

EXECUTIVE SUMMARY

A. INTRODUCTION

The District was created and organized in 1988 pursuant to Sangguniang Bayan of Balagtas Resolution No. 88-88 s. 1988 dated June 16, 1988. The Resolution gave the District the full control of the administration and management of the waterworks operation in the municipality of Balagtas in accordance with Presidential Decree No. 198, otherwise known as the “Provincial Water Utilities Act of 1973”.

The Local Water Utilities Administration (LWUA) awarded the Conditional Certificate of Conformance (CCC) No. 362 to the District on September 29, 1988. This CCC is the accreditation of LWUA to a newly formed water district to operate under the standard specification.

The District is a government-owned and controlled corporation and is an autonomous unit politically and economically independent from the local government. The five members of the Board of Directors (BOD) set policies, rules and regulations of the District. The General Manager (GM) who is appointed by the BOD handles management of the operation of the District.

As of December 31, 2019, the District has a total of 5,544 active service connections with eight pumping stations/wells namely Mariano, Divine Grace Village, NFA, Borol 2nd, Pulung Gubat, Balagtas Heights, Santol and Northville 6. Through the hard work and dedication of its personnel, the District was able to withstand the hardships and challenges of times and was able to make use of its able resources in order to achieve its goal and objectives in giving the best water service to the people of Balagtas.

The District is presently categorized as “D” under Certificate of Conditional Conformance No. 362 effective March 2012 issued on April 2, 2012. Engr. Restituto M. Baesa who was appointed as the General Manager of the District in February 24, 2017. It has a total workforce of 17 composing of one co-terminous, seven permanent and nine job-order employees. The BOD is composed of the following:

Name	Position/Designation	Sector
Mr. Pedro A. Liongson	Chairperson	Civic
Atty. Leopoldo T. San Juan	Vice-Chairperson	Professional
Ms. Laura H. Castro	Member	Education
Ms. Ma. Flora H. Rodriguez	Member	Women
Engr. Fernando J. Miranda	Member	Business

B. FINANCIAL HIGHLIGHTS

	2019	2018	2017
<i>Financial Position</i>			
Assets	₱187,178,760.33	₱182,756,740.73	₱177,824,611.96
Liabilities	127,674,232.91	127,236,446.86	127,075,132.39
Equity	59,504,527.42	55,520,293.87	50,749,479.57
<i>Results of Operation</i>			
Income	29,265,945.72	21,165,004.91	20,825,489.84
Expenses	25,261,064.13	16,108,820.96	14,203,104.83
Net Income/(Loss)	4,004,881.59	5,056,183.95	6,622,385.01

C. SCOPE OF AUDIT

We conducted an audit of the financial transactions and operations of the District for the years ended December 31, 2019 and 2018, on a sampling basis in accordance with the International Standards of Supreme Audit Institutions and Corporate Government Sector Memorandum dated October 4, 2019, prescribing the General Audit Instructions for the conduct of CY 2020 Audit of Water Districts and for other matters. We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinion. The audit was conducted to (a) ascertain the degree of reliance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

D. INDEPENDENT AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the District for the years ended December 31, 2019 and 2018 due to accounting errors and deficiencies that significantly misstated/misrepresented the assets, liabilities and equity accounts, as follows: (a) (i) non provision of Allowance for Impairment; and (ii) discrepancy between balance per books and per Aging Schedule of Accounts Receivable amounting to ₱43,111.50; (b) unreliable balance of Inventories due to failure to provide details/schedule; (c) (i) tangible items with total carrying value of ₱43,343.71 below the capitalization threshold of ₱15,000.00 were recognized as PPE; (ii) discrepancy of ₱6,867,873.73 between the PPE balances shown on the Financial Statements (FS) and Lapsing schedule; and (iii) discrepancy of ₱1,010,821.61 between the CIP balance shown on the Financial Statements (FS) and its schedule; and (d) (i) non reclassification of the current portion of the loan amounting to ₱1,045,506.00 which resulted in the understatement of the Current Liabilities and overstatement of the Non-Current Liabilities both by the same amount; and (ii) the nature and status of the loans from Water and Energy Bank (WE Bank)/Express Savings Bank, Inc. amounting to

₱113,440,441.88 was not disclosed in the Notes to Financial Statements contrary to paragraph 125 of the PAS 1.

For the above deficiencies, we recommended that the General Manager require the responsible personnel to perform the following actions:

(a) For Accounts Receivable account, (i) thru the Board of Directors to implement accounting policy on the provision of impairment losses on its receivables in accordance with PAS 39; (ii) require the Senior Accounting Processor A to compute for the allowance for impairment for accounts receivable based on its accounting policy; and Billing Officer to reconcile the balances of AR aging schedule and per FS of Accounts Receivable account.

(b) For Inventories account, (i) provide details/schedule/breakdown of the Inventories account; and (ii) maintain stock cards for each item in stock for check and balance and for reconciliation with the ledger cards maintained by the accounting unit that shall support the balance of Inventories reflected in the financial statements.

(c) For PPE account, (i) reclassify the semi-expendable properties issued in prior years with a book value of ₱43,343.71 by debiting the Retained Earnings account and credit to PPE accounts and recognized the tangible items which are below ₱15,000.00 as semi-expendable inventory upon purchase and expense upon issuance pursuant to Section 5.4.1 of the COA Circular No. 2016-006; (ii) reconcile the balances of PPE recognized in the books of accounts and lapsing schedule and make necessary adjustments, if applicable; and (iii) trace the discrepancy between the balance per Financial Statements and schedule of the CIP account and make appropriate adjusting entry, if applicable.

(d) For Loans Payable account, (i) properly classify and present in the financial statements the current portion of the Long Term Loans at year-end in compliance with Philippine Accounting Standards 1; and (ii) make written communication with LWUA relative to the PDIC's latest statement on their letter dated April 19, 2017 wherein the 100 per cent of the total outstanding principal loan balance of the District of ₱117,511,669. were assigned to them and the PDIC can no longer act on the request for restructuring to determine the status of the loan; request for the possible condonation of interest, surcharges and penalties from the loan or restructuring of the loan; and see to it that the currently maturing obligations are being paid by the District to avoid incurrence of penalties, interest and surcharges on which the responsible officer/head of the agency will held liable if there is an act of negligence.

E. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The other significant audit observations noted during the audit and the corresponding recommendations are presented below.

1. The collectability of the inactive accounts receivable (AR) amounting to ₱2,080,756.16 aged one day to more than three years was remote due to failure to conduct regular monitoring and analysis of the receivables accounts contrary to Item 6.1 of the COA Circular No. 2016-005 dated December 19, 2016 and Section 64 of the Government Accounting and Auditing Manual (GAAM), Volume I. (*Observation No. 7*)

We recommended and the General Manager agreed to (a) instruct the personnel concerned to (i) regularly monitor the status of their receivables; and (ii) send demand/collection letters together with the Statement of Account to all inactive accounts; and (b) initiate action to request authority from the Commission on Audit for the write-off of long dormant receivables deemed uncollectible, after all remedies have been exhausted pursuant to the guidelines and procedures set under COA Circular No. 2016-005 dated December 19, 2016.

2. Total budget deficit of ₱1,224,514.64 were incurred in CY 2019 for seven expense accounts amounting to ₱7,251,145.34 that exceeded the approved Corporate Operating Budget (COB) of ₱6,026,630.70 contrary to the provisions of Section 4(1) and (8) of PD No. 1445. (*Observation No. 8*)

We recommended and the Management agreed to (a) augment the funds or realign savings within the same expense classification through board resolutions pursuant to Section 3.3 of DBM Corporate Circular No. 20 dated April 27, 2005; and (b) establish the required budgetary controls and implement cost-saving measures so that actual expenses will not deviate from the budget/approved limit.

3. The District neither prepared the Budget Utilization Request (BUR) nor maintained the Registry of Budget and Utilization (RBU) contrary to COA Circular No. 2006-004 dated January 31, 2006, resulting in the absence of documents and records to monitor and control the budgetary accounts. (*Observation No. 9*)

We recommended and the Management agreed to use the Budget Utilization Request (BUR) and Registry of Budget and Utilization (RBU) to monitor expenditures for each expense account against budget allocation.

4. The designated Property Officer/Storekeeper of the District was hired as a job order and not bonded with the Bureau of Treasury contrary to Item 7.2 of the CSC -COA-DBM Joint Circular No. 1 dated June 15, 2017 and Section 101 of PD No. 1445, respectively, thus exposes the District to non-recovery of funds in case of lost through theft or force majeure. (*Observation No. 10*)

We recommended and the General Manager agreed to (a) refrain from assigning job order personnel to perform regular functions of the District; and (b) designate as Property Officer a qualified employee from the District with permanent position.

5. The Designated Collecting Officer did not apply for fidelity bond amounting to ₱500,000.00 with the corresponding bond premium of ₱7,500.00 contrary to Treasury Circular No. 02-2009 dated August 6, 2009 may result in non-recovery of funds that may be lost in case of theft or force majeure. **(Observation No. 11)**

We recommended and the Management agreed to (a) require the Designated Collecting Officer apply for the fidelity bond using the maximum cash accountability; and (b) pay the appropriate amount of bond premiums pursuant to Paragraphs 5.1 and 5.3 of Treasury Circular No. 02-2009 dated August 6, 2009.

6. The District paid overtime services to its officials and employees totaling ₱215,678.17 in CY 2019, exceeding the annual five percent (5%) limitation on total salaries and 50% of annual salary of two employees by ₱72,647.17 and ₱17,685.84, respectively contrary to Civil Service Commission (CSC)-Department of Budget and Management (DBM) Joint Circular No. 1 series of 2015 dated November 25, 2015. Moreover, the payments of overtime services were not supported by overtime authority, work program, quantified overtime accomplishment and duly approved daily time report contrary to Item 5.10 of the COA Circular No. 2012-001 dated June 14, 2012. **(Observation No. 12)**

We recommended and the Management agreed to (a) request a post facto approval from the DBM for exceeding the annual 5% limitation in overtime pay services pursuant to Item 10.7 of the CSC-DBM Joint Circular No. 1 series of 2015; (b) submit justification for exceeding the 50% of the annual limitation on the payments of overtime pay on the two personnel of the District; and (c) submit to the Commission on Audit the following documents: (i) overtime authority stating the necessity and urgency of the work done and duration of the overtime work; (ii) overtime work program; (iii) quantified accomplishment report duly signed by the employee and supervisor; and (iv) certificate of service or duly approved Daily Time Record for the payments of overtime pay for CY 2019 within 15 days upon receipt of this audit observation.

7. The Bids and Awards Committee (BAC) did not participate in the procurement process for purchases amounting to ₱854,680.29 acontrary to Section 12.1 of the 2016 Revised IRR of RA No. 9184 and Section 3(i) of the GPPB Resolution 09-2009. Moreover, no Inspection and Acceptance Report and approved procurement plan was attached to the Disbursement Vouchers (DVs) contrary to Item 9.2 of the COA Circular No. 2012-001 dated June 14, 2012 prescribing the Revised Guidelines and Documentary Requirements for Common Government Transactions. **(Observation No. 13)**

We recommended and the Management agreed to (a) instruct the BAC Committee to (a) require the BAC to perform its role as prescribed in Section 12.1 of the IRR of Republic Act No. 9184; (b) seek the BAC's recommendation, thru a BAC Resolution, before

resorting to other alternative modes of procurement which should be duly approved by BAC; (c) (i) require the personnel concerned to prepare the Inspection and Acceptance Report and sign on the “Inspected by” portion on all purchase of supplies and materials; and (ii) instruct the authorized end-user to whom the item was delivered or the property officer to sign on the “Accepted by” portion; and (d) instruct the Senior Accounting Processor A to ensure that complete documentary requirements are attached to the Disbursement Vouchers before processing by referring to the provisions of the COA Circular No. 2012-001 particularly the IAR and approved APP on every procurement.

8. The balance of the Repairs and Maintenance – Transportation Equipment account was overstated by ₱25,600.00 due to erroneous charging to the account of the acquisition of fittings for repair of leakages caused by the ongoing road construction contrary to COA Circular No. 2015-010 dated December 1, 2016 and PAS 1. Moreover, payments for the repair of the District’s motor vehicle was not supported by the history of repair, pre repair inspection and post inspection reports contrary to Item 9.1.3.4 of the COA Circular No. 2012-001 dated June 14, 2012. (*Observation No. 14*)

We recommended and the Management agreed to instruct the Senior Accounting Processor A to (a) be careful in recognizing the transactions for appropriate accounts pursuant to COA Circular No. 2015-010; and (b) ensure that complete documentary requirements are attached to the Disbursement Vouchers before processing by referring to the provisions of the COA Circular No. 2012-001.

F. SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

Unsettled audit disallowances amounting to ₱108,522.90 as of December 31, 2019 pertained to CYs 2014 to 2017 audit of transactions. There were disallowable expenditures totaling ₱149,335.68 in the audit of CYs 2018-2019 transactions.

G. STATUS OF IMPLEMENTATION OF PRIOR YEARS’ UNIMPLEMENTED AUDIT RECOMMENDATIONS

Of the 37 audit recommendations embodied in the CYs 2017 and 2016 Financial Audit Report, nine were fully implemented, three were partially implemented and 25 were not implemented.