

# METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM

## ANNUAL AUDIT REPORT for CY 2012

### EXECUTIVE SUMMARY

#### A. Introduction

The Metropolitan Waterworks and Sewerage System (MWSS), a government-owned and controlled corporation, was created under Republic Act No. 6234 approved on June 19, 1971. Its main objective is to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes to its consumers at just and equitable rates. It also aims to provide sewerage and sanitation services to the public. MWSS owns and has jurisdiction over all waterworks and sewerage system of all the cities and municipalities of Metro Manila, and some municipalities of Cavite and Bulacan.

Because of the felt need for the government to adopt urgent and effective measures and to address the nationwide water crisis which adversely affected the health and well-being of the public, legislators passed into law Republic Act No. 8041, otherwise known as the National Water Crisis Act of 1995, implemented under Executive Order No. 286 dated December 6, 1995, which reorganized the MWSS. The passage of Executive Order No. 311 on March 20, 1996 encouraged the private sector's participation in the operation of the facilities of MWSS and paved the way for its privatization.

Pursuant to a process of a competitive public bidding and selection, MWSS' operations were privatized. Thus, on February 21, 1997, MWSS entered into a Concession Agreement (CA) with two private companies (Concessionaires), namely, the Manila Water Company Incorporated (MWCI) and the Maynilad Water Services Incorporated (MWSI), granting them the rights to manage, operate, repair, decommission and refurbish the Facilities in the Service Area, including the right to bill and collect for water and sewerage services supplied in the Service Area. MWCI operates on the east zone while MWSI services the west zone the two concessionaires formally took over the operations of MWSS on August 1, 1997. In addition to the performance of the service obligations, the concessionaires are required, under the CA, to pay MWSS concession fees in consideration for such right.

As a result of the privatization in 1997, MWSS is now divided into two Offices, the MWSS-Corporate Office (CO) and the MWSS- Regulatory Office (RO).

On March 2, 2009, MWCI submitted a business plan proposing to increase the investments on wastewater and new water sources project and to ensure water supply security to support their request for extension of the Concession Agreement for an additional period of fifteen (15) years, from 2022 to 2037, subject to the written consent of the Republic of the Philippines (ROP) as required under Section 16.12 of the CA. Series of public consultations were conducted to inform and educate stakeholders of the issues to warrant the extension. On April 28, 2009, per Board Resolution 2009-072, MWSS approved the extension of the concession for the East Area Concession.

Following the extension of the CA with the MWCI was the extension of the CA with the MWSI for additional fifteen (15) years. On June 24, 2009, MWSI submitted its formal

proposal for 15-year extension of its Concession anchored on the following considerations:

- a. Economic benefits to consumers through the mitigation of tariff increases;
- b. Ability to undertake long-term water supply and sewerage projects to ensure adequate service and comply with more aggressive regulatory and environment requirements;
- c. Access to longer-term financing at competitive rates to fund more long-term CAPEX projects; and
- d. Ensure the long-term viability of the Concessionaire.

On September 10, 2010, Board Resolution No. 2009-180 resolved that the Concession period of the Maynilad Water Services, Inc. be renewed/extended for an additional period of 15 years, subject to the same conditions required when the MWCI was granted their extension.

The MWSS-CO is now headed by Administrator Gerardo A.I. Esquivel who assumed office on January 24, 2011. The MWSS-RO's Acting Chief Regulator effective November 12, 2012 is Atty. Emmanuel L. Caparas.

## B. Financial Highlights

### Comparative Financial Position (In Million Pesos)

	2012	2011	Increase (Decrease)
Assets	54.780	53.097	1.683
Liabilities	18.301	18.448	(0.147)
Equity	36.479	34.649	1.830

### Comparative Results of Operations (In Million Pesos)

	2012	2011	Increase (Decrease)
Income	2.720	2.644	0.076
Expenses	2.132	2.164	(0.032)
Net Profit	.588	0.480	.108
Gain (loss) on foreign exchange	1.358	(.147)	1.505
Net Profit	1.946	.333	1.613

### C. Operational Highlights

Relative to their mandate to provide uninterrupted and adequate supply of clean and affordable water in Metro Manila and neighboring towns, MWSS reported the implementation of the following projects:

<i>Projects</i>	<i>Particulars / Accomplishments</i>														
<b>A. Foreign-Assisted Projects</b>															
<p>1. Angat Water Utilization and Aqueduct Improvement Project (AWUAIP)-Phase 2</p>	<p>Conceived in order to secure the conveyance of raw water coming from the Angat Dam, it involves the construction of a 9.90 kilometers aqueduct extension, the rehabilitation of existing Aqueduct No. 5 and interconnection works for the six (6) aqueducts including the clearing of informal settlers/illegal structures along the 60-meter right-of-way of the aqueduct alignment</p> <table border="1" data-bbox="755 793 1435 1251"> <tr> <td data-bbox="755 793 1036 825">Project Location</td> <td data-bbox="1036 793 1435 825">San Jose Del Monte, Bulacan</td> </tr> <tr> <td data-bbox="755 825 1036 884">Project Schedule</td> <td data-bbox="1036 825 1435 884">March 2010 – March 2013 (3 years)</td> </tr> <tr> <td data-bbox="755 884 1036 1052">Total Project Cost</td> <td data-bbox="1036 884 1435 1052">           P6.109 Billion (as approved by NEDA – ICC)             P6.089 Billion (cost after the bidding)         </td> </tr> <tr> <td data-bbox="755 1052 1036 1110">Amount of Loan</td> <td data-bbox="1036 1052 1435 1110">P5.537 billion (US\$116.602 Million)</td> </tr> <tr> <td data-bbox="755 1110 1036 1142">Lending Institution</td> <td data-bbox="1036 1110 1435 1142">Export-Import Bank of China</td> </tr> <tr> <td data-bbox="755 1142 1036 1194">Name of Contractor</td> <td data-bbox="1036 1142 1435 1194">China International Water and Electric Corporation (CIWEC)</td> </tr> <tr> <td data-bbox="755 1194 1036 1251">Contract Cost with CWE</td> <td data-bbox="1036 1194 1435 1251">P5.298 Billion</td> </tr> </table> <p><b>Project Status as of Dec. 31, 2012</b></p> <p>The project was substantially completed and inaugurated by President Benigno S. Aquino III on July 17, 2012. The project was 100% completed on September 04, 2012 with the Taking-Over Certificate issued on September 10, 2012.</p>	Project Location	San Jose Del Monte, Bulacan	Project Schedule	March 2010 – March 2013 (3 years)	Total Project Cost	P6.109 Billion (as approved by NEDA – ICC)  P6.089 Billion (cost after the bidding)	Amount of Loan	P5.537 billion (US\$116.602 Million)	Lending Institution	Export-Import Bank of China	Name of Contractor	China International Water and Electric Corporation (CIWEC)	Contract Cost with CWE	P5.298 Billion
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<p>2. Angat Water Utilization and Aqueduct Improvement Project(AWUAIP–Phase 3)</p>	<p>The Project involves the proposed investigation and rehabilitation of the other existing raw water conveyances of the MWSS water supply system more particularly the five (5) aqueducts (AQ1-5) and the three (3) tunnels (T-1 to T-3).</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ Secured technical assistance (grant) from ADB for the full-blown feasibility study of the Project.</li> <li>▪ The full-blown feasibility study started December 2012.</li> </ul>														

<b>B. Public-Private Partnership (PPP) Projects</b>	
<p>1. Rehabilitation , Operation and Maintenance of Auxiliary Turbines No. 4 and 5 of the Angat Hydro-electric Power Plant costing US\$ 560,000.00</p>	<p>The Project involves the opportunity to optimize the benefit from the MWSS-owned auxiliary turbines 4 and 5 (AN-4 &amp; AN-5) by developing the hydropower generation component, a “by-product” of water releases. To maximize the utilization of the turbines, there is a need to enter into an O &amp; M Agreement with the private sector through Public-Private Partnership (PPP) scheme for the rehabilitation, operation and maintenance of these turbines.</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ Completion of the Project Feasibility Study on July 2012 and this was done by consultant Rebel Group funded through the Project Development and Monitoring Facility (PDMF) funding support of the PPP Center.</li> <li>▪ The project was approved by the NEDA board on 29 November 2012, in the total Project Cost of P1.16 Billion;</li> <li>▪ The transaction advisory services in on-going and is now in the Procurement stage: - “Invitation to Prequalify and Bid” was advertised in newspapers of general circulation on December 12, 19 and 26, 2012. As of December 31, 2012, ten (10) bidders have purchased the invitation documents. Submission by the bidders of the prequalification documents will be on March 04, 2013.</li> </ul>
<p>2. New Centennial Water Source Project with total cost of US\$1.60M</p>	<p>It involves a construction of a new water source in order to meet the increasing water demand. Also intended to provide a redundant dam for Metro Manila’s domestic water supply.</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ Completion on July 2012 of the World Bank funded Study on Metro Manila Water Security.</li> <li>▪ Commencement on February 2012 of the JICA Study of Water Security Master Plan for Metro Manila and its Adjoining Areas, and the study is still on-going.</li> <li>▪ Completion on August 2012 of the hydrological study conducted by the University of the Philippines – National Hydraulic Research Center (UP-NHRC).</li> </ul> <p>This was funded through the Project Development and Monitoring Facility (PDMF) funding support of the PPP Center. The contract duration for the TAS is 550 calendar days including the four (4) months period for feasibility study and updating of the Kaliwa/Laiban Dam Project.</p>

<p>3. Bulacan Bulk Water Supply Project costing US\$1,207,408</p>	<p>Construction of water distribution system that will provide bulk water supply to the water districts of the Province of Bulacan.</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ MWSS Board approval (a) declaring Bulacan Province as a separate concession area, to be called "North Concession," and (b) authorizing Management to bid out its operation under a public-private partnership arrangements.</li> <li>▪ Approval of funding support for Transaction Advisory Services (TAS) by the Project Development and Monitoring Facility (PDMF) Board, PPP Center, in the total amount of US\$1,207,048.00.</li> <li>▪ Signing of MOA between MWSS and the Province of Bulacan for the implementation of the Project.</li> <li>▪ Procurement of consultants for the Transaction Advisory Services (TAS) is on-going.</li> </ul>
<p><b>C. Locally Funded Projects</b></p>	
<p>1. Angat Dam and Dyke Strengthening Project (ADDSP) – P 5,700M</p>	<p>Strengthening of the Angat Dam &amp; Dykes in order to ensure its stability should the West Valley Fault moves, establish contingency measures and formulate long-term dam strengthening and stabilization interventions.</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ Completion of the consulting services for the safety and conceptual design on May 2012 by the joint venture of EDCOP and Tonkin &amp; Taylor. The study was funded by PSALM in the amount of P31M.</li> <li>▪ Secured endorsements of the Project from the concerned agencies (DPWH, PSALM, NPC, NIA, PHILVOLCS, OCD, PAGASA, Province of Bulacan and the Regional Development Council of Region III).</li> <li>▪ Secured NEDA-Board approval of the Project on 04 September 2012, in the total Project Cost of P5.70 Billion to be funded by the National Government.</li> <li>▪ Completion of bid documents and tender drawings for Contract Package 1 of the Project (strengthening works and auxiliary spillway), and the Project is expected to be bidded-out next year.</li> </ul>
<p>2. Sumag-River Diversion Project – P600M</p>	<p>Construction of a diversion tunnel to supplement the water coming from Umiray River going to the Angat Reservoir. This is being implemented and funded by the</p>

	<p>concessionaires under the Common Purpose Facility (CPF) framework of the Concession Agreement:</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ Procurement of contractor is on-going wherein the bidding was held last November 2012.</li> </ul>
3. Umiray-Angat Transbasin Tunnel Rehabilitation Project – P450M	<p>Rehabilitation and strengthening of existing tunnel structures/facilities to withstand future typhoons in order to ensure the continuous flow of raw water from the Umiray River to the Angat Reservoir.</p> <p><b>Project Status (as of December 31, 2012)</b></p> <ul style="list-style-type: none"> <li>▪ Procurement of contractor is on-going wherein the bidding was held last November 2012;</li> </ul>
4. La Mesa Watershed Management	<p>The project cost of P 7M for CY 2012 was funded by the two Concessionaires (MWCI and MWSI).</p> <p>Some 1552 hectares of land were reforested in CY 2012.</p>
5. Ipo Watershed Management	<p>The project cost of P12M for CY 2011 was funded by the two concessionaires (MWCI &amp; MWSI)</p> <p>Maintenance and protection of 560 hectares of reforested area undertaken by the Peoples Organization (PO), under the supervision of the seven foresters hired as Technical consultants.</p> <p>The maintenance and protection of 560 hectares of reforested area is being undertaken by the People’s Organization under the supervision of the seven (7) foresters hired as Technical Consultants.</p>

**D. Scope of Audit**

A financial and compliance audit was conducted on the accounts and operations of the Metropolitan Waterworks and Sewerage System for the year ended December 31, 2012 to render an opinion on the fairness of presentation of the financial statements and the propriety of financial transactions in accordance with the Philippine Standards on Auditing, applicable laws, rules and regulations.

**E. Audit Opinion on the Financial Statements**

The Auditor rendered a Qualified Opinion on the fairness of presentation of the financial statements of MWSS for the year ended December 31, 2012 for reasons stated in the Independent Auditor’s Report in Part I of this Report.

## F. Summary of Significant Audit Observations and Recommendations

Below is a summary of more significant audit observations and recommendation which are discussed in detail in Part II A of the Report.

### Current Year's Audit Observations and Recommendations

#### ***MWSS Corporate Office***

1. No physical inventory was conducted for certain items under the Property, Plant and Equipment (PPE) amounting to P8.80 billion or 14% of the year-end balance of the PPE of P63.23 billion (*with a net book value of P24.27 billion and net of Land*), thus their existence and accuracy were not ascertained. For Land account, unreconciled discrepancy was noted between the inventory report and the books of accounts, with the books higher by P4.84 billion. Management informed they will continue with the inventory taking and will exert all efforts to effect the adjustments gathered during the inventory taking.

***We strongly recommend that Management take immediate action on the conduct of complete physical inventory of all the PPE and on the reconciliation of the same with accounting records.***

2. MWSS Corporate Office failed to collect from the Concessionaire the accumulated rental arrears estimated at P161.23 million arising from the use by the latter as stockyard of the 36,000 sq.m. Not-In-Service (NIS) Land in the San Juan Reservoir and Aqueduct Complex since March 2006 to date, pursuant to Section A.1.2 of MWSS Board Resolution No. 106-96. known as the "*Guidelines/Procedures For The Allocation Of MWSS Fixed Assets, Equipment And Inventory Of Construction Materials In The Books Of The Accounting Department As Of December 31, 1996*", which provides that NIS Land is to remain with MWSS to be sold or leased.

***In view of the contention of the MWCI contained in its letter dated August 1, 2006 that that the said land formed part of the operating assets turned over to MWCI per the Concession Agreement, we recommend that Management take immediate and appropriate action to resolve the issue with the Concessionaire in accordance with the Concession Agreement.***

***Should MWCI maintain its position of not paying the rental fee, we recommend that MWSS Management take legal action to demand and collect from MWCI the lease for the use of the 36,000 sq.m. land in the San Juan Reservoir and Aqueduct Complex in N. Domingo, San Juan City, Metro Manila.***

3. MWSS allowed the installation of Telecom Towers by the Concessionaire of the East Zone (MWCI) in its properties located in (a) San Juan-Mandaluyong Business Area (12 sq.m.), (b) Pasig Pumping Station area (225 sq.m.), and (c)

Main Warehouse lot in Balara (300 sq.m.), to its detriment for the following reasons:

- a. the donor of the Land where the MWCI San Juan- Mandaluyong Business Area is located may question the installation of the Telecom Towers in view of the provision in the land title that the lot shall be used for the main purpose relating to waterworks and sewerage system;
- b. the Agreement was executed by and between MWCI and Globe, instead of between MWSS, being the owner of the property and Globe ; and
- c. the agreed rental rates being collected were not reasonably determined and authorized pursuant to Section 6 of Executive Order No. 301, dated 26 July 1987.

***We recommended that Management:***

- a. ***For San Juan-Mandaluyong Business Area, require the MWCI to remove the Globe telecommunications equipment from the area; and***
  - b. ***For the other two lots, require the MWCI to terminate the lease agreements with the Globe Telecom Inc., and offer the same for lease thru public bidding.***
4. Interest on the P2.250 billion floating rate Bond Issuance under the DBP/LBP Club deal Arrangement guaranteed by the National Government booked up under Other Receivables from Maynilad Water Services, Inc. (MWSI) account in the amount of P144.342 million as of December 31, 2012 was not recognized by MWSI as its liability to MWSS.

***We recommend that Management:***

- a. ***Closely follow up with the OGCC the resolution of the issue as regards the payment of cost of borrowings on the loan agreement between MWSS and BNP Paribas and MWSS and DBP-LBP Club Deal to avoid further possible losses to MWSS; and***
  - b. ***Comply with the provision of Section 14 of Philippine Accounting Standard 39 on the recognition of a financial asset which provides that an entity shall recognize a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.***
5. Collections from the concessionaires in the amount of P140.138 million as of December 31, 2012 for the debt servicing of JBIC/OECF loan for the Angat Water Supply Optimization Project (AWSOP) remained unremitted to either the Bureau of

Treasury or to the foreign lending institution due to the non-resolution of the issue of whether the disbursements for the AWSOP before privatization are to be treated as equity from the National Government, or as loan as it is the concessionaries who continue to implement the AWSOP after privatization. On the other hand, there was a shortfall P6.715 million on collections remitted by the two concessionaires to MWSS for the debt servicing, contrary to Section 6.4 of the Concession Agreement.

***We recommended that Management immediately resolve with the Department of Finance and the Bureau of Treasury the issue on whether the disbursements for the AWSOP before privatization recorded as Loan Payable JBIC/OECF in the amount of P140.138 million is to be treated as equity from the National Government or will remain loan as it is the concessionaires who implemented the project.***

***We further recommend that should the recorded loan to JBIC/OECF continue to be treated as loan, the Management require the immediate remittance of the amount of P140.138 million to the National Government received from the concessionaires intended for the debt servicing to JBIC/OECF.***

6. Sound internal control practices were not observed in the handling of income from the Right of Way (ROW) properties, namely: complete control by the Property Management Department over the rental collections; inclusion of negative balances in the *Other Receivables – Leased Property* accounts; and absence of lease contracts; thus, allowing opportunities for possible errors and irregularities.

***We recommended that Management:***

- a. ***Ensure that the incompatible functions are assigned to different offices such that the billing and accounting functions are done by the Finance Department and the monitoring done by the Property Management Department for the collection of rental income;***
  - b. ***Require the concerned departments to coordinate in the efficient collection of income on ROW leased properties; and***
  - c. ***Take appropriate action to put the lease on ROW properties in proper order by providing each with a contract of lease subject to conditions which Management may deem appropriate.***
7. Rental Income for the use of Right of Way properties totalling P1.57 million were not collected from 96 lessees due to leniency in the collection of rental fees and the lack of contract of lease.

***We recommended that Management:***

- a. ***Enforce the collections of all rental fees on the use/lease of MWSS properties strictly in accordance with the issued guidelines;***

- b. **Take appropriate actions to ensure collections of back rentals from those who are continuously occupying the properties and apply sanctions on late payment/s thereof as provided for in the respective original contracts of lease;**
- c. **Ensure that the lease agreements/contracts are renewed prior to expiration and regularly monitor compliance thereof.**

### **MWSS Regulatory Office (RO)**

1. Accrual of obligation for Consultancy Services by MWSS-RO in the amount of P88.850 million in CY 2012 at year-end was not properly documented, as consultancy contracts were signed only in the following year.

**We recommended that Management record Liabilities in the books of accounts only when there is a present obligation as a consequence of a binding contract or statutory requirement as defined in paragraph 60 of the Framework for the Preparation and Presentation of Financial Statements for Liabilities and that all obligations be supported with complete documentation as required under the Section 4.6 of P.D. 1445.**

2. Loan granted to MWSS-RO Multi-Purpose Cooperative for land development and house construction in the amount of P25.000 million in CY 2005 was not supported by a contract. Moreover, no payment for the loan has been received from the said Cooperative.

**We recommended that Management:**

- a. **Take initial action to demand MWSS–RO Multipurpose Cooperative for the return of the P25.00 million loan; or**
- b. **Cause the immediate submission of the contract between MWSS-RO and MWSS–RO Multipurpose Cooperative to support the grant of the loan in compliance with Item 4 of COA Circular No. 97-004.**
- c. **We will issue the necessary Notice of Disallowance should no documents to support the loan granted to the MWSS – RO Multipurpose Cooperative be submitted by the MWSS – RO.**

### **Common to MWSS CO and MWSS RO**

1. No public bidding was conducted on the procurement of the General Services Contracts in the total amount of P4.19 million; and payments made were not covered with a contract agreement.

***We recommended that Management immediately conduct public bidding in accordance with Section 10, Article IV of RA 9184 and its Implementing Rules and Regulations and award a new Contract for the procurement of janitorial services.***

***We further recommend that Management subject the said transaction to review to determine the accountability and/or culpability of officials involved in allowing the continuous payment for services rendered on general services contracts not procured through public bidding.***

***We will issue the necessary Notice of Disallowance on the above transactions.***

## **2. Reiteration of Prior Years' Audit Observations and Recommendations**

### ***MWSS Corporate Office***

1. The subsidiary ledger asset accounts totalling P1.80 billion representing 3% of MWSS' total assets of P53.31 billion (net of allowance for doubtful accounts of P1.64 billion and accumulated depreciation of P38.96 billion) and the subsidiary ledger liability accounts totalling P0.84 billion which was 5% of MWSS' total liabilities of P17.13 billion remained unreconciled with the General Ledger and unverified due to incomplete supporting documents. Hence, the balances of these accounts at year-end were doubtful of validity and accuracy that could overstate or understate the assets and liabilities accounts at year-end.

***We reiterated our previous year's recommendation that Management facilitate the immediate reconciliation of the various accounts cited above pursuant to the provisions of IAS 1 in order that their financial statements will be able to provide the financial users the accurate information about the Agency's financial position, financial performance and cash flows.***

2. *Other Receivables* account consisting of Guarantee Deposits, Inventory Held in Trust and Interest/penalties totalling P490.75 million had been dormant for more than 14 years and the collectability of which was practically nil.

***We reiterated our previous years' audit recommendation that Management coordinate with its Concessionaires to undertake the verification and reconciliation of the dormant accounts amounting to P490.75 million within an established time frame.***

3. The sale of La Mesa Watershed Property by MWSS to its officers and employees was not supported with authority from the Office of the President allocating the

subject MWSS Real Property, specifically for the housing of MWSS Officers and employees.

***We recommended the immediate submission of the approval from the Office of the President allocating the subject MWSS Real Property specifically for the housing of MWSS Officers and employees.***

4. The 40% share in the net income from La Mesa Ecopark Operation (*La Mesa Resort Zone*) for CYs 2004 to 2009 in the amount of ₱8.33 million had not been remitted by the ABS-CBN Foundation Inc. (AFI). Moreover, the share of MWSS for CYs 2010 to 2012 could not be determined due to non-submission of the Annual Financial Report required under Section 11 of the MOA.

***We recommended the following:***

- a. ***Require the AFI to immediately submit the Annual Financial Reports and remit to MWSS its corresponding share of income as required under Section 11 of the MOA;***
  - b. ***Clearly designate the stewardship and control of the Environmental Trust Fund to either LMEB or the LMRZ-EC;***
  - c. ***Create the LMRZ-EC that will formulate policies regarding the LMRZ aside from other functions and responsibilities stated in the MOA. Upon creation, members of said body should convene regularly to address and assess the operations and concern of the LMRZ/La Mesa Ecopark;***
  - d. ***Comply with the provisions of Section 6 of the MOA in order to maintain sound internal controls by opening an account in the name of the three (3) contracting parties; and ensure that all transactions have been authorized with the consent of MWSS representative;***
  - e. ***Require the post facto approval and ratification of the MOA to enable the Agreement to be fully effective, otherwise, the MOA could be considered null and void; and***
  - f. ***Seek the approval of the 15% management fee being charged by the AFI from the MWSS Board in order to comply with Section 1.1 of the MOA.***
5. Hiring of consultants was done without public bidding in violation of Section 10 of the IRR of RA 9184. Also, the number of consultants employed exceeded the required number of consultants.

***We recommend that all contracts for hiring of consultants services entered into by Management which are not in accordance with the conditions imposed by GCG and DBM be terminated immediately. The remaining works being contemplated by Management in the hiring of the current Consultants***

**cannot be compromised against the legal issues attendant to their hiring. As regards the legal and related issues consequent to the hiring of current consultants, they shall be left to the final decision of the Office of the Ombudsman which is presently conducting investigation on the matter.**

**We also recommend that Management strictly adhere to the prevailing rules and regulations on the hiring of consultants under RA 9184 and its Revised IRR and with the other conditions enumerated in the GCG Memorandum Order Nos. 2012-20 and 2012-38 dated October 29, 2012 and November 29, 2012 respectively.**

### **Common to MWSS CO and MWSS RO**

1. The balance of the reciprocal accounts between MWSS Corporate Office and the Regulatory Office in the amount of P1.35 billion and P640 million respectively remained unreconciled with the asset accounts higher than liability accounts by P713 million due to unresolved issues on the sharing of income and expenses. As a result, no elimination of these reciprocal accounts was effected in the financial statements for CY 2012.

**We reiterated our previous recommendations that Management:**

- a. **Immediately reconcile the discrepancies between the reciprocal accounts to come up with the valid and reliable balances in the books of both the RO and CO;**
  - b. **Thereafter, conduct a periodic reconciliation of these accounts and see to it that the balances are always reconciled;**
  - c. **Ensure that only legitimate and authorized shared expenses are recorded against RO; and**
  - d. **Submit to the MWSS Board of Trustees a written policy on the type and nature of charges to be made on these reciprocal accounts; and**
  - e. **Ensure that actual charges to these accounts be approved/acknowledged as valid claims by the authorized official/s of the concerned offices.**
2. MWSS paid P51.91 million to its officials and employees for allowances and other benefits and booked up payables/obligations of P0.38 million for the same for the month of December 2012 without the required approval or confirmation from the Office of the President, resulting in excess of actual expenditures over the DBM-approved Corporate Operating Budget.

**We recommended that Management obtain confirmation or post facto approval from the Office of the President for the said allowances for CY 2012 and previous years as indicated in the COB.**

**We issued the following Notice of Disallowances as shown in the table below.**

Benefits	ND No.	Date	Amount
<b>MWSS-CO</b>			
Amelioration Allowance	13-001-05-(12)	6/13/13	3,680,227.14
COLA	13-002-05-(12)	6/14/13	14,720,328.21
<b>Sub-Total</b>			<b>18,400,555.35</b>
<b>MWSS-RO</b>			
Amelioration Allowance	13-001-RO-(12)	6/6/2013	1,991,974.15
COLA	13-002-RO-(12)	6/10/2013	7,910,835.98
Productivity Incentive Bonus	13-004-RO-(12) Amended	6/10/2013	3,924,797.50
<b>Sub-Total</b>			<b>13,827,607.63</b>
<b>TOTAL</b>			<b>32,228,162.98</b>

- Representation and Transportation Allowance (RATA) in excess of GAA authorized rates and positions were continuously granted to MWSS-CO to officials and employees of MWSS in the amount of P13.10 million.

**We reiterated our previous years' recommendations that Management discontinue the computation of RATA based on LOI 97 and apply the rates authorized under the GAA and stop the grant of RATA to employees who do not fall under any of the enumerated positions entitled to RATA in the GAA.**

**Notices of Disallowances for the payment of RATA in CY 2012 were issued, as listed in the table below.**

ND No.	Date	Amount
<b>MWSS Corporate Office</b>		
<b>ND No. 13-003-05-(12)</b>	<b>July 1, 2013</b>	<b>2,704,617.28</b>
<b>ND No. 13-004-05-(12)</b>	<b>-do-</b>	<b>6,001,992.84</b>
<b>Sub-total</b>		<b>8,706,610.12</b>

ND No.	Date	Amount
<i>MWSS Regulatory Office</i>		
ND No. 13-006-RO-(12)	June 10, 2013	4,389,873.84
<b>Total</b>		<b>13,096,483.96</b>

4. MWSS paid P9.86 million for the procurement of private health insurance of its employees for the period March 18, 2011 to June 17, 2013 contrary to COA Resolution No. 2005-001.

***We recommended that Management comply strictly with COA Resolution No. 2005-001.***

***Notices of Disallowance for the procurement of private health insurance were issued, as listed in the table below.***

ND No.	Date	Period	Amount
<b>MWSS Corporate Office</b>			
ND – 13-005-05-(12)	July 1, 2013	March 18, 2011- March 17, 2012	3,072,183.95
ND – 13-006-05(12)	July 1, 2013	March 18, 2012 – June 17, 2012	857,205.00
ND – 13-007-05(12)	July 1, 2013	June 18, 2012- June 17, 2013	2,985,516.00
<b>Sub-total</b>			<b>6,914,904.95</b>
<b>MWSS Regulatory Office</b>			
ND – 13-006-RO-(12)	June 10, 2013	March 18, 2011- March 17, 2012	1,389,177.00
		June 18, 2012- June 17, 2013	1,551,528.00
<b>Sub total</b>			<b>2,940,705.00</b>
<b>Total</b>			<b>9,855,609.95</b>

5. The actual expenditures for Personal Services (PS) and Maintenance and Other Operating Expenses (MOOE) for CY 2012 exceeded the DBM Approved COB by P121.43 million, contrary to Section 4(1) of PD 1445.

***We recommended that Management:***

- a. ***Incur expenditures within the limits of the DBM-approved budget as required under Section 4(1) of PD 1445 and that the granting of benefits without proper authority should be stopped; and***
- b. ***Submit the Corporate Operating Budget to the DBM before its budget execution in compliance with Section 6, Part II of Executive Orders No. 518.***

**G. Status of Implementation of Prior Years' Audit Recommendations**

Out of the 24 audit recommendations embodied in prior year's Annual Audit Report, eight were implemented and 16 were not implemented. Details were presented in the Status of Implementation of Prior Year's Audit Recommendations.