

**CATARMAN WATER DISTRICT
NOTES TO FINANCIAL STATEMENTS
December 31, 2014**

1.) Introduction

The 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. After satisfactorily complying with the minimum requirements of the Local Water Utilities Administration (LWUA) certification program, the LWUA Officer the Chairman of the Board of Trustees issued Certificate of Conformance No. 359 dated September 12, 1988 granting the Catarman Water District the right to improve, operate and maintain the whole water system.

The sources of the existing water supply system are two deep wells at Macagtas and Libjo.

The existing system serves twenty three (23) barangays of the Municipality of Catarman. It serves about 2,566 concessionaires as of December 31, 2014.

The Department of Budget and Management (DBM) initially categorized the Catarman Water District 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.) Summary of Significant Accounting Policies

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, Petty Cash Fund and Cash in Bank

	2014	2013
Cash – Collecting Officer	56,557.56	.38
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	283,838.50	308,975.28
Cash in Bank-Local Currency-DBP	47,955.19	271,585.74
Total Cash in Bank-Local Currency	368,076.15	616,843.48
Cash in Bank –LBP Joint Savings Account (JSA)	136,397.20	114,367.94
Total	<u>566,030.91</u>	<u>736,211.80</u>

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

8.) Inventories

This account consists of the following:

	2014	2013
Maintenance Supplies Inventory	401,376.60	243,564.60

9.) Prepaid Rent

	2014	2013
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:

	2014	2013
Land	<u>95,999.76</u>	<u>95,999.76</u>
Plant and Equipment		
Plant	23,690,534.49	0.00
Buildings & Other Structures	434,044.98	434,044.98
Office Equipment	512,683.79	512,996.99
Laboratory Equipment	220,000.00	0.00
Land Transport Equipment	463,900.00	77,652.00
Other Machinery & Equipment	7,859,333.03	3,920,008.90
Furniture & Fixtures	235,572.45	115,080.25
Public Infrastructures	0.00	<u>19,842,035.77</u>
Total PPE	33,512,068.50	24,901,818.89
Less: Accumulated Depreciation	<u>12,429,254.41</u>	<u>11,359,254.37</u>
Net Plant and Equipment	<u>21,082,814.09</u>	<u>13,542,564.52</u>
Total Property, Plant & Equipt.	<u>21,082,814.09</u>	<u>13,638,564.28</u>

The account accumulated depreciation represents to all Plant and equipment.

11.) Accounts Payable

	2014	2013
Accounts Payable	620,073.34	749,665.41

This account represents the Service Connection Materials and Transmission & Distribution Materials, acquired on account from suppliers.

12.) Due to National Government Agency - BIR

	2014	2013
Due to NGA - BIR	2,474.01	54,188.11

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.) Due to GOCC - GSIS

	2014	2013
Due to GOCC - GSIS	8,120.44	110,630.67

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.) Due to GOCC -Pag-ibig

	2014	2013
Due to GOCC - Pag-ibig	1,562.04	20,509.17

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.) Due to GOCC - Philhealth

	2014	2013
Due to GOCC - Philhealth	7,200.00	7,200.00

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

16.) Due to GOCC - LWUA

	2014	2013
Due to Central Office - LWUA	6,000.00	292,051.40

This account represents the accrued interest payable on Loans payable-LWUA for the period November 1, 2013 to December 31, 2013. For CY 2014, it consists of registration fee attended by BOD on December 2014.

17.) Due to Officers & Employees

	2014	2013
Due to Officers & Employees	5,193.81	4,752.63

This account represents payable for excess travel of BOD Lope Dorado.

18.) Contractors' Security Deposit

	2014	2013
Contractors' 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

	2014	2013
Due to Other Fund-BAC	986.00	986.00
Due to Other Fund-PNB	25,412.03	25,412.03
Total	26,398.03	26,398.03

This account represents the amount collected from bidders/supplies of KFW project last March, 2006 for bid documents for adjustment to Other Income of CWD.

20.) Other Payables

	2014	2013
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.) Loans Payable

	2014	2013
Loans Payable - Current	0.00	96,751.99

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

22.) Deferred Tax Liability

	2014	2013
Deferred Tax Liability (Franchise Tax)	401.98	5,770.10

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

23.) Government Equity

	2014	2013
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 – AUDIT OBSERVATIONS AND RECOMMENDATIONS

PART II

AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. **The Water District paid penalty charges of P238,181.34 as results of failure to pay its monthly amortizations with the Local Water Utilities Administration (LWUA) contrary to the executed Financial Agreement Contracts, thus, showing incurrence of unnecessary expenses without corresponding benefit to the government.**

On prevention of irregular, unnecessary, excessive or extravagant expenditures (IUEEE) of funds or uses of property and power to disallow, Section 33 of PD 1445 states that the Commission shall promulgate such auditing and accounting rules and regulations as shall prevent irregular, unnecessary, excessive, or extravagant expenditures or uses of government funds or property.

On IUEEU, COA Circular 2012-003 dated October 29, 2012 contains the hereunder relevant provisions; thus:

- 1) Item 2.1 states that COA adheres to the policy of government funds and property should be fully protected and conserved, and that IUEEU expenditures or uses of such funds and property should be prevented.
- 2) Item 4. 1 states an expenditure that is not essential or that which can be dispensed with without loss or damage to property is considered unnecessary.
- 3) Item 5.1 states that excessive expenditures signifies unreasonable expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure of amount. They include expenses in excess of reasonable limits.
- 4) Item 7.1 states that unconscionable expenditures pertains to expenditures which are unreasonable and immoderate, and which no man in his right sense would make, nor a fair and honest man would accept as reasonable, and those incurred in violation of ethical and moral standards.

Verification of various loan documents of the district disclosed that it has four (4) loan accounts with the Local Water Utilities Administration (LWUA) as of December 31, 2014. The details are as follows:

Loan Acct. No.	Date Granted	Date Due	Principal	Monthly Amortization	Interest Rate	Balance as of 12/31/2014
3-484 RL	07/1996	06/2022	1,176,000.00	P9,365.00	8.50%	670,487.51
3-484 SL	07/2002	06/2022	950,384.17	8,248.00	8.50%	588,097.57

Loan Acct. No.	Date Granted	Date Due	Principal	Monthly Amortization	Interest Rate	Balance as of 12/31/2014
3-723 RL	07/1998	05/2024	1,927,138.63	16,897.00	10.50%	1,337,268.43
4-2221A RL	10/2012	09/2027	11,871,779.99	146,322.00	12.50%	11,497,676.99
4-2211B RL	10/2008	08/2023	1,969,000.00	24,268.00	12.50%	1,614,651.00
Total			17,894,302.79	205,100.00		15,708,181.50

Based on the above data as stated in the Financial Agreement Contracts and the Monthly Amortization Schedules, the District should pay regular monthly amortization of P205,100.00 to LWUA or a total annual amortization of P2,461,200.00. For CY 2014 however, the agency only paid P1,200,000.00 thus is deficient by P1,461,200.00. These payments covered the period from November 2013 to September 2014 and for such dues like the monthly amortizations in arrears comprising of the principal and the interest and the penalty charges which is 2% of the amount in arrears per month.

Due to the non-payment on the scheduled period, the agency paid for CY 2014 penalties totaling P238,181.34 representing the unpaid dues for CY 2014 or 19.84% of its total payment to LWUA for the year. Moreover the district was not able to pay in full the required amortizations as of December 31, 2014 (see Annex A).

It was disclosed that the district provides in their annual Corporate Operating Budget the monthly loan amortizations. Whereas the district's monthly collections from their water sales and other business at an average for the last two years were P1,089,703.07 and P1,091,038.39. With these circumstances, prompt loan payments may not be within the capacity of the district.

The payment of penalties as results of failure to pay on time the loan amortizations deprived the agency of funds which could have been utilized for its other operational needs. On the other hand, as they could have been avoided had payments of monthly dues been on time, penalties may be considered unnecessary expenses thus could be disallowed during post-audit.

The General Manager of the water commented thus:

- a) Two days before super typhoon Yolanda hit Region VIII on November 2013, supply of electricity in the entire Region VIII was totally cut-off resulting to water supply interruption in the locality of Catarman since the district had no standby power for the electric-driven submersible pump and motor. This electricity interruption lasted for more than two months.
- b) Considering that electric supply was interrupted for more than two months, interruption of water supply to the concessionaires likewise occurred, thus causing the non-issuance of water bills particularly

for zero consumption and the other is based on consumption per cubic meter actual water rate. This low collection affected the operation of the district.

- c) After the declaration of Energy Secretary Petilla that the electricity will be restored in Region VIII but the undertaking will last for six (6) months due to the electric system damaged by super typhoon Yolanda, the CWD Board of Directors decided to purchase/loan generating sets from known qualified supplier in order to supply water to its concessionaires.
- d) After the CWD decided to purchase generating sets as standby power for its pumping stations, the remaining funds of Catarman Water District were allocated to purchase such generating sets. The CWD BOD approved and submitted resolution to LWUA requesting for the moratorium of payments of loans for six (6) months including fines and penalties on December, 2013.
- e) LWUA Management Advisor Ms. Charie B. Ruiz verbally notified this office that our request for moratorium of payment had been processed by LWUA and it will be approved as soon as possible.
- f) This office did not receive the disapproval of our request for moratorium until this present thus this office assumed that our moratorium for payment of loans had been approved.

We recommend that the District should

- 1. Justify for the arrearages incurred in the monthly amortizations;**
- 2. Henceforth pay religiously the monthly amortization of their loans to LWUA to avoid payment of penalty charges and;**
- 3. Make representation with LWUA for: a) the forfeiture of penalties considering such circumstances as need for a moratorium due to the effects of super typhoon Yolanda and the slow generation of funds out of water sales, among others; and b) re-assessment of interest rates for validity of their possible reduction according to rate and the period they may become effective taking into consideration certain factors like the prevailing rates at the market, the problems faced by the water district during project implementation and the resulting slow generation of income thereafter.**

2. **The current portion of the Long Term Loans Payable of P2,461,200.00 remained reflected as part thereof thus affecting the accuracy of the pertinent liability account per the agency's books and its financial statements contrary to Section 111 of Presidential Decree (PD) 1445.**

Section 111 of PD 1445 contains these provisions: 1) The accounts of an agency shall be kept in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government: 2) The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information.

On objectives of government accounting, Section 110 of the above law states that government accounting shall aim to (1) produce information concerning past operations and present conditions; (2) provide a basis for guidance for future operations; (3) provide for control of the acts of public bodies and officers in the receipt, disposition and utilization of funds and property; and (4) reports on the financial position and the results of operations of government agencies for the information of all persons concerned.

Generally accepted accounting principles on the presentation of long-term liability requires that the principal amount of Long Term Loans Payable due for the succeeding twelve (12) months should be presented in the year-end financial statements as a separate account.

Perusal of the Balance Sheet (BS) for CY 2014 disclosed that the portion of Loans Payable account due to be paid in the succeeding twelve (12) months of CY 2015 amounting to P2,461,200.00 were not presented and recorded separately in the Current Liabilities portion of the balance sheet. Said current portion of the liability account comprise 15.67% of the total value of the long-term payable, thus of significance in amount.

The non-segregation of the current portion of the long-term loans did not understate the totality of said liability account. Despite said circumstance, nothing in the District's BS discloses an outright presentation of the amount of the obligation that was due during the audited year.

The practice of omitting presentation of even a single account would render the agency's financial statements unreliable as source of financial information.

We recommend that the designated Bookkeeper presents amortization for the next twelve months by preparing a reclassification entry at every year-end.

The Bookkeeper committed that she will prepare an adjusting entry to reclassify the current portion of their Loans Payable account.

3. Certain procurements of the agency were not in adherence to modes prescribed under Republic Act (RA) 9184 and its Revised Implementing Rules and Regulations (IRR) thus are doubtful as to validity.

Section 4 paragraph 7 of PD 1445 states that all laws and regulations applicable to financial transactions shall be faithfully adhered to.

During CY 2014, procurements of agency were noted not consonant to RA 9184 and its IRR; thus:

- a. The agency's procurement totaling P1,073,268.54 was not done thru public bidding contrary to the pertinent provisions of Republic Act (RA) No. 9184, hence the processes undertaken may not be valid whereas the prices obtained as results are not assured most advantageous to the government.**

Section 10 Article IV of RA 9184 states that all procurement shall be done through Competitive Bidding except as provided for in Article XVI of the Act. Whereas, Section 48.2 Rule XVI of the IRR states that alternative methods shall be resorted to only in the highly exceptional cases provided that Sections 49 to 53 of the rule provides for the hereunder alternative methods; to wit:

- a) Limited Source Bidding
- b) Direct Contracting
- c) Repeat Order
- d) Shopping
- e) Negotiated procurement

Likewise, Section 11 Rule V of the IRR further states that each procuring entity shall establish a single Bids and Awards Committee (BAC) for its procurement. Accordingly, the BAC shall have at least a third ranking permanent official of the procuring entity other than its head and that in no case shall the approving authority be a member of the BAC.

On the other hand, Section 12 of said rule states the following as functions of the BAC among others: advertise and/or post the invitation to bid, conduct pre-procurement and pre-bid conferences, determine the eligibility of prospective bidders, receive bids, conduct the evaluation of bids, undertake post-qualification proceedings, recommend award of contracts to the Head of the Procuring Entity (HOPE) or his duly authorized representative, recommend to the HOPE the use of Alternative Methods of Procurement.

Post-audit for CY 2014 disclosed about the agency's purchase of various office supplies, materials and equipment totaling P1,073,268.54 (see Annex B) that were not done through competitive bidding. Further, there were no Bids and Awards Committee (BAC) resolutions made recommending to the General Manager, as head of the procuring entity (HOPE), the use of alternative methods of procurement.

Hereunder is the summary of the procurement of the district for CY 2014:

Nature/Classification	Amount
Purchase of common-use supplies	P 26,114.44
Purchase of IT Equipment & Software	53,942.88
Purchase of Machinery & Equipment	336,760.65
Purchase of Chlorine	64,357.14
Purchase of Fuel	384,890.33
Purchase of construction and fitting materials	207,203.10
TOTAL	P1,073,268.54

Though the district has a duly constituted BAC it simply resorted to direct purchase or shopping without Resolutions supposedly recommending to the HOPE the use of an alternative mode of procurement.

The noted contradictions against relevant provisions of RA 9184 put to question the propriety as well as validity of the procurement processes undertaken by the agency. Said circumstance also cast doubt on whether the mandated procurement at prices most advantageous to the government was attained. Due to said deficiencies, all questioned transactions shall either be suspended or disallowed in audit.

The General Manager commented that their modes of procurement were done either through shopping or emergency purchase considering the amount and the exigency of the service. Moreover they had limited funds as the national government does not give the agency subsidy. They assured though that the prices obtained were advantageous to the government since canvass had been done and purchased were from the lowest bidder. Nevertheless, the General Manager committed to adhere to the recommendations.

We recommend for management to strictly comply with the mandated processes and documentations concerning procurements.

- b. Common-use supplies and materials totaling P71,918.04 were not purchased in the Procurement Service of the Department of Budget and Management (PS-DBM) but directly from other suppliers thru the alternative mode of "Shopping" contrary to Section 52.1 of Rule XVI of the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 9184, thus the transactions are not assured to be at prices most advantageous to the government.**

Section 52.1 Rule XVI of the IRR states that shopping is a method of procurement of good whereby the procuring entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. Accordingly, this method of procurement shall be employed in any of the following cases:

- a) When there is an unforeseen contingency requiring immediate purchase; provided however, that the amount shall not exceed the prescribed thresholds which in the case of the agency is P100,000.
- b) Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the prescribed thresholds which in the case of the agency is P500,000.

On functions of the Bids and Awards Committee (BAC) Section 12 (j) of Rule V of the IRR states that it shall have the function to recommend to the Head of the Procuring Entity the use of Alternative Methods of Procurement.

Audit of disbursements for the procurement of goods with an aggregate amount of P71,918.04 from January to December 2014 disclosed that such were from outside suppliers thru "Shopping but without prior recourse to the Procurement Service (PS) (Please see Annex C).

The Shopping mode was further adopted without the recommendation from the BAC thru Resolutions that should supposedly indicate a recommendation for the application of an alternative mode of procurement. It was also observed that all of the items purchased from outside suppliers were not done with prior recourse to the PS-DBM for Price Quotation and issuance of Goods Stocks Availability Certification or equivalent.

The practice of omitting important procedures prescribed for procurements particularly the seeking of recourse to the PS-DBM if the shopping mode is applied renders the payments made therefor bereft of validity.

The General Manager committed to procure their commonly-use supplies from the PS-DBM located in their locality.

We recommend for management that in all procurements it shall strictly (i) adhere with relevant rules and law; and (ii) in the case of procurement of commonly used office supplies, prior recourse shall be initially made from the PS-DBM and in the absence of good and of quality stocks, shall proceed to dealing with other bonafide suppliers. Under the latter process, management shall insure that procurement documents will include proof of reliance with PS-DBM such as Price Quotation and Good Stocks Availability Certification.

4. **Cash Advances for the payment of salaries, wages and other benefits of personnel amounting to P2,359,130.77 were either directly recorded as expense or to the account Due to Officers and Employees thus resulting in misstatements of affected accounts per the agency's books and financial statements in turn concealed accountabilities of personnel on the released funds contrary to Section 112 of PD 1445 and other relevant COA rules.**

Section 112 of PD 1445 states that each government agency shall record its financial transactions and operations conformably with generally accepted accounting principles and in accordance with pertinent laws and regulations.

Item 3.4 of COA Accounting Circular Letter No. 2007-003 dated January 19, 2007 states that in compliance to COA Accounting Circular No. 2006-001 dated November 9, 2006, the following cash transactions shall be analyzed and the accounts reclassified to the appropriate account: "Cash Advances for payroll recorded as Cash – Disbursing Officers – the appropriate account to be used shall be "Payroll Fund". In addition, COA Circular No. 2008-01 dated January 29, 2008 prescribes the use of the account title "Payroll Fund" with the following description: amount granted to designated Disbursing Officer for the payment of salaries, wages, honoraria, allowances and other personnel benefits. It also includes labor payroll for projects undertaken by administration.

On the account Due from Officers and Employees, the Philippine Government Chart of Accounts under COA Circular 2008-001 dated January 29, 2008 states that it is the amount due from agency's officers and employees for overpayment, cash shortage, loss of assets and other bills issued by the agency and includes advances for official travel. While Due to Officers and Employees is the amount due to officers and employees for salaries, honorarium and other claims. The first is an asset account while the second a liability.

Post-audit of transactions for CY 2014 for the payment of salaries, wages and other benefits of officers and employees amounting to P2,359,130.77 (please see Annex D) disclosed that the total amount was not recorded as cash advances but directly under either a debit to account Due to Officers and Employees or an expense account.

The accountant's failure to record the grant of cash advances under the prescribed account misstated the affected accounts in the agency's books and financial statements like in the case of Payroll Fund and the Due from Officers and Employees which were understated due to the erroneous accounting practice. On the other hand, the deficiency overstated likewise the pertinent expense accounts particularly if the released funds are yet to be liquidated. In addition, the non-recognition of the released funds as advances concealed the obligation of concerned personnel to liquidate or settle said grant in effect put to risk of misuse or loss the particular resources of the government. Furthermore, the invalid practice left no trace or basis that funds were released and subject for settlement in effect, rendering the government without records to commence the need to monitor liabilities of personnel to settle their dues.

The General Manager assured that the recommendation to use the appropriate account in recording the cash advances for salaries, wages and other personnel benefits will be strictly followed.

Assurance on appropriate use of account cannot resolve the defects inherent in the disclosed erroneous practice. Rather management must ensure that all unliquidated cash

advances are duly settled for the concerned to be spared from the penalties of non-settlements.

We recommend strict observance of proper accounting practice in recording transactions particularly concerning releases of cash advances and for records to accurately reflect accountabilities as results thereof. Specifically, all erroneous recording must be duly adjusted thru the drawing of Journal Entry Vouchers the same to duly registered in the ledgers, with each concerned personnel to be provided with subsidiary accounts as basis in the monitoring of unsettled cash advances.

- 5. Disbursements for non-public purpose and those not consistent to laws and rules were practiced like in the instance of grant of financial assistance for a bereaved family, thus, if continually opted will exhaust funds absent any benefit to the government.**

Section 4 paragraph 2 of PD 1445 states that government funds or property shall be spent or used solely for public purposes. In addition, paragraph 7 of said Section also states that all laws and regulations applicable to financial transactions shall be faithfully adhered to.

Whereas, the giving of donations, contributions, grants and gifts, except if said activities are undertaken pursuant to the mandate of the donor-agency, is one of those enumerated as "Irregular" expenditures under Annex A of COA Circular No. 2012-003 dated October 29, 2012.

Post-audit of transaction for CY 2014 revealed the following disbursements which were not for public purpose to wit:

Check No.	Date	Amount	Particulars
1237343	6/10/2014	P6,000.00	Financial Assistance to a bereaved family
1237337	6/6/2014	800.00	Flowers/Wreath
Total		P6,800.00	

The above disbursements are without hint as in connection with the rendition of services by the agency.

Although insignificant in amount, tolerance over the practice put to risk of exhaustion for private purposes public funds. Furthermore, for being invalid since contrary to law, among others, the particular disbursements are proper subjects of disallowance during post-audit.

The General Manager commented that henceforth they will adhere to the recommendations regarding disbursement of funds only for public purpose.

We recommend for management to avoid spending of funds for invalid as well as irregular purposes.

- 6. Rice allowance amounting to P40,000 was paid to five (5) regular employees who were hired after July 1, 1989 contrary to the provisions of COA Resolution 2004-006, Section 12 of Republic Act (RA) No. 6758, paragraphs 5.4 and 5.5 of Department of Budget and Management (DBM) Corporate Compensation Circular No. 10 and Item II of COA Circular No. 2013-003 thus, resulting in invalid expenditures.**

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 RA 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 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 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 5.5 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 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 P40,000.00 or P8,000.00 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 E.

Since incumbents after July 1, 1989, the questioned grant of rice allowance are invalid, thus proper subjects of disallowance 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 discontinue the grant of rice allowance to personnel who were not yet incumbents as of July 1, 1989.

- 7. Management did not prepare a plan nor provide budgetary allocations for Gender and Development (GAD) and neither present disbursements for projects/program/activities that are related to it contrary to Sec. 33 of R.A. 10633 or the General Appropriations Act for CY 2014, thus failed in contributing towards the successful attainment of the objectives of the program.**

Section 33 of RA 10633 or the General Appropriations Act for CY 2014 states that: all agencies of the government shall formulate a Gender and Development (GAD) Plan designed to address gender issues within their concerned sectors or mandate and implement applicable provisions under RA No. 9710 or the Magna Carta of Women, Convention on the Elimination of All Forms of Discrimination Against Women, the Beijing Platform for Action, the Millennium Development Goals (2000-2015), the Philippine Plan for Gender-Responsive Development, (1995-2025), and the Philippine Development Plan (2011-2016)".

Further it states that the GAD Plan shall be integrated in the regular activities of the agencies, which shall be at least five percent (5%) of their budgets. For this purpose, activities currently being undertaken by agencies which relate to GAD or those that contribute to poverty alleviation, economic empowerment especially of marginalized women, protection, promotion, and fulfillment of women's human rights, and practice of gender-responsive governance are considered sufficient compliance with said requirement. Utilization of the GAD budget shall be evaluated based on the GAD performance indicators identified by said agencies.

PCW, DBM, and NEDA Joint Circular No. 2012 took effect beginning 2013 for the GAD planning and budgeting process of FY 2014 and the ensuing years until repealed, provides the guidelines for the preparation of the Annual Gender and Development (GAD) Plans and Budgets and Accomplishment Report to implement the Section on Programs/Projects related to GAD of the General Appropriations Act. It also provides the mechanics for the development of programs, activities, and projects (P/A/P) that promote gender-responsive governance, protect and fulfill women's human rights, and promote women's economic empowerment.

Section 5 of the above stated Joint Circular listed the steps in formulating the GAD Plan to wit:

- 5.1 Set the GAD agenda and identify priority gender-issues and/or specific GAD mandates and targets to be addressed over a one-year or three-year term by the central office in consultation with regional offices, bureaus and attached agencies. This GAD agenda shall be the basis for the annual formulation of PAPs to be included in the GPB of the department and its attached agencies, bureaus, regional offices and units.

Priority gender issues or the GAD agenda may be derived from:

- 5.1.1 A review of national GAD-related policies and plans
 - 5.1.2 The result data or of gender analysis using sex-disaggregated data or information from major programs or services of the agency for its clients and gender gaps or issues faced by their women and men employees;
 - 5.1.3 Results of programs, projects and evaluation findings in terms of its benefits to target beneficiaries; and
 - 5.1.4 A review of the agency GAD funds audit results and previous year's GPBs and GAD ARs to surface remaining issues that have been addressed in earlier GPBs.
- 5.2 Identify appropriate PAPs to address priority gender issues that are included In the GPB.

5.3 Agencies are encouraged to assess the gender-responsiveness of their major programs and projects using Harmonized Gender and Development Guidelines (HGDD) tool; and

5.4 Fill out the template on GPB and GAD AR.

For the calendar year 2014, the agency was not able to prepare and submit the required Annual Gender and Development (GAD) Plan and Budget nor implement any programs/ projects related to it. It further did not provide budgetary allocations for the program. No activities were likewise identified as related to GAD. Management did not disclose either a focal point for GAD.

GAD for the agency was not a priority thus management is rendered incapable in contributing towards the accomplishment of the objectives of the program even within its own locality.

The General Manager commented thus:

Almost all of the Catarman Water District permanent employees were sent to training regarding GAD awareness and programs conducted by Civil Service Commission in Tacloban City so that they will be aware of GAD rules and development. Employees union was organized but sad to say after the training, no one submitted their plans and programs. An educational tour was done so that regular staff may become aware of GAD programs in the other water district.

Accordingly, the management is now fully aware that GAD plans and budget must be incorporated in the annual budget and assured the implementation of the program during its future operations.

We recommend for management to enforce GAD as one of the priority during future operations. This shall be initially done through, among others, the identification of a focal person to lead in the carrying out of required procedures commencing with the formulation of plan, giving notice on provision of budgetary allocations and submission of other documentary requirements prior to, during and after the accomplishment of the projects/programs/activities under GAD.

8. The correctness and reliability of the Cash in Bank account balance of P504,473.35 at year-end could not be ascertained as accurate due to 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 2014 financial statements of the agency showed that the Cash in Bank-Local Currency has a balance of P504,473.35 as of year-end. The amount is composed of current and savings accounts, maintained at the following banks, as reflected in the year-end trial balance:

Bank Account	Amount
LBP Current Account	283,838.50
LBP Joint Savings Account	136,397.20
DBP Current Account	47,955.19
PNB Current Account	36,282.46
Total	504,473.35

It was observed that management has not submitted the Bank Reconciliation Statements for the above accounts. Said omission was permitted despite the substantial amount of funds which comprised 2.016% of the total assets as of year-end.

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.

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

Compliance with Tax Laws

In compliance with existing BIR Regulations, all taxes withheld from salaries and suppliers were remitted to the BIR within the reglementary period as provided for by regulations

Status of Notices of Disallowances, Suspensions and Charges

As of December 31, 2014, no Notice of Disallowance, Suspension or Charge was issued to the agency. Post-audit done during CY 2014 yielded results that require the issuance of either a Notice of Suspension or Disallowance.