



Republic of the Philippines
COMMISSION ON AUDIT
Office of the Regional Director
Regional Office No. V
Rawis, Legazpi City

March 23, 2015

The Board of Directors
Bulan Water District
Bulan, Sorsogon

Gentlemen:

We are pleased to transmit the Annual Audit Report on the audit of the accounts and operations of the Bulan Water District, Bulan, Sorsogon, for the calendar year ended December 31, 2013, in compliance with Article IX-D of the Philippine Constitution and pertinent provisions of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

The report contains the results of the audit which was conducted on a test basis, and was primarily conducted to ascertain the propriety of financial transactions, the compliance to prescribed rules and regulations, and the fairness of presentation of the financial statements of the District.

The summary of the results and the corresponding audit recommendations are laid out in the Executive Summary, including the status of implementation of the prior year's audit recommendations and the certificate of the Auditor on the fairness of presentation of the financial statements. For the details of these findings and recommendations, we refer you to Part II of the attached report.

We request that the recommendations be implemented and we would appreciate being informed of the actions taken thereon within sixty (60) days from receipt hereof, using the prescribed format of the Agency Action Plan and Status of Implementation (AAPSI) attached to this letter.

We express our appreciation for the support and cooperation extended to our Auditors by the officials and employees of the District.

Very truly yours,


ROLAND A. REY
Director IV
Regional Director

Copy furnished:

- Administrator, LWUA
- Auditor, LWUA
- File, Regional Director, COA RO5
- Office of the President
- Office of the Vice-President
- President of the Senate
- Speaker of the House of Representatives
- Chairperson-Senate Finance Committee
- Chairperson-Appropriations Committee
- Secretary of the Department of Budget and Management
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Engr. REY DENNIS L. GILBAS
General Manager
Bulan Water District
Bulan, Sorsogon

Sir:

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EXECUTIVE SUMMARY

A. INTRODUCTION

The Bulan Water District (BWD) was formed on May 9, 1975 by virtue of Sangguniang Bayan Resolution No. 23, series of 1975 and maintained as water district by deriving its authority and powers under Presidential Decree (PD) No. 198, otherwise known as the Provincial Water Utilities Act of 1973, as amended by PD No. 768, PD No. 1479 and Republic Act (RA) No. 9286. Its Conditional Certificate of Conformance (CCC) No. 22 was issued on April 20, 1976 by the Local Water Utilities Administration (LWUA) after compliance with the legal requirements, thus qualifying to its technical and financial assistance for expansion of water facilities.

As a government-owned and controlled corporation with original charter, it has the following purposes;

- Acquiring, installing, improving, maintaining and operating water supply and distribution systems for domestic, industrial, municipal and agricultural uses for residents and lands within the boundaries of such districts;
- Providing, maintaining and operating waste water collection, treatment and disposal facilities; and
- Conducting such other functions and operations incidental to water resource development, utilization and disposal within such districts, as are necessary or incidental to said purpose.

It has a total service connection of 6,034; of which 4,943 were duly metered, of which 4,729 were billed as of December 31, 2013.

All powers expressly granted by PD No. 198 as amended by PD No. 768, PD No. 1479 and RA No. 9286, necessary, implied from or incidental to the powers and purposes abovementioned are exercised and performed by the Board of Directors (BOD). It is composed of five members representing sectors for professional, civic, education, business and women under the Chairmanship of Ms. Maria Paz G. Bajaro. They are the policy making body of the agency.

The district is categorized as "average" water district. As of December 31, 2013, its personnel complement is composed of 18 regular employees and four on the job order basis.

From July 2010 the Office of the Bulan Water District is under the managerial supervision of Engr. Rey Dennis L. Gilbas.

B. FINANCIAL HIGHLIGHTS

I. Comparative Financial Position:

Particulars	2013	2012	Increase/(Decrease)
Assets	P 31,112,746.93	P 31,747,755.02	P (635,008.09)
Liabilities	P 22,674,290.73	P 24,239,220.43	P (1,564,929.70)
Equity	P 8,438,456.20	P 7,508,534.59	P 929,921.61

II. Sources and Application of Funds:

Income	2013	2012	Increase/(Decrease)
Income from Water Works System	P 13,382,744.39	P 12,546,886.05	P 835,858.34
Other Business Income	589,535.86	926,053.99	(336,518.13)
Fine and Penalties-Business Income	500,843.32	439,265.90	61,577.42
Other Income	23,518.44	58,285.10	(34,766.66)
Total Income	P 14,496,642.01	P 13,970,491.04	P 526,150.97

Expenses	2013	2012	Increase/Decrease
Personal Services	P 6,682,062.81	P 7,074,972.95	P (392,910.14)
Maintenance & Other Operating Expenses	4,119,310.85	3,833,974.67	285,336.18
Financial Expenses	2,711,642.02	2,848,156.19	(136,514.17)
Total Expenses	P 13,540,083.82	P 13,785,848.30	P (245,764.48)
Excess of Income Over Expenses	P 983,626.33	P 213,387.23	P 770,239.10

C. SCOPE OF AUDIT

The audit was aimed to ascertain the fairness and reliability of the agency's financial position and the results of its operations. The audit conducted included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit was for the period from January 1 to December 31, 2013.

D. INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The auditor issued a qualified opinion on the fairness of the presentation of the financial statements.

E. OBSERVATIONS AND RECOMMENDATIONS

1. Daily collections were not deposited/remitted intact by the accountable officer not in accordance with Section 69 of Presidential Decree (PD) No. 1445, thus government funds were exposed to possible risk of loss, mishandling and/or misappropriation.

We recommended that the Accountable Officer adhere strictly to the existing rules and regulations regarding handling and deposit of collections. Require the Cashier to adopt cut-off policy in order to rectify the delayed deposit of collections.

2. The validity of agency's Accounts Receivables (A/R) cannot be fully relied upon since provision for Allowance for Doubtful Accounts was not in accordance with Item 6.0, Chapter VIII of the Manual on Government Accounting System (MGAS) for Local Water Districts (LWDs), thereby affecting the fair valuation of Accounts Receivable and the related accounts in the financial statements.

We recommended that the agency adopt a policy on the recognition of Allowance for Doubtful Accounts so that that it may reflect the fair valuation of the Accounts Receivable accounts as mandated in the MGAS for LWDs and effect the necessary journal entries for the discrepancies noted or discovered. Likewise, revise the aging schedule in accordance with Item 6.0, Chapter VIII of the MGAS for LWDs to properly provide for the bad debts expense.

3. The District failed to allocate Reserves equivalent to 10% of the annual gross revenues for CY 2013 not in consonance with Article V, Section 8 of Contract of Loan entered with the Local Water Utilities Administration (LWUA).

We recommended that the Management should strictly adhere to the requirements stipulated in the contract for the purposes of ensuring repayments of its obligations and providing for the continuous viability and growth of the District.

We also recommended that Management should seek approval of the Board Resolution No. 06 s. 1996 dated December 5, 1996 from the LWUA to effect amendments on the provisions of the original contract of loan.

4. Purchases of supplies, materials and inventories totalling ₱711,978.15 were made through Shopping as the primary mode of procurement instead of Public Bidding contrary to Sections 7.1, 3(b) and 48.2 XVI of the Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184 thus, deprived the agency of the opportunity to avail of the lowest possible price resulting from competitive public bidding.

We recommended that the agency should undertake procurement transactions with the APP as guide and to adopt public bidding as the primary mode of procurement of the items enumerated in the approved APP to enable eligible and qualified private contracting parties to participate in public bidding for the agency to avail of the lowest possible price. Further, strictly adhere to the provisions of RA No. 9184 to achieve transparency, efficiency, economy and accountability in all its procurement activities.

5. Actual Board of Directors (BOD) expenses for the calendar year 2013 exceeded by ₱207,101.30 over the amount allowable under Executive Order (EO) No. 65 s. 2012. The excess claims by the BOD could have been utilized instead to finance regular operating expenses of the District.

We recommended the following:

- that budget and corresponding expenses for account code 800 for a given year be limited to per diems for a maximum of 24 regular board meetings plus twenty five percent (25%) of total per diems to comply with the limitation set under LWUA Memo Circular No. 015-12.
- maintain separate subsidiary ledgers so that expenses of the BOD be monitored to avoid the incurrence of overdraft and above the allocated budget.
- that compliance with the provisions of EO No. 65 as implemented by LWUA Memorandum Circular 005-12 and 015-12 which states that the aggregate amount of all reimbursable expenses should not exceed 25% of actual per diems received for board meetings be strictly observed.

F. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES

The balance reflected in the financial statements amounted to ₱113,141.30 for Receivables-Disallowances/Charges for Calendar Year 2013. Settlements during the year made by the agency for the disallowance reached ₱13,075.00.

G. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

For the year 2013, the District had 18 audit recommendations to implement as validated by the audit team. Of the 18 audit recommendations, seven were fully implemented, two were partially implemented and nine were not implemented.