig	2,880.00	
2016-05-338	9000041311	Cheribelle T. Devaras	680.00	
2016-05-348	9000041321	GM Rañises	12,620.72	
		TOTAL	94,630.52	

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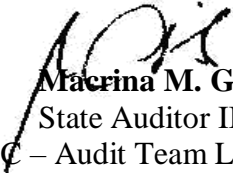
APPENDIX – D
AAR Finding No. 3

KAPATAGAN WATER DISTRICT						
SCHEDULE MONTHLY INSTALLMENTS FOR PURCHASE OF WATER PURIFYING MACHINE NOT INCLUDED IN THE ANNUAL PROCUREMENT PLAN						
Check		DV No.	Payee	Nature of Payment	Amount	Auditor's remarks
Date	No.					
28-Jan-16	9000041016	2016-01-072	DML Trading	Partial payment of 1 set Water Purifying machine as requested by LGU Kapatagan	75,000.00	No BAC resolution attached, no abstract of bids, PR (no signature of GM & Engr. Manatom). Attached documents were: CR, SI, DR, Cansvass, PR, Letter from the Municipal Admin., SB Resolution, PR), DTI Certificate, IAR
1-Mar-16	9000041111	2016-03-159	DML Trading	2nd payment of 1set water purifying machine	93,750.00	No ABC, no Bac resolution, no ABC approved budget, PR no signature of GM & galbines. Attached documents were: PR, OR, letter from Mun. Admin., SB resolution, Cansvass, DR, IAR
1-Apr-16	900004184	2016-04-225	DML Trading	Full payment of 1set water purifying machine	93,750.00	No philgeps register, no BAC resolution, no Ano PO & IAR. Attached Documents were: attached letter from Mun. Admin., SB resolution, PR, SI, DR, Cansvass,

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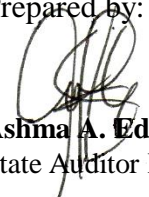
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APPENDIX – E
AAR Finding No. 3

Kapatagan Water District											
Monetization for CY 2016 As of June 2016											
Names	Date applied	Earned Leave Credits Balance on 12/31/2015		Sick Leave credits debited to Vacation Leave or vice versa		Total earned leave credits for 2016		Monetization 2016 applied		Balance after Monetization	
		VL	SL	VL	SL	VL	SL	VL	SL	VL	SL
Buenalita B. Ranises	1/6/2016	17.50	17.50	0.00	0.00	18.75	18.75	15.75	15.75	3.00	3.00
Cheribbelle T. Devaras	1/6/2016	9.42	18.25	6.00	-6.00	16.67	13.50	15.00	0.00	1.67	13.50
Jennifer A. Sumapig	1/1/2016	15.16	54.50	0.00	0.00	15.16	54.50	15.00	0.00	0.16	54.50
Clyde F. Hingplt	1/1/2016	34.57	15.25	9.00	-9.00	43.57	6.25	30.00	0.00	13.57	6.25
, Dinno B. Galbines	8/1/2016	23.75	38.00	0.00	0.00	27.34	46.75	0.00	10.00	27.34	36.75
Nestor Q. Mahanlud	7/26/2016	100.49	39.00	0.00	0.00	106.99	38.50	30.00	0.00	76.99	38.50
Susan Emot P.	1/1/16	6.04	28.50	15.00	-15.00	21.04	13.50	15.00	0.00	6.04	13.50
Leonita B. Simeon	1/20/16	15.38	32.00	0.00	0.00	15.38	32.00	15.00	0.00	0.83	32.00
Leonita B. Simeon	7/28/16	0.83	32.00	0.00	-20.00	20.83	19.50	15.00	0.00	12.59	19.50
Danilo C. Tariman	7/19/16	38.94	90.50	0.00	0.00	41.43	98.00	30.00	0.00	11.43	98.00
Nick J. Reyes	1/12/16	46.42	59.50	0.00	0.00	46.42	59.50	15.00	0.00	32.67	60.75

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APPENDIX – F
AAR Finding No. 2

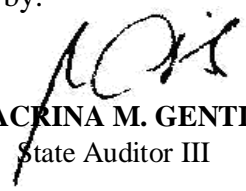
Kapatagan Water District					
Schedule of Salary Payments to Jos without Job Order Contracts					
DV No.	NAME	Period Covered	Amount		
2016-01-012	Ronnel R. Refuela	December 16-31, 2015	3,220.00		
	Epiphane C. Encarnacion		3,565.00		
	Neil A. Callao		3,220.00		
	Joash H. Escala		2,070.00		
	Janray A. Barlisan		1,380.00		
				13,455.00	
2016-01-049	Ronnel R. Refuela	January 1-15, 2016	3,450.00		
	Epiphane C. Encarnacion		3,133.75		
	Neil A. Callao		2,760.00		
	Joash H. Escala		3,277.50		
				12,621.25	
2016-02-053	Ronnel R. Refuela	January 16-31, 2016	3,680.00		
	Epiphane C. Encarnacion		2,760.00		
	Neil A. Callao		2,070.00		
	Joash H. Escala		3,220.00		
	Janray A. Barlisan		2,070.00		
	Fidel P. Dalida		2,070.00		
	Junrey E. Tumbo		1,380.00		
	Oscar B. Alcosero		1,380.00		
				18,630.00	
2016-02-121	Ronnel R. Refuela	February 1-15, 2016	1,840.00		
	Epiphane C. Encarnacion		3,823.75		
	Neil A. Callao		2,990.00		
	Joash H. Escala		3,852.50		
	Janray A. Barlisan		460.00		
	Fidel P. Dalida		690.00		
	Oscar B. Alcosero		690.00		
				14,346.25	
	2016-02-151		Epiphane C. Encarnacion	February 16-30, 2016	3,737.50
Neil A. Callao		2,300.00			
Joash H. Escala		3,220.00			
Janray A. Barlisan		1,610.00			
Fidel P. Dalida		2,760.00			
Oscar B. Alcosero		3,477.60			
			17,105.10		

2016-03-194	Epiphane C. Encarnacion	March 1-15, 2016	3,622.50
	Neil A. Callao		3,220.00
	Joash H. Escala		3,910.00
	Janray A. Barlisan		4,082.50
	Fidel P. Dalida		4,269.37
	Oscar B. Alcosero		3,450.00
			22,554.37
2016-03-220	Epiphane C. Encarnacion	March 16-31, 2016	2,990.00
	Neil A. Callao		2,300.00
	Joash H. Escala		3,910.00
	Janray A. Barlisan		3,335.00
	Fidel P. Dalida		3,680.00
	Oscar B. Alcosero		920.00
	Junrey T. Tumbo		3,680.00
	Alden V. Molig		3,450.00
			24,265.00
2016-04-244	Epiphane C. Encarnacion	April 1-15, 2016	3,450.00
	Neil A. Callao		2,530.00
	Joash H. Escala		4,140.00
	Janray A. Barlisan		3,507.50
	Fidel P. Dalida		3,938.75
	Junrey T. Tumbo		3,220.00
	Alden V. Molig		3,910.00
			24,696.25
2016-04-274	Epiphane C. Encarnacion	April 16-30, 2016	3,047.50
	Neil A. Callao		2,530.00
	Joash H. Escala		3,450.00
	Janray A. Barlisan		3,536.25
	Fidel P. Dalida		4,521.80
	Junrey T. Tumbo		3,450.00
	Alden V. Molig		2,760.00
			23,295.55
TOTAL			170,968.77

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