

EXECUTIVE SUMMARY

A. Introduction

The mission of the Laguna Water District (LWD) is to provide safe, quality and reliable supply of water in a cost-effective and efficient manner. The LWD was formerly known as the Los Baños Waterworks. It became operational sometime in the 1920s. The LWD was recognized by the Sangguniang Bayan of Los Baños to function as an independent and separate Office on January 10, 1977, thus renaming Los Baños Waterworks as Los Baños Water District. The actual operation of Los Baños Water District began on February 11, 1977 and the Certificate of Conformance (COC) No. 038 was issued in May 1977. After the annexation of the adjoining Municipalities of Bay and Calauan, Laguna, it became Laguna Water District. It delivers potable water to the Municipalities of Los Baños, Bay and Calauan, and maintains 14 water sources which supplies almost 40,000 households.

On February 6, 1992, all local Water Districts were declared as Government-Owned and Controlled Corporation (GOCC) with original charter which falls under the jurisdiction of the Civil Service Commission (CSC) and the Commission on Audit (COA).

On November 3, 2015, the LWD had entered into a Joint Venture Agreement (JVA) with the consortium of Equi-Parco Construction Company, TwinPeak Hydro Resources Corporation, and MetroPac Water Investments Corporation.

After the execution of the JVA, the Special Purpose Corporation (SPC) and the LWD, as co-joint venturers, created and established a Joint Venture Company (JVC) named "Laguna Water District Aquatech Resources Corp. (LARC)". The primary purpose of the JVC is to act as operator, contractor and/or agent of the LWD in performing the mandate of the LWD under Presidential Decree (PD) No. 198.

The LWD has 17 regular employees as of December 31, 2019. The Board of Directors (BOD) appointed Engr. Joel M. Lapis as General Manager starting from November 26, 2018. The BOD is the policy-making body of the LWD. It is composed of five members appointed by the Provincial Governor as provided in PD No. 198.

The following are the members of the BOD as of December 31, 2019:

Name	Position	Sector
Solis, Ronaldo L.	Chairman	Professional Association
San Agustin, Marina L.	Secretary	Educational Institution
Romena, Benito U.	Member	Civic-Oriented Group
Ramos, Elenita F.	Member	Women's Organization
Magsino, Cecilio L.	Member	Business Organization

B. Financial Highlights

The LWD's total assets, liabilities, equity, income and expenses for the Calendar Year (CY) 2019 with comparative figures for CY 2018 are summarized on the next page and shown in detail in the attached audited financial statements.

	2019	2018	Increase/ (Decrease)
Assets	P 314,794,701.72	P 361,217,969.21	P (46,423,267.49)
Liabilities	138,315,389.07	154,431,938.99	(16,116,549.92)
Equity	176,479,312.65	206,786,030.22	(30,306,717.57)
Income	36,127,842.55	34,829,688.81	1,298,153.74
Expenses	25,038,803.38	12,048,344.75	12,990,458.63
Net Income	11,089,039.17	22,781,344.06	(11,692,304.89)

C. Scope of Audit

Financial and compliance audits were conducted on the accounts, financial transactions and operations of the LWD for CY 2019. It included analysis of accounts and the financial statements, review of transactions and test of compliance with financial rules and regulations. The objectives of the audit were to ascertain the fairness and reliability of the LWD's financial statements, and to determine whether or not its operations were conducted in compliance with applicable laws, rules and regulations.

D. Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the LWD due to the following:

1. The accuracy, reliability and existence of the recorded balances of the Property, Plant and Equipment (PPE) accounts with gross amount of P454,976,083.74 as of December 31, 2019 could not be fully ascertained due to the following:
 - a. There exists a variance amounting to P450,743,245.98 between the accounting and property records for PPE accounts, contrary to Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume I, thus affecting the fair presentation of the said accounts in the financial statements.
 - b. The Construction in Progress (CIP) account amounting to P3,308,651.18 was not supported with Subsidiary Ledgers (SLs)/Schedules and relevant documents to validate the year-end balance, contrary to Sections 111 and 114 of PD No. 1445 and Philippine Accounting Standards (PAS) No. 1, thus casting doubt on the accuracy and reliability of the account in the financial statements.
 - c. Unserviceable items totaling P294,829.74 remained undisposed and not yet dropped from the books as of year-end. This is contrary to Section 79 of PD No. 1445 and Section IV of COA Circular No. 89-296 dated January 27, 1989, resulting in the overstatement of the asset account and further deterioration of the same that is detrimental to the government.
2. The accuracy, validity and reliability of the balances of various assets and liability accounts as of December 31, 2019 recorded in the General Ledger (GL) totaling P12,977,325.94 and P21,572,783.78, respectively, were doubtful due to the absence of Subsidiary Ledgers (SLs)/Schedules and other relevant documents to support the

year-end balances, contrary to Sections 111 and 114 of PD No. 1445 and PAS No. 1, thus depriving stakeholders of the necessary and adequate financial information that is vital in the decision-making process.

3. The grant of Collective Negotiation Agreement (CNA) Incentive totaling ₱400,000.00 to the LWD employees was made without complete documentation, contrary to Section 4(6) of PD No. 1445 and the Department of Budget and Management (DBM) Budget Circular No. 2019-5 dated November 7, 2019. Moreover, the disbursement for said transaction was erroneously recorded under different expense accounts, thus making the said accounts not fairly presented in the financial statements.
4. The LWD failed to record under Receivables - Disallowances/Charges account and enforce the settlement of a disallowance amounting to ₱236,500.00 that have become final and executory from the persons liable, contrary to Sections 22.1 and 22.6 of the Rules and Regulations on the Settlement of Accounts (RRSA) prescribed under COA Circular No. 2009-006 dated September 15, 2009.
5. The accuracy and reliability of the reported balance of the Inventory accounts totaling ₱115,914.45 as of December 31, 2019 could not be established due to the unreconciled variance amounting to ₱95,414.90 between the accounting and property records, contrary to Section 112 of PD No. 1445 and Section 17, Chapter 8 of the Government Accounting Manual (GAM), Volume I, thus rendering the Inventory accounts' balances in the financial statements doubtful.

E. Significant Observations and Recommendations

For the exceptions cited above, we recommended that:

1. Management:

a. direct the Senior Accounting Processor B and the Property Officer to:

- analyze/investigate all the causes of the discrepancies between the accounting and property records and take necessary actions to reduce if it is not possible to totally eliminate the noted discrepancies;
- coordinate with the previous Property Officer who is currently employed with the JVC to retrieve and turn over the documents and records relative to the PPE accounts; and
- reconcile regularly the accounting and property's PPE records and adjust discrepancies noted, if there are any.

b. require the Senior Accounting Processor B and the Property Officer to:

- trace back transactions from CY 2018 and earlier to obtain information on the projects in order to ensure the accuracy and reliability of the Construction in Progress account. After which, coordinate with the concerned employee/s for information relative to their status and make necessary adjustments;

- prepare, maintain and update regularly the required SLs/Schedules and related information to facilitate the systematic recording and reporting of financial transactions; and
 - disclose necessary information of the CIP account in the Notes to Financial Statements.
- c. direct the Property Officer to identify all unserviceable properties of the LWD, include them in the Inventory and Inspection Report of Unserviceable Property (IIRUP), and keep them in a secure location. We also recommended that the Appraisal and Disposal Committee facilitate the immediate disposal of the unserviceable properties to prevent further deterioration of the assets, pursuant to Section 79 of PD No. 1445. Further, we recommended that the Senior Accounting Processor B drop the unserviceable properties from the books after following the proper procedures on the disposal of unserviceable assets.
2. Management:
- a. direct the Senior Accounting Processor B to:
- prepare and maintain the required SLs to facilitate the systematic recording and reporting of financial transactions;
 - disclose necessary information in the Notes to Financial Statements to provide stakeholders reliable financial information and understanding of various assets and liability accounts;
 - exert more efforts to make representation with the concerned private and government agencies to confirm, validate and reconcile the balances of the affected accounts; and
 - effect necessary adjusting entries to present fairly the accurate balances of the affected accounts in the financial statements.
3. Management:
- a. instruct the Buklod Lakas ng mga Manggagawa ng Laguna Water District (BLMLWD) officials to strictly comply with the guidelines in the grant of CNA Incentive. Likewise, ensure that payment of said incentives are supported with the documentary requirements and computations, and see to it that the grant of the same is duly authorized, pursuant to the aforementioned provisions of DBM Budget Circular;
- b. require the concerned BLMLWD and LWD Officials to submit immediately the lacking documents relative to the payment of CNA Incentive, pursuant to Section 4(6) of PD No. 1445 and DBM Budget Circular No. 2019-5 dated November 7, 2019 to facilitate the complete review of the payment of CNA Incentive. Otherwise, the non-compliance therewith shall cause the issuance of a Notice of Suspension or Notice of Disallowance of the said disbursement transactions in accordance with the provisions of the RRSA; and henceforth,

- c. direct the Senior Accounting Processor B to correctly record the valid CNA Incentive under the Other Bonuses and Allowances account with a Subsidiary Ledger pertaining to CNA - Civilian.
4. Management:
 - a. require the Senior Accounting Processor B to record the disallowed amount of P236,500.00 with issued Notice of Finality of Decision (NFD), under the Receivables - Disallowances/Charges account, pursuant to Section 22.6 of the RRSA prescribed under COA Circular No. 2009-006 dated September 15, 2009; and
 - b. cause the collection of the COA Disallowance that is final and executory from the surviving persons liable since the liability of the said persons liable in the final Notice of Disallowance (ND) is solidary in nature.
 5. Management:
 - a. direct the Senior Accounting Processor B and the Supply Officer to:
 - analyze and trace the noted variance from prior years' transactions with the previous concerned employees presently employed with the private proponent to expedite the reconciliation of the balances; and
 - reconcile regularly the balances between the accounting and property records, and immediately adjust discrepancies noted, if there are any.

Below are the other significant observations and recommendations in the audit of the LWD for CY 2019, which are discussed in detail in Part II of the Report.

1. Ten parcels of land totaling P5,317,311.00 as of December 31, 2019 recorded under the LWD were not covered with Transfer Certificates of Title (TCTs), contrary to Section 39 of PD No. 1445, thus absolute ownership over said property could not be established and exposed them to risks of third party claims.

We recommended that Management:

- a. make representation with the Municipal Government of Los Baños, Laguna and initiate efforts to document and substantiate ownership over the turned over property;
- b. direct the Property Officer to facilitate and hasten the titling of land under the name of the LWD to safeguard its interest and affirm its legal ownership over the property;
- c. instruct the Property Officer and/or Administrative Staff to secure zonal value of the property at the time of donation from the Bureau of Internal Revenue (BIR) as one of the bases in determining the appraised value and in recording the same in the books of accounts; and henceforth,

- d. ensure that all acquisitions/donations of land should be covered with TCTs, registered under the name of the LWD to establish ownership of the property, and thus avoid the risks of third-party claims, pursuant to Section 39 of PD No. 1445.
2. A Motor Vehicle costing ₱1,294,774.34 and being used by the LWD does not bear government plate due to the encumbrance noted with the Philippine National Bank (PNB), contrary to Section 7 of Republic Act (RA) No. 4136 and Item V(4) of COA Circular No. 75-6 dated November 7, 1975, thus ownership could not be fully ascertained and exposes it to misuse and risk in accountability.

We recommended that Management instruct the Property Officer to:

- a. secure from the PNB the documents signifying that the LWD is free from any encumbrance;
 - b. facilitate replacement of green plate for the Hyundai Tucson with Plate No. ZRS797 to government plate; and henceforth,
 - c. ensure that all service vehicles used by the LWD bear government plates, in accordance with Section 7 of RA No. 4136 and Item V(4) of COA Circular No. 75-6 dated November 7, 1975.
3. The grant, utilization and liquidation of cash advances to Officers and Employees in CY 2019 were not in accordance with existing rules and regulations, as shown below:

- a. Cash advances (CAs) for local travel totaling ₱33,440.00 were granted, utilized and liquidated without following Sections 1.1.4.1 and 1.2.4.1 of COA Circular No. 2012-001 dated June 14, 2012, hence rendering the validity and propriety of the said disbursements doubtful.

We recommended that Management:

- a. oblige the concerned officers and employees to immediately submit the lacking documentary requirements cited in **Annex C** for further evaluation of the Audit Team; and
 - b. direct the Senior Accounting Processor B to issue a certificate that all previous CAs were liquidated before approving the grant of new CAs and to avoid processing of requests for grants and claims for travelling allowances with incomplete documentation.
- b. Office Supplies totaling ₱76,822.26 were paid through CA instead of issuing check directly payable to the supplier, contrary to COA Circular No. 97-002 dated February 10, 1997. Of these, CAs totaling ₱66,789.93 were liquidated beyond the prescribed period, contrary to Section 4.1.3 of the same Circular.

We recommended that Management require the Senior Accounting Processor B to:

- a. stop the practice of payment through CAs on non petty/emergency expenses; and
- b. ensure that all CAs are immediately liquidated as soon as the purpose for which these were given have been served.
- c. CAs granted to officers and employees totaling ₱80,000.00 remained unliquidated as of December 31, 2019, contrary to Section 5.8 of COA Circular No. 97-002 dated February 10, 1997 and Section 89 of PD No. 1445.

We recommended that Management:

- a. require the officials and employees concerned to settle the CAs in full as soon as the purpose for which these were given have been served;
 - b. instruct the Senior Accounting Processor B to ensure that all CAs be liquidated at the end of each year to fully account all expenses incurred during the year; and
 - c. demand the full liquidation of the CAs granted to officers and employees totaling ₱80,000.00.
4. The Non-Revenue Water (NRW) for CY 2019 exceeded the 20 percent allowable rate set under Local Water Utilities Administration (LWUA) Memorandum Circular (MC) No. 004-10 dated February 23, 2010 and LWUA MC No. 014-10 dated December 2, 2010 by 2.93 percent, resulting in an unaccounted water of 377,903.79 cubic meters (m³) and an estimated revenue loss of ₱7,535,232.50. Further, it went beyond the 20.28 percent rate on the commencement date of the JVA in 2016, hence violating Item 3.4 under Schedule 5.01(2) of the Agreement on Operational Performance Criteria.

We recommended that Management:

- a. coordinate with the JVC to:
 - i. investigate and address all specific causes on the incurrence of high NRW;
 - ii. facilitate implementation of effective measures to minimize the percentage of NRW to an acceptable level of 20 percent set by LWUA MC No. 004-10 dated February 23, 2010;
- b. require the CMU to:
 - i. strictly monitor the compliance of the JVC with the terms and conditions stated in Section 5.01(2) of the JVA; and
 - ii. take appropriate action for the non-compliance thereof in case of default by the JVC.

5. The JVC failed to completely meet the Water Supply Service embodied in Item 1, Schedule 5.01(2), Operational Performance Criteria of the JVA, thus depriving concessionaires of the satisfactory services that they deserve.

We recommended that Management:

- a. coordinate with the JVC to:
 - i. announce a planned water interruption of at least 48 hours in advance to properly inform the concessionaires of the impending water interruption. Also, take immediate and appropriate action in solving unplanned water interruptions;
 - ii. submit monthly monitoring report of the water pressure occurring within the coverage area; and
 - iii. explore and investigate the possibility of using the Silicon Carbide Submerged Flat-Sheet Ultra Filtration Membranes to address the arsenic issue.
 - b. require the Control Monitoring Unit (CMU) of the LWD to:
 - i. strictly monitor the compliance of the JVC with the terms and conditions stated in Item 1, Section 5.01(2) of the JVA; and
 - ii. take appropriate action for the non-compliance thereof in case of default by the JVC.
6. Detailed study on the Bulk Water Development was not conducted by the JVC for the Joint Venture (JV) Area within three years from commencement date, in violation of Sections 2.03 and 5.01(2) of the JVA, thus failed to address the increasing water demand of its consumers.

We recommended that Management:

- a. coordinate with the JVC to:
 - i. conduct a detailed study on the Bulk Water Development as required under Section 5.01(2), Article V of the JVA;
 - ii. establish, operate and maintain the bulk water supply immediately after a viable study has been conducted.
- b. require the CMU to:
 - i. strictly monitor the compliance of the JVC with the terms and conditions stated in Sections 2.03 and 5.01(2), Articles II and V, respectively, of the JVA; and
 - ii. take appropriate action for the non-compliance thereof in case of default by the JVC.

7. Wastewater or sewerage facilities were not established, operated and maintained, contrary to Section 28 of PD No. 198, Sections 2.07 and 5.01(5) of Articles II and V, respectively, under the JVA, and Supreme Court Ruling of 2008, thus not addressing wastewater and sanitation concerns of the concessionaires.

We reiterated our previous audit recommendation that Management, in coordination with the JVC, immediately prioritize the establishment, operation and maintenance of wastewater or sewerage facilities, as mandated under Section 28 of PD No. 198, Sections 2.07 and 5.01(5) of Articles II and V under the JVA, and Supreme Court Ruling of 2008 to address wastewater and sanitation concerns of the concessionaires.

8. The JVC failed to implement the Water Safety Plan (WSP), in violation of Department of Health (DOH) Administrative Order (AO) No. 2014-0027 dated September 9, 2014 as directed by the LWUA Memorandum Circular (MC) No. 010.14 dated December 1, 2014, thus the provision of safe and adequate potable water supply to its concessionaires was not achieved.

We recommended that Management coordinate with the JVC to:

- a. submit immediately the lacking documents required by the LWUA, pursuant to LWUA MC No. 010.14 dated December 1, 2014;
 - b. implement immediately the WSP after its approval by the LWUA and DOH to provide safe and adequate potable water supply to its concessionaires; and thereafter,
 - c. monitor the implementation regularly and evaluate the plan properly for further improvements and developments.
9. The LWD incurred unnecessary expenses totaling ₱112,150.00 due to the appointment of a private individual as the Board of Directors (BOD) Recording Secretary, contrary to Section 8, Chapter III, Title II of PD No. 198 and Section 4.0 of COA Circular No. 2012-003 dated October 29, 2012.

We recommended that Management:

- a. terminate the services of the BOD Recording Secretary, in compliance with Section 8, Chapter III, Title II of PD No. 198; and
 - b. require the BOD Recording Secretary to refund the unnecessary expenses incurred totaling ₱112,150.00.
10. The validity, sufficiency and propriety of the Petty Cash Fund (PCF) amounting to ₱15,000.00 for CY 2019 could not be fully ascertained due to the following deficiencies:
 - a. The LWD failed to provide the approved estimates of petty expenses for one month on its PCF setup, contrary to Section 1.1.2 of COA Circular No. 2012-001 dated June 14, 2012, resulting in excessive grant of PCF beyond the monthly petty expenses and exposing the fund to risk of loss and possible misuse.

We reiterated the previous audit recommendation that Management direct the PCF Custodian and the Senior Accounting Processor B to review and reassess the sufficiency of the PCF to be set up and include the preparation of approved estimates of expenses for one month, in compliance with Section 1.1.2 of COA Circular No. 2012-001 dated June 14, 2012.

- b. Various disbursements thru the PCF for CY 2019 were paid without complete documentation and despite unclear purposes, contrary to Sections 4(2 and 6), 123 and 124 of PD No. 1445 and Section 1.2.2 of COA Circular No. 2012-001 dated June 14, 2012, thus casts doubts on the validity and propriety of the expenses incurred and constitute weak internal control.

We recommended that Management direct the PCF Custodian to:

- a. require complete documentation before charges against the PCF is allowed, pursuant to Section 4(6) of PD No. 1445 and Section 1.2.2 of COA Circular No. 2012-001 dated June 14, 2012;
 - b. ensure that all expenses disbursed thru the PCF are official and for public use by clearly specifying their purposes on the PCVs prior to their approval, in accordance with Section 4(2) of PD No. 1445;
 - c. implement the proper and complete utilization of the PCF Vouchers;
 - d. submit the lacking documents specified in **Annex H** to support the disbursements charged to the PCF; and henceforth,
 - e. ensure the installation, implementation and monitoring of a sound system of internal control in the grant and utilization of PCF, in compliance with Sections 123 and 124 of PD No. 1445.
11. The validity of the budgeted Programs, Activities and Projects (PAPs) amounting to P914,370.00 for Gender and Development (GAD) could not be fully ascertained due to: (1) budgeting below five percent of the Corporate Operating Budget (COB); (2) utilization of only 12.26 percent of the budgeted amount for GAD PAPs; (3) unclear gender issues being addressed; (4) non-updating of sex-disaggregated data; and (5) no gender analysis conducted. This is contrary to Philippine Commission on Women (PCW), National Economic Development Authority (NEDA), and Department of Budget and Management (DBM) Joint Circular (JC) No. 2012-01, thus depriving the intended beneficiaries of the program.

We recommended that Management instruct the GAD Focal Person to:

- a. allocate at least five percent of the total budget of the LWD's COB for the implementation of the GAD PAPs for every fiscal year either by specific appropriation or by attribution to increase gender responsiveness, in compliance with Section 2.3 of PCW-NEDA-DBM Joint Circular No. 2012-01;
- b. formulate and assess thoroughly the costs associated with the PAPs and ensure that the total budgeted fund will be utilized in its optimum capacity to derive maximum benefits for its intended beneficiaries;

- c. ensure that existing gender issues, both client and organization-focused, were clearly identified in the GPB through the LWD's review of its regular programs and relevant information that surface the unequal situation of women and men, in accordance with PCW-NEDA-DBM Joint Circular No. 2012-01;
- d. plan carefully the appropriate PAPs which will evidently address the identified gender issues; and
- e. update regularly the sex-disaggregated data on file and conduct gender analysis to acquire relevant basis for planning, budgeting and formulation of policies.

F. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2019, the LWD has the following balances of its audit suspensions, disallowances and charges:

Notice of Suspension	P 2,635,145.98
Notice of Disallowance	16,929,532.24
Notice of Charge	<u>0.00</u>
Total	<u>P19,564,678.22</u>

G. Status of Implementation of Prior Years' Audit Recommendations

Out of the 110 prior years' audit observations embodied in the CYs 2014, 2015, 2016, 2017 and 2018 Annual Audit Reports (AARs), 41 were fully implemented, 44 were partially implemented and 25 were not implemented. The results of validation of Management's implementation on the CY 2018 and previous years' audit recommendations are presented in Part III of this Report.