

CATARMAN WATER DISTRICT
Catarman, Northern Samar
NOTES TO FINANCIAL STATEMENTS
December 31, 2013

1.) Agency Background

Catarman Water District was created on May 25, 1988, by virtue of Council Resolution No. 88-18(04) approved by the Municipality of Catarman, Province of Northern Samar. The water district started its operation in 1995 pursuant to PD 198, otherwise known as the Provincial Water Utilities Act of 1973 as amended by Presidential Decree No. 768 and 1479. The decree authorized the formation of local water districts and provided for their government and administration to facilitate improvement of local water utilities and granted said administration such powers as are necessary to optimize public service from water utility operations and for other purposes. Currently, it is serving twenty (23) barangays of the Municipality of Catarman, Northern Samar with 2,265 concessionaires.

Since 1992, by virtue of the Supreme Court en banc decision, G.R. no. 95237-38 (Davao City Water District, et. al. Vs. CSC, et. Al.), water districts were declared Government Owned and/or Controlled Corporations (GOCCs) with original charter and as such under the jurisdiction of the public respondents Civil Service Commission and Commission on Audit.

At the beginning of the year, CWD was categorized as Small Water District but on April 2004, the water district was recategorized to Average Water District, and again, was recategorized on April 2008 to Medium Water District. CWD are composed of fourteen (13) permanent and One (1) casual employee under the leadership of Mr. Guido A. Mollejon, General Manager. The water district is managed through policies formulated by its Board of Directors in accordance with regulations of LWUA, National Government and other regulatory bodies.

2.) Basis to Financial Statements

The Catarman Water District adopts the Commercial Practices System (CPS)-NGAS Modified Chart of Accounts for use by Water Districts. This is in accordance with LWUA Memorandum Circular No. 003-08 dated June 16, 2008.

3.) Cash – Collecting Officer and Cash in Bank

	2013	2012
Cash – Collecting Officer	0.38	0.00
Petty Cash Fund	5,000.00	5,000.00
Cash in Bank, Local Currency-PNB	36,282.46	36,282.46
Cash in Bank-Local Currency-LBP	308,975.28	440,795.99
Cash in Bank-Local Currency-DBP	271,585.74	174,538.94
Total Cash in Bank-Local Currency	616,843.48	651,617.39
Cash in Bank –LBP Joint Savings Account (JSA)	114,367.94	114,367.94
Total	<u>736,211.80</u>	<u>770,985.33</u>

The Cash – Collecting Officer represents the undeposited collections on the last working day of the year, which were deposited on the first working day of the following year.

The Cash in Bank – Joint Savings Account (JSA) represents the 3% debt-service reserve based on total gross monthly collections, opened at the Land Bank of the Philippines, Catarman Branch, in compliance with LWUA requirements in the granting of loans to water districts.

4.) Accounts Receivable

	2013	2012
Accounts Receivable	3,157,590.63	2,815,274.58
Less: Allowance for Doubtful Accounts	672,411.25	672,411.25
Accounts Receivable – Net	2,485,179.38	2,142,863.33

This represents the unpaid water bills of several concessionaires which remain outstanding.

The Allowance for Doubtful Accounts is provided to cover potential losses on Accounts Receivable- Customer.

5.) Due from Officers and Employees

	2013	2012
Marissa F. Bandal		80.00
Corazon C. Cuna		0.60
Guido a. Mollejon		11,402.78
Edgar Valenciano		390.83
Ginalyn D. Mollejon		1,529.79
Cresalyn Alvarez		(0.20)

Andrew Balero		48.00
Total		13,451.80

6.) Receivable – Disallowance/Charges

	2013	2012
Receivable – Disallowances/Charges	91,407.60	91,407.60

This account represents disallowances issued by COA of which benefits of BOD were disallowed and had been already settled subject for adjustment.

7.) Receivables - Others

	2013	2012
Receivables - Others	172,460.88	171,283.24

This represents the amount receivable from concessionaires for the unpaid Service Connection Materials.

8.) Inventories

This account consists of the following:

	2013	2012
Maintenance Supplies Inventory	243,564.60	66,043.35
Chemicals and Filtering Supplies Invty.		245,770.00
Total	243,564.60	311,813.35

9.) Prepaid Rent

	2013	2012
Prepaid Rent	24,000.00	24,000.00

This account represents deposit as advance payment for office space rental to Merida's Building.

10.) Property, Plant and Equipment

The details of this account are the following:

	2013	2012
Land	95,999.76	95,999.76
Plant and Equipment		
Buildings & Other Structures	434,044.98	434,044.98
Office Equipment	512,996.99	477,016.04
Land Transport Equipment	77,652.00	77,652.00
Other Machinery & Equipment	3,920,008.90	2,476,308.90
Furniture & Fixtures	115,080.25	115,080.25
Public Infrastructures	19,842,035.77	19,842,035.77
Other Assets-Water Ways	7,605,283.25	7,509,483.25
Total PPE	32,603,101.90	30,931,621.19
Less: Accumulated Depreciation	11,359,254.37	10,399,254.37
Net Plant and Equipment	21,147,847.77	20,532,366.82
Total Property, Plant & Equipt.	21,243,847.53	20,628,366.58

The account accumulated depreciation represents to all Property, Plant and Equipment.

11.) Accounts Payable

	2013	2012
Accounts Payable	749,665.41	583,587.24

This account represents the Service Connection Materials and Transmission & Distribution Materials, acquired on account from suppliers and 1 unit 75KVA Generator Sets acquired on account monthly installment basis from supplier.

12.) Other Payables - BIR

	2013	2012
Other Payables - BIR	54,188.11	34,715.75

This account represents taxes withheld from salaries and suppliers for the month of December for remittance to BIR on or before 10th day of the succeeding month.

13.) Other Payables – GSIS

	2013	2012
Other Payables - GSIS	110,630.67	1,972.85

This account represents the GSIS government share and personal share and loan payments of permanent and casual employees for the month of December for remittance to GSIS on or before 10th day of the succeeding month.

14.) Other Payables - Pag-ibig

	2013	2012
Other Payables - Pag-ibig	20,509.17	8,026.57

This account represents the Pag-ibig government share and personal share and loan payments of permanent and casual employees for the month of December for remittance to Pag-Ibig on or before 10th day of the succeeding month.

15.) Other Payables - Philhealth

	2013	2012
Other Payables - Philhealth	7,200.00	675.00

This account represents the Philhealth government share and personal share of permanent and casual employees for the month of December for remittance on or before 10th day of the succeeding month.

16.) Due to Central Office-LWUA

	2013	2012
Due to Central Office-LWUA	292,051.40	0.00

This account represents the accrued interest payable on Loans payable-LWUA for the period November 1, 2013 to December 31, 2013.

17.) Due to Officers& Employees

	2013	2012
Due to Officers & Employees	4,252.63	4,752.63

This account represents payable for excess travel of BOD Lope Dorado

18.) Contractor's Security Deposit

	2013	2012
Contractor's Security Deposit	8,650.00	8,650.00

This account represents security deposit of bidders/suppliers during bidding conducted for KFW project last March, 2006.

19.) Due to Other Funds

	2013	2012
Due to Other Fund-BAC	986.00	986.00
Due to Other Fund-PNB	25,412.03	25,412.03

These accounts represents the amount collected from bidders/supplies of KFW project last March, 2006 for bid documents for adjustment to Other Income of CWD while the other represents deposit for CWD equity, for KFW project last 2006 subject for adjustment.

20.) Other Payables

	2013	2012
Other Payables	90,805.46	90,805.46

This account represents current loans payable for the year 2006 subject for adjustment to interest on loans.

21.) Other Payables - Franchise Tax

	2013	2012
Other Payables-Franchise Tax	5,770.10	2,468.81

This account represents the 2% balance of franchise tax on water bills for the month of December for remittance to BIR on or before the 20th day of the succeeding month.

22.) Loans Payable – Current

	2013	2012
Loans Payable- Current	96,751.99	572,349.32

This account represents total loans payable to LWUA for the next year.

23.) Government Equity

	2013	2012
Government Equity	2,577,950.89	2,577,950.89

This account pertains to the grant received by the water district from the DPWH thru LGU and congressional fund for Countryside Development Project through LWUA.

PART II – OBSERVATIONS AND RECOMMENDATIONS

PART II

OBSERVATIONS AND RECOMMENDATIONS

- 1. The prescribed accounting journals were not used to record certain transactions contrary to Section 121(2) of Presidential Decree (PD) No. 1445 and the New Government Accounting System (NGAS) Manual for Government-Owned and/or Controlled Corporations (GOCCs), thus verification on the correctness and accuracy of the financial records were not facilitated.**

Section 121(2), PD 1445 states that the financial statements shall be based on official accounting records kept in accordance with law and the generally accepted principles and standards.

Item II of the NGAS Manual for GOCCs defines NGAS as a simplified set of accounting concepts, guidelines and procedures designed to ensure correctness, completeness and timeliness in the recording of government financial transactions and production of financial reports.

Further, Item V of the same Manual states that the regular agency books under the manual system of government accounting shall consist of journals and ledgers as follows:

- 1. Journals**
 - a. Cash Receipts and Deposits Journal**
 - b. Cash Disbursements Journal**
 - c. Check Disbursements Journal**
 - d. General Journal**

NGAS prescribes the use of the above journals to wit:

- 1. Cash Receipts and Deposits Journal shall be used to record all collections and deposits reported during the month for the Regular Agency Books;**
- 2. Cash Disbursements Journal shall be used to record all payments made in cash by the Regular/Special Disbursing Officers out of their cash advances;**
- 3. Check Disbursements Journal shall be used to record check payments made by the Cashier or Disbursing Officers and;**
- 4. General Journal shall be used to record all transactions which cannot be recorded in the Cash Receipts and Deposits Journal, Cash Disbursements Journal and the Check Disbursements Journal.**

Accounting records showed that for calendar year 2013, several transactions of the agency were originally recorded in the General Journal which should have been recorded in the Check Disbursements Journal. Transactions like payment for electricity,

telephone, wages of Job Order workers, replenishment of working fund, payment of honorarium and year-end bonus, among others, were originally recorded in the General Journal by debiting the corresponding expense accounts and crediting Due to Officers and Employees/Accounts Payable. Upon the issuance of check payments, the Due to Officers and Employees/Accounts Payable and Cash in Bank accounts were debited and credited respectively.

The Acting Accountant informed that before the introduction of NGAS to the Water District, the practice was to record all expenditures in the Voucher Register. Every time an expense is incurred, she records it as a debit to the appropriate expense accounts and credit to Vouchers Payable. When the NGAS was implemented by the Water District in 2008, all the transactions that she previously recorded in the Voucher Register found their way into the General Journal. Further, the account Due to Officers and Employees was used in lieu of Vouchers Payable account.

The erroneous practice of recording check disbursements in the General Journal instead of using Check Disbursements Journal is confusing and only makes recording of transactions complicated. The recording process could have been simplified and summarized in the appropriate books of original entry by following the guidelines set forth in recording transactions under the NGAS. Further, the verification of the correctness and accuracy of the financial records were not facilitated.

The General Manager commented that for CY 2014 transactions, the Water District will use the prescribed accounting journals and other reports pursuant to NGAS Manual for GOCC.

We recommend that the General Manager require the Acting Accountant to use the appropriate accounting books pursuant to the NGAS Manual for GOCCs to facilitate the verification of the correctness and accuracy of the financial records.

- 2. Twenty-Seven (27) liquidations of cash advances covering travelling expenses of employees and board of directors of the Water District for CY 2013 transactions amounting to P244,395.80 were not documented and reported thru prescribed reports contrary to Sections 5.1.3, 5.2 and 5.3 of COA Circular No. 97-002 dated February 10, 1997 as well as NGAS Manual for GOCCs thus, the validity of the year end balances of the accounts Due from Officers and Employees (135); Travel Expenses (766); Training and Scholarship Expenses (767) remained not ascertained.**

Pertinent provisions of Section 5 of COA Circular No. 97-002 provides for the hereunder rules on liquidation of cash advances:

1. Section 5.1.3 -The AO shall liquidate his cash advances as follows:

Official Travel – within sixty (60) days after return to the Philippines

in the case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel, as provided for in EO 248 and COA Circular No. 96-004.

Failure of the AO to liquidate his cash advance within the prescribed period shall constitute a valid cause for the withholding of his salary and the instruction of other sanctions as provided for under paragraphs 9.2 and 9.3 hereof.

2. Section 5.2 - The AO shall prepare the Report of Liquidation in three (3) copies and submit the same with duly accomplished vouchers/payrolls and supporting documents to the Accountant. For payments based on receipts and invoices only, he shall also prepare a liquidation voucher which shall be submitted with the report and supporting documents to the Accountant. He shall ensure that receipt of the report is properly acknowledged by the Accountant. The AO shall be deemed to have complied with the requirement of proper accounting for the cash advance upon the receipt by the Accountant of the liquidation documents referred to above.
3. Section 5.3- Within ten (10) days after receipt of the report and supporting documents from the AO, the Accountant shall verify the report, record it in the books and submit the same with all the vouchers/payrolls and supporting documents to the Auditor. The cash advance shall be considered liquidated upon the recording thereof by accountant in the books of accounts although not yet audited by the COA auditor.
4. Section 5.10.4 on the required reports and documents to support the liquidation for Official Travel – documents required to support the liquidation of cash advance for official travel, both foreign and local, shall be as specified under COA Circular No. 96-004.

Under COA Circular No. 96-004 these documents shall support the liquidation of cash advance for travels: certificate of travel completed, certification of the head of the agency as to the absolute necessity of the expenses together with the corresponding bills and receipts, hotel room/lodging bills, plane, boats or bus tickets; and certificate of appearance.

Further, NGAS Manual states that the Report of Disbursements (RD) shall be prepared by the Regular/ Disbursing Officers to support liquidations of their cash advances. The report shall be certified as to correctness by the Disbursing Officer and forwarded to the Accounting Unit for preparation of the JEV and final recording in the Cash Disbursement Journal (CDJ).

The Cash Disbursement Journal (CDJ) of the same NGAS Manual states that it shall be used to record all payments made in cash by the Regular/Special Disbursing Officers out of their cash advances. Recording to this journal shall be based on JEVs supported with the Report of Disbursements (RD) and pertinent documents like payroll, disbursement voucher, etc.

Verification of financial reports, general journals, and general ledgers showed that all cash advances for travelling expenses for CY 2013 transactions were fully liquidated as of December 31, 2013 (see Annex A.) The cash advances granted and their corresponding liquidations were recorded in the General Journals without the liquidation papers to prove the validity and correctness of the transactions. Moreover liquidation should have been recorded in the Report of Disbursements and Cash Disbursement Journals as prescribed under NGAS Manual. Several requests and calls to the Water Districts were made requiring them to submit these liquidation documents and properly record them in the appropriate reports and journals but to no avail.

Based on the above condition the validity and correctness of balances of accounts Due from Officers and Employees (135); Travel Expenses (766); Training and Scholarship Expenses (767) at year end remained not ascertained. On the other hand, while without supporting documents, all questioned liquidations are considered not duly accounted for and could be proper subjects of either suspension or disallowance during post-audit.

The General Manager commented that the liquidation papers will be submitted pending signature of the concerned employees. Further he stated that they will comply with the rules and regulations concerning cash advances and liquidations.

We recommend that the General Manager require the Acting Accountant to submit immediately, for audit, all reported liquidations of travel cash advances otherwise recorded reductions to the account will remain questionable as to existence, validity and propriety thus proper subjects of either suspension or disallowance during post-audit.

- 3. Sixty (60) Disbursements covering the period from January to December 2013 totaling P1,767,768.64 were found with incomplete supporting documents, contrary to section 4 (6) of PD 1445 and COA Circular No. 2012-001 dated June 14, 2012 hence, their validity and propriety remained not assured in addition to their being proper subjects of either suspension or disallowance during post audit.**

Section 4 (6) of PD 1445 states that claims against government funds shall be supported with complete documentation. Further, COA Circular No. 2012-001 listed documentary requirements for common government transactions.

Review and analysis of disbursements disclosed that sixty (60) vouchers covering a total amount of P1,767,768.64 were submitted to the Auditor's Office incomplete with supporting documents as follows:

PARTICULAR	No. of Transactions	Lacking Documents	Amount
<ul style="list-style-type: none"> Emergency purchase in November of 2 units 75 kva generating set@ 550,000.00. (Cash and installment) 	2	Acceptance and inspection Report, Property Acknowledgement Receipt, Warranty Certificate	709,821.44
<ul style="list-style-type: none"> Purchases of various supplies, materials, services 	44	Canvass papers, abstract of canvass, acceptance & inspection reports, Inventory Custodian Slip (ICS), pre & post repair inspection report, warranty certificate, purchase request,	763,816.00
<ul style="list-style-type: none"> Claims on 2012 PBB of regular employees, BODs, casuals, and JOs 	6	Performance criteria developed by LWUA endorsed by GCG & subject to the approval of the president	220,000.00
<ul style="list-style-type: none"> Payment of BODs per diems; 	8	Agenda of meeting, attendance during board meeting	74,131.20
Total	60		1,767,768.64

As a result, the validity and accuracy of the reported disbursements for various expenses amounting to P1,767,768.64 could not be ascertained.

Management promised that they will submit the lacking supporting documents and will strictly practice the requirement on checking of complete documentations before payment will be made.

We recommend that the General Manager instruct the Accountant to

- a) process only those transactions with complete documentations otherwise transactions shall either be suspended or disallowed during post-audit

- b) prepare and attach checklist of required documents per claim as guide in the review of transactions by concerned officers before signing/approving any disbursement voucher for payment.
- 4) Some Account Titles presented in the financial statements are not yet compliant with the Revised Philippine Government Chart of Accounts (PGCA) contrary to COA Circular No. 2008-001 dated January 29, 2008 and LWUA Memorandum Circular No. 003-08 thus, defeating the purpose of the unified accounting system.

COA Circular No. 2008-001 states thus

“This Circular is issued to prescribe the use of a more comprehensive Chart of Accounts to respond to the information needs of various government agencies in implementing the New Government Accounting System (NGAS), xxx The Revised Philippine Government Chart of Accounts (PGCA) shall be used by National Government Agencies, Local Government Units, and Government Owned and/or Controlled Corporations except government banks, the Government Service Insurance System and the Social Security System.”

Likewise, Local Water Utilities Administration (LWUA) Memorandum Circular No. 003-08 dated June 16, 2008 prescribes the Commercial Practices System-New Government Accounting System (CPS-NGAS) Modified Chart of Accounts for use of Water Districts. It states that it put together and came up with the CPS-NGAS Chart of Accounts to facilitate the implementation of a unified accounting system that conforms to LWUA's regulatory and reportorial requirements and the New Government Accounting System prescribed by COA.

Review and analysis of the financial statements disclosed that some account titles are not yet in conformity with the revised Philippine Government Chart of Accounts. Although the LWUA already provided Water Districts with uniform general ledger and subsidiary ledger accounts embodied in the CPS-NGAS Modified Chart of Accounts, management continued using old account titles, consisting of the following:

Old and Incorrect Account Titles		Account Titles prescribed under PGCA	
Code	Account Title	Code	Account Title
231	Public Infrastructures	203	Plant
415	Due to Central Office - LWUA	413	Due to GOCC
429b	Other Payables - BIR	412	Due to NGAs (BIR, etc)
429c	Other Payables- GSIS	413	Due to GOCC
429d	Other Payables – Land Bank	413	Due to GOCC
429e	Other Payables - Philhealth	413	Due to GOCC
429f	Other Payables – Pag-Ibig	413	Due to GOCC
429g	Other Payables - PNB	413	Due to GOCC
429h	Other Payables - CFI	429	Other Payables
724	Cash Gift	714	Year-end Bonus
801	Repairs & Maintenance – Public Infra	803	Repairs & Maintenance – Plant

			SL - Maintenance of Supply Mains SL - Maintenance of Reservoirs & Tanks SL - Maintenance of Transmission & Distribution Mains SL - Maintenance of Services SL - Maintenance of Meters
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Management's non-adherence with the prescribed Government Chart of Accounts defeated the purpose of the unified accounting system.

The management admitted that the accountant had partially implemented the use of Revised Philippine Government Chart of Accounts (PGCA). They opined that some of their accounts do not conform with the Revised PGCA. Nevertheless, they will convert these remaining accounts according to those prescribed under the Revised PGCA for the CY 2014 transactions.

We recommend that the General Manager instruct the accountant to convert the above-listed account titles to that prescribed under COA Circular No. 2008-001 dated January 29, 2008 and LWUA Memorandum Circular No. 003-08 dated June 16, 2008.

- 5. Rice allowance amounting to Sixty Thousand (P60,000.00) was paid to five (5) regular employees contrary to the provisions of COA Resolution 2004-006, Section 12 of Republic Act (RA) No. 6758, paragraphs 5.4 and 5.5 of DBM Corporate Compensation Circular No. 10 and Item II of COA Circular No. 2013-003 thus, resulting in invalid expenditures and subject to issuance of notice of disallowance.**

Item 2.2 of COA Resolution No. 2004-006 dated September 14, 2004 prescribes the guidelines on the matter of allowances and benefits granted by the water districts to the members of the Board of Directors and their organic personnel which provides that allowances and benefits of organic personnel of water districts who were incumbents as of July 1, 1989 and were receiving such allowances and benefits shall be allowed in audit. Conversely, those hired after that date including those hired to the positions vacated by those incumbents shall not be entitled to the said allowances and benefits.

Section 12 of Republic Act No. 6758 dated July 1, 1989, otherwise known as the Salary Standardization Law, provides the consolidation of allowances and compensation which states that all allowances, except for representation and transportation allowances; clothing and laundry allowances; subsistence allowance of marine officers and crew on board government vessels and hospital personnel; hazard pay; allowances of foreign service personnel stationed abroad; and such other additional compensation not otherwise specified herein as may be determined by the DBM, shall be deemed included in the standardized salary rates herein prescribed. Such other additional compensation, whether

in cash or in kind, being received by incumbents only as of July 1, 1989, not integrated into the standardized salary rates shall continue to be authorized.

Sub-paragraphs 5.4 and 5.5 of DBM Corporate Compensation Circular (CCC) No. 10 dated February 15, 1999 supplemented the above law by enumerating the additional compensation authorized to be continued for incumbent employees as of July 1, 1989.

Sub-paragraph 5.4 thereon provides that the rates of the following allowances/fringe benefits which are not integrated into the basic salary and which are allowed to be continued after June 30, 1989 shall be subject to the condition that the grant of such benefits is covered by statutory authority, as follows:

- 5.4.1 RATA of incumbent of the positions authorized to receive the same;
- 5.4.2 Uniform and clothing allowance at a rate as previously authorized;
- 5.4.3 Hazard pay as authorized by law;
- 5.4.4 Honoraria/additional compensation for employees on detail with special projects or inter-agency undertaking;
- 5.4.5 Honoraria for services rendered by researchers, experts and specialists who are of acknowledged authorities in their fields of specialization;
- 5.4.6 Honoraria for lecturers and resource persons/speakers;
- 5.4.7 Overtime pay in accordance to Memorandum Order No. 228;
- 5.4.8 Clothing/laundry allowances and subsistence allowance of marine officers and crew on board GOCCs/GFIs owned vessels and used in their operations, and of hospital personnel who attend directly to patients and who by nature of their duties are required to wear uniforms;
- 5.4.9 Quarters allowance of officials and employees who are presently entitled to the same;
- 5.4.10 Overseas Living Quarters and other allowances presently authorized for personnel stationed abroad;
- 5.4.11 Night Differential of personnel on night duty;
- 5.4.12 Per Diems of members of the governing boards of the GOCCs/GFIs at the rate as prescribed in their respective charters;
- 5.4.13 Flying Pay of personnel undertaking serial flights;
- 5.4.14 Per Diem/Allowances of Chairman and Members/Staff of collegial bodies and Committee; and
- 5.4.15 Per Diems/Allowances of officials and employees on official foreign and local travel outside of their official station.

Whereas sub-paragraph 5.5 thereof provides that other allowances/fringe benefits not likewise integrated into the basic salary and allowed to be continued only for incumbents as of June 30, 1989 subject to the condition that the grant of the same is with appropriate authorization either from the DBM, Office of the President or legislative issuances are, as follows:

- 5.5.1 Rice Subsidy;
- 5.5.2 Sugar Subsidy;
- 5.5.3 Death Benefits other than those granted by the GSIS;
- 5.5.4 Medical/dental/optical allowances/benefits;
- 5.5.5 Children's Allowance;
- 5.5.6 Special Duty Pay/Allowance;
- 5.5.7 Meal Subsidy;
- 5.5.8 Longevity Pay; and
- 5.5.9 Teller's Allowance

In the case of Public Estates Authority vs. COA G.R. No. 156537 dated January 24, 2007, the Supreme Court ruled that accordingly it is decisively clear that rice subsidy may only be granted to petitioner's personnel who were incumbents as of July 1, 1989 and that in disallowing the grant of rice subsidy to employees hired after that date, respondent COA did not gravely abuse its discretion.

In addition, Item II of COA Circular 2013-003 dated January 30, 2013 states that government officials and employees shall be entitled only allowances, incentives and other benefits expressly provided by law, and other statutory authority, and the rules and regulations promulgated by competent authority. Item III thereof does not mention of rice subsidy as one of the allowances and benefits generally applicable to agencies which are covered by RA 6758.

Post-audit of various financial transactions of the district disclosed that a total of P60,000.00 or P12,000.00 each, representing rice allowance, was paid to its five (5) regular employees, who were hired after July 1, 1989. The details of the disbursements are shown in annex A.

Pursuant to the above laws and rules, since incumbents after July 1, 1989, the questioned grant of rice allowance are invalid, thus proper subjects of disallowance during post-audit.

Management assured through letter that the Water District will discontinue the grant of rice allowance to personnel who were not incumbents as of July 1, 1989.

We recommend that the General Manager discontinue the grant of rice allowance to personnel who were not yet incumbents as of July 1, 1989.

6. **Performance Based-Bonus (PBB) amounting to P30,000.00 was paid to its three (3) Job Orders contrary to Inter-Agency Task Force (IATF) MC No. 2012-03 dated November 12, 2012 thus, showing tolerance in the grant of benefits to ineligible recipients.**

The Inter-Agency Task Force (IATF) MC No. 2012-03 dated November 12, 2012 indicates the hereunder as its purpose:

- a. Determining the eligibility of Departments/Agencies to the PBB;
- b. Ranking the bureaus, offices or equivalent delivery units within a Department/Agency based on performance;
- c. Ranking and rating the performance of individuals in a bureau, office or delivery unit for the grant of the PBB in FY 2012 and;
- d. Distributing the PBB to qualified Departments, bureaus or delivery units, and personnel.

Accordingly it covers among others all government officials and employees in the Departments, Agencies, State Universities and Colleges (SUCs) and Government Owned or Controlled Corporations (GOCCs) holding regular plantilla positions, and all contractual and casual employees having an employer-employee relationship with these Departments, Agencies, SUCs and GOCCs; who are in the government service as of November 30, 2012; and have rendered at least four (4) months service during the year as of November 30, 2012.

Post-audit of disbursements for the month of January 2013 revealed that the district paid the total amount of P30,000.00 PBB for CY 2012 to its three (3) job orders at P10,000.00 each (pls see annex A for details). Said grant was allowed despite the ineligibility of the recipients to receive the benefits considering the absence of employer-employee relationship between them and the agency.

Erroneous grants of allowances, benefits and the like are significant drainage to public funds thus should not be tolerated. Due to absence of legality the subject claims shall be disallowed during post-audit.

Management committed that the Water District will strictly adhere to the recommendation to refrain from disbursing allowances without sufficient legal basis.

We recommend that the General Manager refrain from granting and disbursing allowances/benefits without clear/sufficient legal basis.

7. **The CY 2013 accounts were submitted for audit beyond the prescribed period contrary to Section 107 of PD 1445 and COA Circular No. 2009-006 dated September 15, 2009 thus, management was not promptly informed as to the deficiencies inherent in its administration of government resources.**

On submission of accounts, Section 7.2.1 of COA Circular 2009-006 states that the Chief Accountant, Bookkeeper or other authorized official performing accounting and/or bookkeeping functions of the audited agency shall ensure that: a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and submitted to the Auditor within the first ten (10) days of the ensuing month.

Concerning time and mode of rendering accounts, Section 107 of PD 1445 states that in the absence of specific provision of law, all accountable officers shall render their accounts, submit their vouchers, and make deposits of money collected or held by them at such times and in such manner as shall be prescribed in the regulations of the Commission.

Section 7 of COA Circular No. 94-001 dated January 20, 1994 in turn provides that Accountable officers shall submit within five (5) days after the end of each month, reports of collections and/or disbursement vouchers (DVs) and other required reports to the Chief Accountant for recording in the books of account.

On the composition of accounts, Section 4 Rule 1 of the 2009 Revised Rules of Procedure of COA defines it as the bookkeeping records, including journals, ledgers, vouchers, and other supporting papers; a detail statement of items of debits and credits.

Results on monitoring concerning the agency's submission of accounts for audit disclosed the hereunder results thus:

Month	Date Due	Name of accounts that were not submitted
January - December	First ten (10) days of the ensuing month	Disbursement vouchers, Payrolls, Liquidation Reports, Official Receipts, Reports of Checks Issued, Reports of Collections and Deposits, Report of Disbursements and Journals with supporting documents
January - December	At the close of each month	Bank Reconciliation Statements with bank statements, original copies of checks paid by the bank
January - December	First ten (10) days of the ensuing month	General and subsidiary ledgers (authenticated copies)

Specifically, we refer to the 1-time submission of the above accounts covering January to December of 2013. The set up shows management's retention of the pertinent documents during the entire year of 2013.

The delays in the submission of specific accounts prevented the rendition of on-time audits on all financial transactions of the agency during CY 2013, in turn denying management of updated information concerning errors committed in its administration of

government resources. If continually unchecked, the erroneous practice will cause the accumulation of errors inherent in the agency's implementation/observance of policies and procedures concerning receipt and disposition of funds as well as properties. Not to mention the additional risks of being penalized pursuant to relevant laws and COA rules if delayed submissions of accounts remained not corrected.

The General Manager committed that he will instruct the concerned employees to strictly follow timely submission of the required reports as mandated by law and existing COA rules and regulations.

We recommend that management

- a) **instruct the Head of the Accounting Section to immediately submit all accounts to the Audit Team at its Official Station.**
 - b) **instruct the Cashier and all accountable officers to submit the accounts to the Accounting Section within the reglementary period, the same to be covered with transmittal letters as proof thereof.**
 - c) **issue a written policy concerning on time submission of accounts by the Cashier and all accountable officers to the Accounting Section and from the latter to the Audit Team within the prescribed period.**
8. **The agency failed to submit its year-end financial statements on time contrary to Item 3.0 of COA Accounting Circular 2007-003 dated January 19, 2007 and COA Circular No. 2009-006 dated September 15, 2006 thus hindered the timely audit thereon and deprived the end-users of immediate use of significant financial information.**

Item 3.0 of COA Accounting Circular No. 2007-003 states that the Chief Accountant/Head of Accounting Unit shall submit directly to Government Accountancy and Financial Management Information System (GAFMIS) Sector this Commission, and Audit Team Leader (ATL)/auditor concerned, the year-end Financial Statements (FS) and reports/schedules in printed and digital copies on or before February 14 of each year.

Section 7.1.1 of COA Circular 2009-006 dated September 15, 2009 also states that the head of the agency, who is primarily responsible for all government funds and property pertaining to his agency, shall ensure that the required financial and other reports and statements are submitted by the concerned officials in such form and within the period prescribed by the Commission.

Our records on submission of the agency's 2013 year-end financial statements (FS) disclosed that the same were submitted beyond the deadline. Said submitted FS

include pre-closing and post-Closing Trial Balances and the copies of Journal Entry Vouchers containing Closing Journal Entries and the corresponding schedules.

The non-submission on time of the FS together with all the required supporting documents and schedules hindered the conduct of updated audit thereon and the rendition of information on the agency's results of operations, financial condition and status of cash flows for CY 2013, in the process, denying the government of significant information concerning the agency's various financial activities.

The General Manager commented that he will instruct the concerned employees to strictly follow timely submission of the required reports as mandated by existing COA rules and regulations.

We recommend that management instruct its accountant to submit the year-end FS on time. The following measures are further proposed:

- a. Insure that all transactions for the year including adjusting journal entries shall be recorded completely in the books as of December 31.
 - b. All journals and ledgers shall be updated monthly and ready for closing as of December 31 of each year. Closing of accounts thereafter will take place preferably on the first week of the succeeding year.
 - c. Closing of accounts shall be given specific deadline to ensure its continuous conduct until the required FS and all schedules should have been duly prepared.
9. The correctness and reliability of the Cash in Bank account balance of P731,211.42 at year-end could not be ascertained due to the non-submission of bank reconciliation statements contrary to Section 74 of PD 1445.

Section 74 of PD 1445 provides that at the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.

Bank reconciliation is a process of bringing into agreement the cash balance per books and the cash balance per bank records. Through the BRS, management is able to compare its Cash in Bank book balance with the Bank Statements for possible errors/reconciling items and effect the adjustments in either record where the discrepancies or reconciling items lie.

The CY 2013 financial statements of the agency showed that the Cash in Bank has a total balance of P731,211.42 as of year-end, maintained at the following Bank in Catarman Northern Samar.

1. LBP Current Account No. _____	P308,975.28
2. LBP Joint Savings Account No. _____	114,367.94
3. PNB Current Account No. _____	36,282.46
4. DBP Current Account No. _____	<u>271,585.74</u>
	<u>P731,211.42</u>

It was observed that management has not submitted the Bank Reconciliation Statements for the above stated accounts for the year and previous years.

The failure to submit the BRS resulted to difficulty in ascertaining the accuracy and correctness of the Cash in Bank balance at year end. Further, errors committed by the bank cannot be promptly corrected. Said deficiency renders as unreliable the reported balance for cash in bank per the agency's financial statements as of year-end.

The accountant committed that henceforth, the Water District will submit the bank reconciliation statement regularly.

We recommend that the Accounting Division be directed to submit regularly for audit the Bank Reconciliation Statements covering accounts maintained with the depository bank on a monthly basis.

- 10. The existence and valuation of the Property, Plant and Equipment amounting P21,243,847.53 per the agency's year-end financial statements could not be ascertained due to non-conduct of physical count of properties and absence of schedules supporting the recognized depreciation expenses provided for the year contrary to COA Circulars 80-124, 2003-007 and 2004-005.**

COA Circular 80-124 dated January 18, 1980 states that the physical inventory of fixed assets should be made at least once a year in accordance with the guidelines enumerated therein and that all inventory reports should be prepared in the prescribed form and certified correct by the committee in charge thereof, noted by the auditor and approved by the head of agency.

Likewise COA Circular No. 2003-007 was issued to provide policies and guidelines on the computation of depreciation of government property, plant and equipment for allocating the same over their useful life and fair presentation of the financial statements. Said rule states the hereunder:

- a) The straight line method of computing depreciation for government property, plant and equipment (PPE) shall be adopted.

- b) For uniformity in the application of useful life and simplification in its computation, the Estimated Useful Life of PPE by classification as presented in Annex A of the Circular shall be used
- c) A residual value equivalent to ten percent (10%) of the acquisition cost/appraisal value shall be deducted before dividing the same by the Estimated Useful Life.

Further, COA Circular No. 2004-005 states that adjustments arising from the revision of the assets' useful life shall be charged to the current and subsequent years' depreciation expense of the particular asset.

Likewise, the conduct of physical count as well as the preparation of the physical inventory report are indispensable procedures for checking the integrity of property custodianship and in confirming the accuracy of the recorded book balances.

As of December 31, 2013, the Property, Plant and Equipment (PPE) are recorded in the books at P21,243,847.53 net of accumulated depreciation of P11,359,254.37 as shown below.

<i>Description</i>	<i>Amount</i>
Land	95,999.76
Buildings & Other Structures	434,044.98
Office Equipment	512,996.99
Land Transportation Equipment	77,652.00
Other Machinery & Equipment	3,920,008.90
Furniture & Fixtures	115,080.25
Public Infrastructures	19,842,035.77
Other Assets	7,509,483.25
Total PPE	32,603,101.90
Less: Accumulated Depreciation	11,359,254.37
Book Value Property, Plant & Equipment	21,243,847.53

We noted that the Property and Supply Officer had not submitted any Report on the Physical Count of Property, Plant and Equipment for CY 2013 and previous years. Further, verification of the financial reports showed that the accountant failed to provide the prescribed supporting schedules on depreciation expenses for the year.

Failure to provide supporting schedules on depreciation expenses on the period to which the benefit had been allocated hinders verification of the validity of the reported depreciation expense for the year. The above deficiencies also resulted in the non-ascertainment of the physical existence and correctness of the recorded valuation of the PPE accounts amounting to P21,243,847.53 which comprise 84.60% of the total asset of

PPE accounts amounting to P21,243,847.53 which comprise 84.60% of the total asset of the water district, thus, said amount as presented per the agency's year-end financial statements remained not assured as to reliability.

The General Manager assured through letter that the water district will adhere to the recommendations as soon as possible.

We recommend that the General Manager

- a. create an Inventory Committee to conduct and complete the physical count of properties by the water district;**
- b. require the Accountant and the Property Officer to reconcile the results of the Physical count with the Equipment Ledger Cards and Property Cards. Henceforth, reconciliation of the Equipment Ledger Cards and the Property Cards should be done monthly.**
- c. instruct the Accountant to provide a monthly depreciation for its PPE accounts as prescribed under existing rules and regulations with supporting schedules.**
- d. require the Property Officer to prepare the Property Acknowledgement Receipt for Equipment as prescribed in NGAS Manual**