

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The Castillejos Water District (CSWD) was created through Sangguniang Bayan Resolution No. 95-065 dated August 28, 1995. On February 19, 1996, a Conditional Certificate of Conformance was issued to the District by the Local Water Utilities Administration.

The District started its actual operation in 1999 with the construction of a deep well amounting to ₱2 million inside the Municipal Health Center compound funded by the Countryside Development Fund of Senator Ramon B. Magsaysay. This project was completed in December 2001. Subsequently, the Senator extended additional ₱2 million support for the construction of seven (7) kilometer water pipeline covering three (3) barangays, the whole of Sta. Maria, and parts of San Jose and San Agustin, and this was completed in mid-year of 2002.

The District was also granted loan by the Asian Development Bank (ADB) amounting to ₱12.8 million for the construction of elevated steel water tank, pumping station and pipeline network covering the three (3) barangays of San Pablo, San Roque and San Juan within the town proper under the level III water supply system. The project started about the end of the year 2002 and was completed in September 2003. The completion of this project eventually expanded the District's operation up to the present.

The District is a government-owned and controlled corporation and is an autonomous unit, politically and economically independent from the local government. The Board of Directors (BOD) formulates the policies, rules and regulations of the water district. The management of the operation of the water district is handled by Mr. Jesse D. Gallardo. The District has 24 permanent and 21 casual employee as of December 31, 2019. The CSWD Board of Directors was composed of the following representatives from different sectors:

<b>Name</b>		<b>Position/Sector</b>
Mr. Leonardo F. Gamulo	-	Chairman, Professional
Mr. Joel V. Alviar	-	Vice Chairman, Educational
Ms. Eileen S. De Jesus	-	Secretary, Civic
Ms. Myrna E. Almazan	-	Member, Women
Mr. Edwin C. Corpuz	-	Member, Business

As of December 31, 2019, The District is operating seven pumping stations, serving 14 barangays and with 7,269 service connections. The District is re-categorized from Category "D" to Category "C" water district in compliance with the revised local water district manual on categorization, re-categorization and other related matters effective July 26, 2016.

## B. FINANCIAL HIGHLIGHTS

	2019	2018	2017
<b>Financial Condition</b>			
Assets	₱61,753,032.79	₱54,492,246.85	₱50,959,510.64
Liabilities	23,027,305.50	13,987,299.48	10,165,212.25
Equity	38,725,727.29	40,504,947.37	40,794,298.39
<b>Results of Operations</b>			
Income	₱38,856,325.13	₱37,309,293.41	₱34,534,147.62
Expenses	40,511,751.91	37,248,835.56	32,652,872.77
Net Income / (Loss)	(1,655,426.78)	60,457.85	1,881,274.85

## 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 04, 2019, prescribing the General Audit Instructions for the conduct of CY 2019 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 an unmodified opinion on the fairness of presentation of the financial statements of the District for the years ended December 31, 2019 and 2018.

## E. SUMMARY OF OTHER SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The significant audit observations noted during the year together with the corresponding recommendations are presented below:

1. The District overestimated its cash inflows for CY 2019 by approximately ₱11,043,370.06 which is not in consonance with the governing principles of sound management and fiscal administration provided under Section 4(8) of PD No. 1445. (*Observation No. 1*)

We recommended and the General Manager, BOD and Finance Division agreed to a) include the CAPEX items in the computation and preparation of Corporate Operating Budget; and b) enhance its planning processes to have a balanced/realistic budget.

2. The District failed to institute further action to collect from inactive Accounts Receivable (AR) accumulating to ₱1,445,945.95 which constituted 42.06 per cent of the account balance contrary to Section 64 of the Government Auditing and Accounting Manual (GAAM), Volume I. (**Observation No. 2**)

We recommended that the Commercial and Finance Division (a) intensify collection strategies and institute appropriate legal action, if necessary; and (b) comply with the required documents when requesting for the COA's authority to write-off long dormant receivables that are deemed uncollectible.

3. The District incurred net loss in operation amounting to ₱1,655,426.78 in CY 2019 which affects its operational efficiency and financial viability provided under Republic Act No. 10149 dated June 6, 2011. Further, the District has ₱5,615,008.78 current liabilities with only ₱3,695,217.97 of cash and cash equivalents showing a low 0.66:1 current ratio which could result in debt-servicing problems in the future. (**Observation No. 3**)

We recommended and the General Manager together with the Finance Division agreed to (a) regularly monitor the cash position; (b) incur expenditures only for projects, programs and activities that are highly necessary; and (c) undertake revenue-enhancing strategies and cost-cutting measures to eliminate cash deficit.

4. The District did not terminate the contract for the construction of the Administrative building when the Contractor already incurred a negative slippage of 15% contrary to Annex A of the Government Procurement Policy Board (GPPB) Resolution No. 018-2004 dated December 22, 2004. Further, variances occurred among the ABC, Contract Amount and Evaluated Cost due to incorrect cost/work treatment contrary to DPWH DO No. 197 dated October 7, 2016. (**Observation No. 4**)

We recommended that the General Manager, BAC and the Finance Division (a) terminate contracts early upon incurrance of 15% negative slippage so corrective actions and measures will be immediately implemented; (b) improve and ensure the conduct of post-qualification in every procurement activity; (c) strictly impose the liquidated damages to the Contractor as a result of breach of contract or file a case as may be warranted; and (d) plan, prepare and compute carefully all future contracts and all its POW/BOQ in accordance with DPWH DO No. 197 to avoid material variances between the Contract Amount and Evaluated Cost.

5. The District did not post Notice of Award (NOA) and contract/purchase order for purchases under Small Value Procurement totaling ₱6,660,860.35 in the Philippine Government Electronic Procurement System (PhilGEPS) contrary to Section 54.3 and

Annex H of the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184. (*Observation No. 5*)

We recommended and the BAC through the BAC Secretariat agreed to comply with the posting requirements of NOA and contract/purchase order in PhilGEPS for procurement above ₱50,000.00.

#### **F. SUMMARY OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

There were no audit suspensions, disallowances and charges issued for the audited transactions for CYs 2019 and 2018. Unsettled audit disallowances amounting to ₱1,480,863.47 as of December 31, 2019 pertained to audited transactions for CYs 2010 to 2015.

#### **G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' UNIMPLEMENTED AUDIT RECOMMENDATIONS**

Of the 22 audit recommendations embodied in the CYs 2017 and 2016 Financial Audit Report, 20 were fully implemented and two were partially implemented.