

EXECUTIVE SUMMARY

A. Introduction

The Tuy Water District (TWD) is a Government-Owned and Controlled Corporation established on September 7, 1988 and operates under the authority of Presidential Decree Nos. 198 (1973), 768 (1975) and 1479 (1978).

The TWD is classified as Category C water utility agency with active service connections of 3,181, 3,201, and 3,572 as of December 31, 2017, 2018, and 2019, respectively.

The mandates/functions of the TWD are to offer potable drinking water to the concessionaires of Tuy, Batangas and to promulgate policies and programs which will emancipate traditional ways and means on safeguarding the Municipality's water supply. The TWD's registered office is located in Luna Street, Tuy, Batangas.

At present, the TWD is headed by Ms. Maria Purificacion M. Panaligan as the General Manager, while the Board of Directors is composed of five members, as follows:

Name	Position/Sector
Ms. Anacorte A. Afable	- Chairwoman, Business Sector
Ms. Ma. Victoria G. Calangi	- Member, Education Sector
Mr. Sufrino G. Dayandayan	- Member, Civic Sector
Ms. Ernesta I. Avejero	- Member, Women's Sector
Ms. Abigail V. De Jesus	- Member, Professional Sector

B. Financial Highlights

The following are the financial highlights of the TWD for the years under audit:

	2019	2018	2017
Assets	P58,260,394.43	P42,512,270.43	P40,455,521.38
Liabilities	23,434,062.14	13,095,636.63	14,150,694.50
Equity	P34,826,332.29	P29,416,633.80	P26,304,826.88
Gross Income	P 24,011,744.61	P 21,350,904.96	P20,242,367.63
Expenses	18,589,488.02	18,205,094.19	16,392,123.77
Net Income	P 5,422,256.59	P 3,145,810.77	P 3,850,243.86

C. Scope of Audit

Financial and compliance audits were conducted on the accounts and operations of the TWD for Calendar Years (CYs) 2017, 2018 and 2019 to ascertain the propriety of its financial transactions and operations and compliance with the prescribed government rules and regulations. The audit was aimed to ascertain the fairness and reliability of the TWD's statements of financial position and results of operation.

D. Audit Opinion on the Financial Statements

A qualified opinion was rendered on the fairness of the presentation of the financial statements of the Tuy Water District (TWD) as of December 31, 2017, 2018 and 2019 due to the following:

1. The recorded balances of the Property, Plant and Equipment (PPE) accounts excluding Construction in Progress totaling ₱27.181 million, ₱26.862 million and ₱27.520 million as of December 31, 2017, 2018 and 2019, respectively, are of doubtful accuracy, existence and reliability due to the following:
 - a. The TWD still failed to conduct physical count of its PPE and prepare the required Report on the Physical Count of Property, Plant and Equipment (RPCPPE), in violation of Commission on Audit (COA) Circular No. 80-124 dated January 18, 1980 and Appendix 73 of the Government Accounting Manual (GAM), Volume II;
 - b. Discrepancy of ₱1.267 million for CYs 2017, 2018 and 2019 was noted between the reported balances of some PPE accounts and Lapsing Schedules, contrary to Section 121(2) of Presidential Decree (PD) No. 1445. Moreover, unusual negative book value totaling ₱11,767.00, ₱46,952.55 and ₱150,348.87 for CYs 2017, 2018 and 2019, respectively, were noted as part of the PPE account, resulting in the understatement of the account by the same amount; and
 - c. The PPE accounts were overstated due to non-reclassification of used/issued semi-expendable property to the appropriate expense accounts upon issuance with a total amount of ₱0.121 million, contrary to Item 5.4 of COA Circular No. 2016-006 dated December 29, 2016.
2. The validity and accuracy of the balances of the Inventory account totaling ₱1.463 million, ₱1.529 million and ₱1.747 million as of December 31, 2017, 2018 and 2019, respectively, cannot be fully ascertained due to the following:
 - a. The Inventory account balances for CYs 2017, 2018 and 2019 did not reconcile with the balance per Report on the Physical Count of Inventories (RPCI), resulting in discrepancies of ₱1.441 million, ₱1.3 million and ₱1.463 million for the said three-year period, respectively; and
 - b. The Accounting Unit still failed to prepare and maintain Supplies Ledger Cards (SLCs), contrary to Section 111 of Presidential Decree (PD) No. 1445 and Section 43 of the Manual on the New Government Accounting System (MNGAS), Volume I, thus information for each item of inventories could not be verified.
3. The accuracy and reliability of the Accounts Receivable (AR) account with a net realizable value of ₱1.979 million, ₱2.377 million and ₱2.664 million in CYs 2017, 2018 and 2019 cannot be fully ascertained due to the following:
 - a. The AR account totaling ₱2.303 million, ₱2.745 million and ₱3.082 million for CYs 2017, 2018 and 2019 did not reconcile with the Aging Schedule prepared by the Customer Service Division, showing discrepancies of ₱223,703.47, ₱(19,472.49) and ₱(28,627.54) for the three-year period, contrary to Paragraph

15 of Philippine Accounting Standard (PAS) 1, thus affected the fair presentation of the accounts' balances in the financial statements. Moreover, error in adjustment was noted which resulted in the overstatement of the Accounts Receivable (AR) and Retained Earnings account in the amount of ₱1.302 million;

- b. Cash basis of accounting, instead of accrual basis, was applied by the Tuy Water District (TWD) in the recording of its bulk water sales from August 2018 to December 2019, contrary to PAS 1, thus uncollected portion of bulk water sales for Calendar Year (CY) 2019 totaling ₱202,700.00 remained unrecorded, resulting in the understatement of the AR and Income account of the same amount; and
 - c. The reported balances of Allowance for Impairment (AFI) - AR and Impairment Loss (IL)- Loans and Receivables accounts were overstated by ₱0.252 million, ₱0.322 million and ₱0.368 million in CYs 2017, 2018, and 2019, respectively, due to the misapplication of the Aging Method in the computation of impairment of receivables, contrary to Paragraphs 5.5.17 and B5.5.35 of Philippine Financial Reporting Standard (PFRS) 9, thereby casting doubt on the correctness and accuracy of the said accounts.
4. The validity of the Trust Liabilities of ₱1.183 million as of December 31, 2017, 2018 and 2019 is doubtful due to the dormant, long-outstanding Retention Fee Payable of ₱0.956 million and unsubstantiated Customer's Deposit Payable of ₱227,466.03, contrary to PAS 36, Sections 111 and 119 of Presidential Decree (PD) No. 1445 and Paragraph 3 of Commission on Audit (COA) Circular No. 99-004 dated August 17, 1999.
 5. Payments of leave monetization totaling ₱263,258.88, ₱174,326.85 and ₱90,961.99 in CYs 2017, 2018 and 2019, respectively, and terminal leave benefits amounting to ₱316,395.40 in CY 2017 were erroneously charged to Other Personnel Benefits account instead of Terminal Leave Benefits, contrary to Annex A of COA Circular No. 2015-010 dated December 1, 2015.

E. Significant Observations and Recommendations

For the above cited deficiencies, we recommended that:

1. the General Manager:
 - a. create an Inventory Committee and require the same to conduct an annual inventory-taking of all Property, Plant and Equipment (PPE) noting down the location, persons accountable and the physical condition of the properties and to prepare the corresponding Report on the Physical Count of Property, Plant and Equipment (RPCPPE). Also, provide property tags to each items of PPE for identification purposes;
 - b. instruct the Property Custodian to issue Property Acknowledgement Receipt (PAR) to all officers or employees in the actual possession or physical control of a PPE and Inventory Custodian Slip (ICS) upon issuance of a semi-expendable property to establish accountability;

- c. direct the Accounting Processor A to:
 - review the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) upon conduct of complete physical count and check if all fully depreciated items in the lapsing schedule are still functional and retain their salvage value in the books. On the other hand, if those were already unserviceable, the same should be subjected for disposal in accordance with Commission on Audit (COA) Circular No. 89-296 dated January 27, 1989;
 - recompute the accumulated depreciation of each PPE item to fairly present the PPE and Retained Earnings accounts in the financial statements (FS);
 - reclassify semi-expendable properties with a net book value of ₱0.121 million from the PPE to the appropriate account in accordance with Section 5.4 of COA Circular No. 2016-006 dated December 29, 2016 and close the balance of the corresponding Accumulated Depreciation accounts; and
 - recognize tangible items below the capitalization threshold of ₱15,000.00 using the appropriate semi-expendable inventory accounts if not yet issued to end-user or as expense once issued to end-user during the year.

2. the General Manager:

- a. instruct the Property Custodian to conduct a complete inventory-taking of the Tuy Water District (TWD)'s inventory items and prepare the required Report on the Physical Count of Inventories (RPCI) at year-end;
- b. direct the Accountant to analyze, trace and reconcile the discrepancies noted between the balance per FS and RPCI for CYs 2017, 2018 and 2019; and
- c. require the Accountant to prepare and regularly update Supplies Ledger Cards and reconcile their records with the Stock Cards to arrive at accurate and reliable inventory account balances.

3. the General Manager:

- a.
 - instruct the Accounting Processor A and Customer Service Assistant C assigned in the Customer Service Division to conduct investigation on the noted discrepancies between the Accounts Receivable (AR) per FS and per Aging Schedule as of December 31, 2017, 2018 and 2019 to facilitate detection of errors and adjustments thereof, in accordance with Paragraph 15 of Philippine Accounting Standards (PAS) 1;
 - require the Accounting Processor A and Customer Service Assistant C to cause the preparation and submission of periodic reconciliation statements and adjustments of identified reconciling items between the AR balance of the Accounting Division and the Aging Schedule generated from the Billing and Collection System (BCS); and

- direct the Accounting Processor A to make a reversal entry to correct the adjusting entry made for the recording of uncollected penalty bill with a total amount of ₱1.302 million to fairly present the Accounts Receivable (AR) and Retained Earnings account in the financial statements (FS);
- b. direct the Accounting Processor A to record income from bulk water sales using the accrual method of accounting, pursuant to Paragraph 27 of Philippine Accounting Standards (PAS) 1 and prepare a journal entry to record the uncollected portion of bulk water sales amounting to ₱202,700.00;
- c.
- direct the Accounting Processor A to record the necessary adjusting entries to correct the balances of Allowance for Impairment Loss -Accounts Receivable;
 - ensure that the correct application of the Aging Method is applied in computing the impairment losses of receivables, in accordance with Paragraphs 5.5.17 and B5.5.35 of Philippine Financial Reporting Standards (PFRS) 9; and
 - make a representation with the Local Water Utilities Administration (LWUA) to modify the age groups reflected in the new Billing and Collection System to fairly present the accounts in the FS.
4. Management:
- a. direct the Accounting Processor A to review and analyze the documents pertaining to the Retention fee of ₱0.956 million to Equi-Tri Construction recorded as Trust Liabilities. Since the project was not completed by the Contractor in accordance with the terms of the contract, revert the same to the unappropriated surplus of the Tuy Water District (TWD), in compliance with Commission on Audit (COA) Circular No. 99-004 dated August 17, 1999, if warranted by evidence; and
- b. exert best efforts to gather data, documents and prepare schedules to substantiate the customers' deposits of ₱227,466.03 recorded as Guaranty Deposits Payable to fairly present the account in the financial statements, and henceforth, ensure that Guaranty Deposits Payable is adequately funded.
5. the General Manager direct the personnel concerned in the Accounting Division, to debit the payment of leave monetization and terminal leave benefits to Terminal Leave Benefits account instead of Other Personnel Benefits in order to adhere to COA Circular No. 2015-010 dated December 1, 2015.

The following are the other significant observations and recommendations:

1. Items of Property, Plant and Equipment (PPE) with a net book value of ₱25.366 million, ₱25.197 million and ₱27.857 million for CYs 2017, 2018 and 2019, respectively, were still not covered by the Government Service Insurance System (GSIS) General Insurance Fund.

We recommended that the General Manager insure all insurable physical assets with the GSIS under the General Insurance Fund, pursuant to Commission on Audit (COA) Circular No. 2018-002.

2. The Tuy Water District (TWD) incurred Non-Revenue Water (NRW) of 33.60 percent, 39.64 percent and 47.46 percent for Calendar Years (CYs) 2017, 2018 and 2019 which exceeded the 20 percent allowable/acceptable rate set under Local Water Utilities Administration (LWUA) Resolution No. 444, series of 2009, and LWUA Memorandum Circular No. 014-10, thus resulting in an estimated water loss of ₱3.343 million, ₱5.444 million, and ₱8.535 million for CYs 2017, 2018 and 2019, respectively.

We recommended that Management further strengthen the implementation of effective and stricter control measures to address the root causes of the high percentage of NRW like leakages in the pipeline and valves and illegal connections, to attain acceptable level set by the LWUA, and improve its financial viability, leading to production efficiency that will redound to increased revenue for the TWD.

3. Representation Allowance and Transportation Allowance (RATA) of ₱7,500.00 each per month, totaling ₱540,000.00 for CYs 2017 to 2019, paid to the General Manager (GM) was not in accordance with the provisions of General Appropriations Act (GAA) and Revised Local Water District Manual on Categorization, Re-Categorization and Other Related Matters, thus might result in audit disallowances of ₱180,000.00.

We recommended that Management strictly enforce the immediate refund of the overpayment of RATA totaling ₱180,000.00 for CYs 2017 to 2019 and refrain from granting allowances not in accordance with the existing regulations to avoid disallowance of the same.

4. No budget was provided for the unused earned leave credits of the TWD's regular employees in prior years with a monetary value of ₱1.417 million, ₱1.226 million and ₱1.446 million as of December 31, 2017, 2018 and 2019, respectively, thus the TWD was unable to accrue the said amounts, contrary to Philippine Accounting Standard (PAS) 1.

We recommended that the General Manager make representation with the Board of Directors to propose the inclusion of the budget for the unused earned leave credits of the employees in the TWD's annual budget gradually, and afterwards, instruct the Accounting Processor A to accrue the same as required under PAS 1.

5. Monetization of leave credits granted to employees in CYs 2017 to 2019 was not in accordance with Sections 22 and 23, Rule XVI of the Omnibus Rules on Leave by the Civil Service Commission (CSC).

We recommended that the General Manager direct the concerned personnel to:

- a. ensure that at least five vacation leave credits would be left on the leave credit balance of the employee before allowing monetization of his/her leave credits, in compliance with Section 22 of the Civil Service Commission (CSC) Omnibus Rules on Leave and in order to avoid negative leave credit balances;

- b. comply with the provision of Section 23 of the CSC Omnibus Rules on Leave in granting monetization of the Vacation Leave or Sick Leave credits to employees; and
 - c. make sure that the monetization of leave credits shall be availed of only once a year.
6. Actual expenses incurred in calendar years (CYs) 2017, 2018, and 2019 exceeded the actual budget by ₱2.273 million, ₱2.997 million and ₱0.655 million, respectively, contrary to Section 4(1) of Presidential Decree (PD) No. 1445.

We recommended that the General Manager:

- a. immediately submit to the Audit Team the approved realignment of Maintenance and Other Operating Expenses (MOOE) Budget and Supplemental Budget and its supporting documents for budget deficits incurred on various expenses as enumerated, for proper evaluation, otherwise, a Notice of Suspension will be issued in accordance with the Rules and Regulations on Settlement of Accounts (RRSA);
 - b. cautiously prepare and review the budget to be endorsed to the Board of Directors (BODs) for approval, so that the allocation of the proposed expenditures would be sufficient to cover the actual needs of the Tuy Water District (TWD);
 - c. regularly and strictly monitor the TWD's budget and limit expenditures to what is appropriated in the Approved Annual Budget to avoid incurrence of budget deficits; and
 - d. cause preparation of Supplemental Budget by the concerned employees, duly approved by the BODs, should the need arises, following the rules and regulations for such budget supplementation.
7. Reimbursable expenses for gasoline and meals during meetings of the members of the BODs totaling ₱79,508.57, ₱91,993.60 and ₱104,591.11 for CYs 2017, 2018 and 2019, respectively, exceeded the allowable 25 percent of their respective actual per diems by ₱39,980.57, ₱25,915.60 and ₱26,363.11, contrary to Executive Order (EO) Nos. 65 and 77 and Local Water Utilities Administration (LWUA) Memorandum Circular (MC) No. 016.16. Likewise, the BODs' claims for per diems totaling ₱0.735 million from CYs 2017 to 2019 and reimbursable expenses totaling ₱13,640.00 from CY 2017 to March 2018 were not supported with adequate documents and official receipts, in violation of Section 4(6) of PD No. 1445 and Commission on Audit (COA) Circular No. 2012-001.

We recommended that Management enjoin the:

- a. Accounting Processor A to ensure that reimbursable expenses are within the 25 percent limit of the total actual per diem received for the regular and special meetings attended by the members of the Board of Directors (BODs);

- b. members of the BODs to submit justification for their excessive claim of reimbursable expenses amounting to ₱39,980.57, ₱25,915.60 and ₱26,363.11 for Calendar Years (CYs) 2017, 2018 and 2019, respectively, for further review and validation of the Audit Team. Otherwise, refund the amount if found not justifiable;
 - c. cause the immediate submission of the required documents such as minutes of meetings from CYs 2017 to 2019 and official receipts for CY 2017 up to March 2018 to support the claims for BODs' per diems and reimbursable expenses, respectively, for verification purposes; and
 - d. instruct the personnel concerned in the Accounting Division to ensure that claims for reimbursable expenses are supported with official receipts before processing, in compliance with Local Water Utilities Administration (LWUA) Memorandum Circular No. 015-12 and refrain from processing claims with incomplete documentation as required under Section 4(6) of Presidential Decree (PD) No. 1445.
8. Deficiencies in the Bidding Process and Contract Implementation for the Design and Build Contract for the Construction of Tuy Water District (TWD)'s Administration Office Building were noted as follows:
- a. The Bidding Procedures in the procurement of infrastructure project for the Design and Build Contract for the Construction of TWD's Administration Office Building was not in accordance with Sections 12, 22, 34, 37 and 39 of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9184. Likewise, said procurement was not properly and adequately documented. This is in violation of the aforementioned provisions of RA No. 9184 and Section 4 (6) of PD No. 1445, thus cast doubt on the propriety and legality of procurement.

We recommended that the General Manager provide justification why the payments totaling ₱4,350,361.77 should not be considered irregular/illegal and disallowable in audit and direct the Bids and Awards Committee (BAC) to:

- submit written explanation for recommending the award of contract to ineligible bidder which is questionable in audit and in violation of Sections 12, 22, 34, 37 and 39 of the RIRR of RA No. 9184, for further evaluation by the Audit Team;
- ensure the correctness and accuracy of the bidding details being posted in the PhilGEPs to avoid inconsistencies ;
- conduct pre-bid conference for contracts to be bid with Approved Budget for the Contract (ABC) of One Million Pesos (₱1,000,000.00) as required under Section 22 of Republic Act (RA) No. 9184 and its Revised Implementing Rules and Regulations (RIRR);
- conduct post qualification proceedings on the winning bidder of every procurement transaction, in compliance with Sections 12.1 and 34.1 of RA No. 9184 and its RIRR;

- make sure that the maximum period allowed for every procurement activity is being observed throughout the procurement process, in compliance with RA No. 9184 and its RIRR;
 - carefully review every details of the documents being submitted by the bidder and ensure that it contains all the necessary information;
 - make sure that the performance security posted by the winning bidder is in favor of the Tuy Water District (TWD) in order to guarantee the faithful performance of the same of its obligations stipulated in the contract; and
 - ensure that the Notice of Award, Notice to Proceed and Approved Contract are being posted in the PhilGEPs as required under Sections 37.1.6 and 37.4.2 of RA No. 9184 and its RIRR.
- b. The ongoing contract for the Construction of the TWD Administration Building costing ₱11.173 million was not terminated despite incurrance of negative slippage of more than 15 percent, contrary to the “Guidelines on Termination of Contracts” embodied in Annex I of the RIRR of RA No. 9184. Likewise, Management failed to impose appropriate actions and remedies in accordance with the guidelines of termination of contracts and guidelines in blacklisting of contractors.

We recommended that Management:

- submit explanation/justification on the non-termination of contract with C.S. Rayos Construction and General Services, Inc. for the Construction of TWD Administration Building despite the incurrance of negative slippage of more than 15 percent, which is contrary to “Guidelines on Termination of Contracts” embodied in the Annex I of the RIRR of RA No. 9184 or blacklisting of the Contractor for further evaluation by the Audit Team. Otherwise, take appropriate action to impose liquidated damages against the defaulting Contractor for his/her failure to complete the projects on the contract time and for incurring more than 10 percent negative slippage;
- strictly monitor the implementation of the TWD’s infrastructure projects and adhere to the provisions of Section 4.2 of Government Procurement Policy Board (GPPB) Circular No. 03-2019 dated March 8, 2019, if there is any slippage incurred in order to ensure the projects’ timely completion and effective management of the performance of contractors;
- require the concerned officials of the Procuring Entity (PE) to review the validity of the performance bond, considering the delays in the work completion and if warranted, if possible cause the forfeiture of performance security in accordance with Section 39.3 of the 2016 Revised Implementing Rules and Regulations (RIRR) of RA 9184.
- ensure that the Contractor pay for liquidated damages to the Tuy Water District (TWD) for each day that the Completion Date is later than the Intended

Completion Date, in accordance with the terms and conditions of the Contract, if warranted;

- adhere strictly with the guidelines in the suspension of construction works, granting of time extension and termination of contract for infrastructure projects provided under Annexes E and I of the 2016 RIRR and make sure that all infrastructure projects are strictly monitored in accordance with plan and schedule implementation as embodied in the contract to facilitate proper action and remedies to be imposed against the erring Contractor; and
 - consider the preparation and issuance of Blacklisting Order to disqualify or blacklist the said Contractor to participate again in the subsequent bidding of the Water District in accordance with Section 6 of the Uniform Guidelines for Blacklisting of Manufacturers, Suppliers, Distributors, Contractors and Consultants.
9. Procurements made by the TWD were not in accordance with the provisions of Republic Act (RA) No. 9184, otherwise known as the Government Procurement Reform Act, detailed as follows:
- a. No Project Procurement Management Plan (PPMP) was prepared by the end-user units for the programs, activities and projects for calendar years (CYs) 2017 to 2019, contrary to Sections 7.3.2 and 7.3.4 of RA No. 9184 and its 2016 RIRR, hence the detail, which are necessary in the monitoring of the procurement activities of the TWD, could not be determined.
 - b. Purchases of construction materials requirement amounting to ₱1,341,944.00 and ₱1,116,130.00 for CYs 2017 and 2018, respectively, were not subjected to public bidding, instead, shopping and small value procurement methods were resorted to by Management despite the absence of Bids and Awards Committee (BAC) Resolutions justifying and recommending for such mode of procurement. This practice is contrary to the provisions of the RIRR of RA No. 9184.
 - c. The project for the installation of 100m GI Pipe, 40m length along Atga Bridge, Palico, Balayan, Batangas was partially paid on the very same date the Pakyaw Labor Agreement was entered into by and between the TWD and the Pakyaw Labor Contractor, in violation of Section 88 of Presidential Decree (PD) No. 1445.
 - d. Payments for various rehabilitation projects for CYs 2018 and 2019 with total cost of ₱800,282.30 were not substantiated with complete documentation, contrary to Section 4(6) of PD No. 1445 and Commission on Audit (COA) Circular No. 2012-001, thereby casting doubt on the propriety and validity of the transactions.

We recommended that Management:

- a. require the end-user units to prepare the required Project Procurement Management Plan (PPMP) for their projects, activities and programs for consolidation into an Annual Procurement Plan (APP);

- b. subject all procurement activities thru public bidding, in compliance with Section 10 of Republic Act (RA) No. 9184 and its 2016 Revised Rules and Regulations (RIRR), except those allowed to be undertaken under alternative mode of procurement;
 - c. secure a Procurement Service (PS) certificate of non-availability of stocks from the Department of Budget and Management (DBM) before procuring common-use supplies from an outside supplier;
 - d. follow strictly the provisions of RA No. 9184 and its 2016 RIRR in the procurement activities to ensure that all procurement awards and decisions will result in the most advantageous price and terms for the Tuy Water District (TWD);
 - e. ensure that the requirements provided in RA No. 9184 are being met before making advance payments to contractors;
 - f. require the submission of the required supporting documents such as Program of Work duly approved by the TWD officials, Quotation of Prices, Statement of Work Accomplished duly signed by concerned officers/employees, Certificate of Project Completion and Acceptance as discussed in the last observation, within 30 days, otherwise the Audit Team will issue Notice of Suspension to enforce submission of the required documents; and
 - g. instruct the Accounting Processor A to refrain from paying transactions not completely documented and ensure the completion and validation of the project before these are processed for approval and payment.
10. The two percent Franchise Tax for the basic water billed from July 2018 to December 2019 totaling ₱596,576.28 were passed-on by the TWD to its concessionaires as reflected in their water bills and official receipts, contrary to Department of Justice's Decision under Case No. OSJ-2005-03 and Section 119 of the National Internal Revenue Code (NIRC) of 1997.

We recommended that the General Manager:

- a. direct the personnel concerned in the Commercial Division to prepare the schedule of Franchise Taxes totaling ₱596,576.28 that were paid by the concessionaires from July 2018 to December 2019;
 - b. instruct the Accountant to set up payable for the said Franchise Taxes;
 - c. consider refunding these Franchise Taxes gradually to the concessionaires subject to approval of the Board of Directors; and
 - d. exclude the two percent Franchise Tax in the water bill and refrain from imposing the same to its concessionaires but instead charge the same to the Tuy Water District (TWD)'s operations.
11. The supply of bulk water to the Primewater Infrastructure Corporation (PRIMEWATER) by the TWD was not covered by a written contract, thus posing a

risk that the TWD might not be compensated for the right cost of the water being supplied which is prejudicial to the interest of the government.

We recommended that the General Manager make representation with the Nasugbu Water District (NAWAD) and the PRIMEWATER to discuss the possible actions to be undertaken in order to immediately resolve the issue on the supply of bulk water and negotiate with the PRIMEWATER the increase of the Production Assessment Fee based on the Lian Water District's (LWD's) MOA with the TWD. Also, ensure to execute a contract before supplying water to other entities in order to protect the interest of the government.

12. The TWD was unable to formulate a Disaster Risk Reduction and Management Plan (DRRMP), contrary to Section 37, General Provisions of the General Appropriations Act (GAA) of Fiscal Year (FY) 2019, and Sections 4 and 22(e) of Republic Act (RA) No. 10121, thus it is probable that they could not address disaster needs before, during and after occurrence of disaster.

We recommended that Management formulate plans and policies and allocate budget relative to DRRM in accordance with Sections 4 and 22(e) of RA No. 10121 and Section 37 of the FY 2019 GAA, regarding the implementation of activities for capacity-building, awareness raising and disaster preparedness. Also, prepare the required accomplishment report and furnish copies thereof to the Audit Team for assessment and audit purposes, to ascertain the propriety and validity if the disbursements are in consonance with the governing law and implementing rules.

13. The TWD's Water Safety Plan (WSP) was not yet approved by the Local Water Utilities Administration (LWUA) and was not endorsed to the Department of Health (DOH) for WSP Acceptance, contrary to LWUA Memorandum Circular (MC) No. 010-14 dated December 1, 2014 and Department of Health (DOH) Administrative Order (AO) No. 2017-0006 dated April 20, 2017, thus may cause possible risks on the safety and quality of the drinking-water being supplied to its concessionaires and on the continuous water supply in case of disaster or calamity.

We recommended that the General Manager require the WSP Officer to submit five copies of the revised WSP to the LWUA in printout form as required by the letter sent by the LWUA WSP Committee, together with the reviewed draft WSP, and immediately implement the WSP as soon as it is endorsed to and approved by the DOH.

14. Deficiencies were noted in the audit of the Gender and Development (GAD) Funds of the TWD in calendar years (CYs) 2017 to 2019, as follows:

- a. There was no prepared GAD Plan and Budget (GPB) for CYs 2017, 2018 and 2019 as required to be submitted to the LWUA, for review and transmittal to Philippine Commission on Women (PCW) for final review and endorsement, thus there was no assurance that the identified gender issues and the corresponding Gender and Development (GAD) Programs, Activities and Projects (PAPs) were aligned with the mandates of the Tuguegarao Water District (TWD) and were in accordance with Joint Circular No. 2012-01 of the PCW, National Economic and Development Authority (NEDA) and Department of Budget and Management (DBM).

- b. The TWD was unable to provide in its corporate annual budget, funds of at least five percent for GAD activities or attribute a portion or the whole of the budget of an agency's major programs to gradually increase gender responsiveness under PCW-NEDA-DBM Joint Circular No. 2012-01, thus depriving the intended beneficiaries of the program.

We recommended that the General Manager:

- a. create GAD Focal Point System who will take the lead in the gender mainstreaming in agency PAPs and who will be responsible in the preparation of the TWD's GAD Plans and Budget (GPBs), monitoring of its implementation and reporting of its results thru the preparation of GAD Accomplishment Report (AR);
- b. prepare the annual GPB and submit the same to the Local Water Utilities Administration (LWUA) for review and transmittal to the PCW for final review and endorsement as required under PCW Memorandum Circular No. 2015-03 dated May 19, 2015; and
- c. provide in TWD's Corporate Operating Budget funds of at least five percent for GAD activities or attribute to the GAD budget a portion or the whole of the budget of the TWD's major programs to increase gender responsiveness of government programs and budgets, in compliance with items 2.3 and 6.4 of PCW-NEDA-DBM Joint Circular No. 2012-01.

F. Audit Suspensions, Disallowances and Charges

As of December 31, 2019, the TWD has unsettled disallowance amounting to P515,416.12.

G. Status of Implementation of Prior Years' Audit Recommendations

Out of the 59 audit observations embodied in the previous years' Annual Audit Report (AAR), 29 were fully implemented, 15 were partially implemented and 15 were not implemented by the TWD. The results of validation of Management's implementation on the previous year's audit recommendations are presented in Part III of this Report.