

**METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM
COMMENTS AND OBSERVATIONS**

I. FINANCIAL STATEMENTS

- 1. The validity of the System's Property, Plant and Equipment and Inventory accounts amounting to ₱40.19 billion (net of depreciation) and ₱61.26 million, respectively, as of December 31, 2010 could not be ascertained due to non-submission of Physical Inventory Report and non-reconciliation of the Accounting and Property records.**

Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume 1 provides that Chiefs of Agencies are required to take a physical inventory of all the equipment and supplies belonging to their respective offices at least once a year and the same shall be made and submitted to the Auditor not later than January 31 of each year, unless extended by the Chairman, Commission On Audit, upon prior request of the chief of agency concerned. A committee of two or more employees designated by the chief of agency, including the property officer or custodian, depending on the extent of property accountability in a particular agency should be in charge of inventory taking, to be witnessed by a representative of the Agency Auditor.

Interview with concerned officials/employees of both MWSS-CO and RO disclosed that although an inventory team was created, no physical inventory report was completed by the team.

Contrary to the above-cited provisions, the System was not able to submit the Physical Inventory Report on January 31, 2011. Consequently, the validity of MWSS Fixed Assets with a net book value of ₱40.191 billion and Inventories with a total balance of ₱61.26 million cannot be ascertained. Details as follows:

A. Property, Plant and Equipment, net

	Corporate	Regulatory	Total
Land	₱12,780,232,847.62		₱12,780,232,847.62
Office Buildings	276,736,668.33	80.00	276,736,748.33
Other Structures	26,544,910,999.62		26,544,910,999.62
Office Equipment	4,236,355.03	19,743.01	4,256,098.04
Furniture and Fixtures	6,417,283.53	748,582.34	7,165,865.87
IT Equipment and Software	14,242,871.61	74,734,446.02	88,977,317.63
Library Books	137,115.28	20.00	137,135.28
Communication Equipment	38,685,337.77	125,816.50	38,811,154.27
Med. Dental and Lab. Equipment	20,256,107.60	2.00	20,256,109.60
Military and Police Equipment	412.17		412.17

Sports Equipment	1,158.26	7.00	1,165.26
Tech. and Scientific Equipment	27,118,256.07	694,219.08	27,812,475.15
Other Mach. and Equipment	170,747,942.25	76,513.79	170,824,456.04
Motor Vehicles	14,988,690.39	30.00	14,988,720.39
Other Transp. Equipment	216,335,450.59		216,335,450.59
Total (Net of Depreciation)	₱40,115,047,496.12	₱76,399,459.74	₱40,191,446,955.86

B. Inventories

	Corporate	Regulatory	Total
Office Supplies Inventory	167,507.50	571,193.35	738,700.85
IT Supplies and Accessories		16,879.20	16,879.20
Spare Parts Inventory		77,189.00	77,189.00
Construction Materials	60,430,101.51		60,430,101.51
Total	₱60,597,609.01	₱665,261.55	₱61,262,870.56

Management commented that the fixed assets are recorded in the MWSS records but physical existence of some of the properties and equipment are with the concessionaires. However, management promised to reconcile the PPE with the two (2) concessionaires and to submit the report to COA.

As to the reconciliation of lot area of land and land rights between Finance Department (FD) and Property Management Department's (PMD) records, Management commented that the two records were reconciled, however, the costs are not yet reconciled because the two departments are using two different values. The Finance Department used the appraisal value while the PMD used the tax declaration value.

The System's failure to submit the Fixed Assets Inventory Report and the Supplies Inventory Report within the prescribed period prevented this office from verifying if there are discrepancies between the physical inventory reports and the accounting records.

We recommended and management agreed to strictly adhere with the provisions of Section 490 of GAAM, Volume 1 regarding the proper conduct of physical inventory of government property and the submission of inventory report within the prescribed period. Management should conduct the physical inventory of all property and equipment and supplies not later than the last quarter of each year so that reconciliation with the book balance can be made not later than January 31 of the coming year.

Management submitted the 2010 Physical Inventory of MWSS General Administrative Equipment (GAEs) turned over to MWSI in the total amount of P54,226,917.90 and MWCI in the total amount of P3,570,654.92. However, the Inventory Report for MWSS CO and RO and Project GAEs will be submitted to COA

on or before September 15, 2011. Likewise, MWSS-RO explained that physical inventory of serviceable equipment is still on-going.

2. The Property, Plant and Equipment (PPE) account includes unserviceable motor vehicles and other transportation equipment totalling P93.82 million and undetermined amount of unserviceable office equipment and other machineries and equipment.

Section 79 of PD 1445 also provides that, when government property has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefor, be inspected by the head of agency or his duly authorized representative in the presence of the auditor concerned and, if found valueless or unsalable, it may be destroyed in their presence. If found to be valuable, it may be sold at public auction to the highest bidder under the supervision of the proper committee on award or similar body in the presence of the auditor or other duly authorized representative of the Commission On Audit.

Perusal of various Inspection and Inventory Reports (IIR) of Unserviceable Property as of September 15, 2010 and physical inspection showed that there are unserviceable motor vehicles and other transportation equipment with a total acquisition costs of ₱93,822,651.37 and undetermined amount of accumulated depreciation which are still included in the Property, Plant and Equipment account as of December 31, 2010. Meanwhile, there are also unserviceable office equipment and other machineries and equipment, but its acquisition costs are not stated in its respective inspection and inventory reports. The unserviceable motor vehicles and office equipment/machineries overstate the PPE and related accumulated depreciation account balances as of December 31, 2010.

We recommended that management take immediate action to facilitate the appraisal and disposal of these office equipment/machineries and the motor vehicles stored at MWSS compound, La Mesa Dam and other MWSS open storage areas. The continuous exposure of these vehicles to rain and sunlight would further deteriorate its value.

Further, pending disposal of the above-stated properties, we suggest that the items for disposal be recorded under the Other Assets account.

The Technical Audit Specialist of COA had already reviewed and approved the Appraisal Report of unserviceable properties with total appraised value of P46.6M.

3. The disposal thru public auction of unserviceable motor vehicles and the sale of G.I. pipes to various officers and employees were not immediately recorded in the books of accounts as of December 31, 2010 resulting to overstatement of assets, overstatement of liabilities and understatement of income.

It is one of the accounting standards that when property and equipment is retired or disposed of, the total cost and the related accumulated depreciation, amortization

and accumulated provision for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged to current operations.

Perusal of various Journal Entry Vouchers pertaining to the sale of unserviceable vehicles with the total acquisition costs of ₱4,307,419.00 showed that the proceeds amounting to ₱879,024.55 were recorded as a credit to Other Deferred Credits.

The total acquisition costs of disposed motor vehicles and the related accumulated depreciation were not immediately deducted from the Property, Plant and Equipment account and the resulting gain on sale was not credited to current operation. In effect, assets and liabilities were overstated and income was understated.

Likewise, Journal Entry Vouchers related to the sale of G.I. pipes showed that the total proceeds amounting to ₱148,900.00 were recorded as follows:

Cash	₱148,900.00	
Due to BIR		15,953.54
Gain/Loss on Sale of Assets		132,946.46

The foregoing journal entries pertinent to the sale of G.I. pipes to various MWSS officers and employees reveal that the Accounting Department considered the proceeds from sale as an outright income and recorded the sale as credit both to Due to BIR and Gain on Sale of Disposed Assets. The book value of the assets was not considered in determining the results of the sale. In effect, assets, liabilities and income were overstated.

Necessary adjustments should be made to correct the understatement/overstatement of the accounts.

Management has not yet submitted the corresponding adjusting entries to correct the deficiencies noted as of this date.

4. The reported Cash in Bank – Local Currency accounts were understated by P5.7 million when compared with the confirmed amounts.

The MWSS-CO maintains its local currency accounts consisting of savings, current and time deposit accounts at the Land Bank of the Philippines, Philippine National Bank, Development Bank of the Philippines and Bureau of Treasury.

Verification of subsidiary ledgers showed that as of December 31, 2010, the Cash in Bank-Local Currency accounts have a balance of P1,346,664,535.49. However, comparison of book balances against the results of confirmation from the different MWSS depository banks disclosed that there were discrepancies noted between the book and bank balances which resulted in the net understatement of the cash book balance in the amount of P5,661,109, as follows:

Bank Account	Balance per Book	Balance per Bank	Variance Overstated/ (Understated)
CURRENT ACCOUNT			
LBP-Katipunan Branch-Main Fund	5,324,110.97	5,519,429.79	(37,264.90)
LBP-Katipunan Branch-Corp. Office	158,053.92		
PNB-MWSS Branch- MPLP	3,051,260.23	1,447,260.23	1,604,000.00
Total	8,533,425.12	6,966,690.02	1,566,735.10
SAVINGS ACCOUNT			
DBP-Makati Branch	4,576,026.63	1,268,672.87	3,307,353.76
LBP-Intramuros Branch-Special Acct. BTR	95,521.50	95,814.66	(293.16)
LBP-UP Diliman Branch	569,483.14	569,356.58	126.56
PNB-MWSS Branch-COLA Loan	17,866.56	17,960.71	(94.15)
PNB-MWSS Branch-Raw Water	3,949,953.55	3,951,507.87	(1,554.32)
Total	9,208,851.38	5,903,312.69	3,305,538.69
COMBO ACCOUNT			
PNB-MWSS Branch-Corp. Office (Residual)	(10,121,315.43)	13,178,668.13	(9,950,363.06)
PNB-MWSS Branch-Corp. Office (Residual)	13,349,620.50		
PNB-MWSS Branch-Main Fund (RA1616)	(1,611,372.92)	4,583,611.26	(1,474,788.80)
PNB-MWSS Branch-Main Fund (RA1616)	4,720,195.38		
Total	6,337,127.53	17,762,279.39	(11,425,151.86)
LOCAL CURRENCY- TIME DEPOSITS			
Bureau of Treasury	74,121,523.88	74,244,030.29	(122,506.41)
Development Bank of the Philippines	254,784,512.22	254,786,033.51	(1,521.29)
Land Bank of the Philippines	580,423,178.41	578,915,588.63	1,507,589.78
PNB	53,585,527.49	54,077,320.10	(491,792.61)
Total	962,914,742.00	962,022,972.53	891,769.47
TOTAL	986,994,146.03	992,655,254.63	(5,661,108.60)
CASH - BANGKO SENTRAL NG PILIPINAS	359,670,389.46	w/o confirmation	
TOTAL	1,346,664,535.49		

We recommended that management:

1. Reconcile the recorded Cash in Bank – Local Currency accounts with the confirmed balance of the banks to arrive at the correct year end balances.

2. Prepare the necessary adjustments on the cash and other affected accounts for its fair presentation in the Financial Statements.

5. Various reconciling items that remained unadjusted as of December 31, 2010 overstated the cash accounts of MWSS-Corporate Office in the amount of P9.82 million and understated the Cash in Bank account of MWSS-Regulatory Office in the amount of P4.63 million or a net overstatement of P5.19 million.

MWSS-Corporate Office (CO)

The MWSS – CO uses the Adjusted Balance Method of bank reconciliation wherein the book balance and the bank balance are brought to a correct cash balance that must appear on the statement of financial position. However, review of Bank Reconciliation Statements as of December 31, 2010 shows that the adjusted General Ledger Balances of various cash accounts are not yet reflected in the statement of financial position as shown below:

Bank Account	Balance per Statement of Financial Position	Adjusted General Ledger Balance per Bank Reconciliation	Difference
PNB –MWSS Branch – Corporate Office (Residual)	(10,121,315.43)	(10,251,517.94)	130,202.51
PNB –MWSS Branch-Main Fund (RA 1616) Current Account	(1,611,372.92)	(6,190,882.75)	4,579,509.83
PNB-MWSS Branch-Main Fund (RA1616) Savings Account	4,720,195.38	4,649,277.13	70,918.25
PNB-MWSS Branch- MPLP	3,051,260.23	1,447,260.23	1,604,000.00
PNB-MWSS Branch-Corp. Office (Residual)	13,349,620.50	13,178,669.53	170,950.97
DBP-Makati Branch	4,576,026.63	1,268,672.87	3,307,353.76
LBP-Katipunan Branch–Main Fund	5,324,110.97	5,352,628.79	(28,517.82)
LBP-Katipunan-Corporate Office	158,053.92	167,901.00	(9,847.08)
LBP-UP Diliman Branch	569,483.14	569,356.58	126.56
PNB-MWSS Branch-Raw Water	3,949,953.55	3,951,507.87	(1,554.32)
BTR-Special Savings Account	95,521.50	95,814.66	(293.16)
T O T A L	24,061,537.47	14,238,687.97	9,822,849.50

It was noted that the bulk of the reconciling items pertains to prior years' transactions in the total amount of P4.4M as shown in the following:

<u>Nature</u>	<u>Amount</u>
Unrecorded debit memo (current year)	P 838,297.87
Unrecorded encashed checks (current year)	4,680,657.33
Other reconciling items (interest income, bank charges, etc.)	(96,075.10)
	<u>P5,422,880.10</u>
Prior Years' reconciling items:	
Unrecorded debit memo	
DBP Makati Branch (CYs 2000, 2001, 2005)	3,112,069.39
PNB-MWSS Branch-MPLP (CY 2009)	800,000.00
PNB-MWSS Branch-CO (CYs 2004 and 2007)	182,860.76
PNB-MWSS Branch-Main Fund (RA 1616) (CYs 2003-2009)	25,365.44
Unrecorded credit memo in CY 2007 and 2009	(29,600.69)
Unrecorded cash and check deposits in CY 2000 and 2003	(800,644.39)
Reconciling amount from previous bank accounts (DBP SA No. 5-08390-405-5)	998,110.00
Various reconciling items	111,808.89
	<u>P4,399,969.40</u>
Overstatement of cash account	<u>P9,822,849.50</u>

Further review of bank reconciliation statements and subsidiary ledger of PNB-MWSS Branch-Main Fund, Current Account (RA 1616) disclosed that 53 checks or P4,485,608.30 out of the total unrecorded encashed checks of P4,680,657.33 were already adjusted/recorded in the books in January 2011.

Meanwhile, in the analysis of bank reconciliation accounts, it was noted that the Other Assets-Dormant accounts is being used to reclassify some reconciling items that had been appearing in the bank reconciliation statements for the past few years. Examination of this account showed various adjusting entries with total debits of P4,339,132.16 and total credits of P3,483,416.52 for the said reclassification entries. The bank accounts affected by these reclassification adjustments are PNB-MWSS Main Fund and PNB-MWSS CO with details as shown below:

Bank Account	Reference	Reconciling Items	Other Assets dr. (cr.)	Cash in Bank dr. (cr.)
PNB MWSS- Main Fund	JEV#2010-09-008682	Transfer of Funds 04, 62 and 48 to Fund 05	(1,591,932.59)	1,591,932.59
	JEV#2010-09-008670	Combo transfer twice taken up, unrecorded check deposit, erroneous take up of debit memo, combo transfer booked up but not debited by the bank	(94,876.59)	94,876.59

	JEV#2010-09-008693	Transfer of General Ledger balance of Funds 07,48,04,68, 60,71,73,65,29,62,66 & 67 to Fund 05	3,508,102.43	(3,508,102.43)
	JEV#2010-10-009403	Misclassified adjustment on JEV# 042/05 check double debited by the Bank	(13,375.95)	13,375.95
PNB MWSS-CO	JEV#2010-09-008675	Transfer of funds from Funds 05 & 48 to Fund 07	(1,783,231.39)	1,783,231.39
	JEV#2010-09-008699	Unrecorded debit memo in December 2005 and misclassification of account	831,029.73	(831,029.73)
TOTAL			855,715.64	(855,715.64)

Journal entry vouchers pertaining to the above adjustments were supported only by copies of the bank reconciliation statements. Consequently, these reclassification entries do not solve the problem of reconciling the cash records but only provides a temporary solution to make it appear that cash accounts are already in order.

On the other hand, it was also noted that the bank has also reconciling items covering the years 2003, 2007 and 2008 for PNB-MWSS Branch-Main Fund account that are not yet acted upon by the bank as of this date.

MWSS-Regulatory Office (RO)

Our review of the bank reconciliation statements as of December 31, 2010 of the three current accounts and two savings accounts maintained by MWSS-RO in two depository banks; namely, Philippine National Bank (PNB) and Land Bank of the Philippines (LBP) revealed the following:

BOOK RECONCILING ITEMS	AMOUNT
PNB AND LBP	
Unrecorded bank credits (Interest)	P 190,019.54
Unrecorded bank debits (Withholding tax & Bank Charges)	(42,203.90)
Book Errors/Adjustments	3,172,581.63
Unreverted stale checks	990,305.50
Unrecorded cancelled Check No. 3743	322,200.00
NET UNDERSTATEMENT	P 4,632,902.77

A thorough review of the Bank Reconciliation Statements submitted as of December 31, 2010 disclosed the above-tabulated reconciling items and some of them refers to prior years accounts which were not yet adjusted in the Cash in Bank account as

of the reporting date. Included among the reconciling items in the PNB (Current and Savings Account) regular combo account under the Schedule in Book Errors/Adjustments are unaccounted differences/disbursements from 2000 to 2008 amounting to P378,153.29.

In addition to the reconciling items per bank reconciliation, it was also noted that after the audit team's examination, there are still two (2) reconciling items that should be taken up both in the book and bank records. Check amounting to P322,200.00 pertinent to PNB Check No. 3743 dated July 12, 2010 was not actually paid to the claimant, hence, the check was cancelled but not yet recorded in the books and bank records, consider:

PX Mart	P107,400.00
MYFA	107,400.00
Scholarship allowance	107,400.00
Total Amount	<u>P322,200.00</u>

Lastly, outstanding checks in the total amount of P 2,368,144.08 include checks that became stale during the year. The total amount of stale checks that should be reverted back to the book and bank balances is P990,305.50.

In view thereof, we recommended that management:

1. Reconcile cash accounts to arrive at the correct cash balance at year end, prioritizing reconciling items appearing in the bank reconciliation statements for the past few years.
2. Coordinate with the banks for the submission of debit and credit advices or other substitute documents that would give information on the nature of the transactions and would support their eventual recording in the books.
3. Prepare and submit monthly bank reconciliation statements so that reconciling items are immediately detected, recorded or adjusted in the cash in bank accounts to ensure the validity and accuracy of account balances in the financial statements.
4. Revert to cash account checks which became stale and record/adjust immediately all the valid reconciling items to correct the understatement of Cash in Bank account.
5. Investigate and exert extra effort to determine the unaccounted differences/withdrawals.

Management (MWSS-CO) explained that they are constantly in coordination with DBP and PNB and several requests were already made for debit and credit advices. However, the banks informed management that for advices beyond five (5) years, the BSP ruling states that records of all transactions shall be maintained and stored

only for five (5) years from the dates of transactions. Management also explained the reasons for the difference noted between bank and general ledger balances.

Meanwhile, MWSS-RO gave information that adjusting entries were already taken up under JV No. 11-04 dated January 2011 for stale checks of 2009 & 2010. They are also exerting extra efforts to locate the unaccounted difference.

6. The Other Receivables account pertaining to leased property is overstated by P14.42 million while PPE account is understated by the same amount as of December 31, 2010 due to non recording of the advances made by MWCI for the cost of two Water Chiller. Likewise, penalty charges amounting to P1.1 million was not billed/collected affecting the reliability of the affected accounts.

Analysis of the Other Receivables account pertaining to leased properties revealed that the MWSS-CO has an outstanding receivable from rental fees totalling ₱16,032,753.22 as of December 31, 2010, broken down as follows:

Lessee	Amount
Manila Water Company Inc.	₱ 15,862,846.42
Maynilad Water Services Inc	(323,403.64)
Digitel Mobile	208,486.23
Multi-Media Telephony	124,560.43
Balara Quarters	82,501.81
Philippine National Bank	62,344.47
PWWA	14,239.31
Canteen (J. Buniao)	1,178.19
Total	₱ <u>16,032,753.22</u>

Upon verification, it was noted that the amount of ₱ 15.8 million receivable from MWCI includes the cost of two (2) chillers advanced by MWCI for use in the MWSS building in the amount of ₱14,425,756.92. In the letter dated October 18, 2008 of Ms. Macra A. Cruz, former Senior Deputy Administrator of MWSS, the total unpaid rentals of MWCI for the period February 2007 to October 2008 is ₱ 27,249,274.50.

Per letters of Mr. Ruel T. Maranan of MWCI and Ms. Macra A. Cruz of MWSS dated November 6, 2008 and October 18, 2008, respectively, the amount of ₱27,249,274.50 representing the total rental fees for the period February 2007 to October 2008 had already been settled by offsetting the amount of advances made for the cost of two (2) units of water chiller in the total amount of P14,425,756.92 and the issuance of Check No. 076677 dated November 6, 2008 for the remaining balance of ₱12,823,518.18.

However to date, the offsetting of receivables and the cost of two (2) chillers are not yet recorded in the books of MWSS-C.O. thus resulting to the overstatement of the

Other Receivables account by ₱14.42 million and the understatement of the affected Property, Plant and Equipment (PPE) account by the same amount.

Meanwhile, pursuant to Lease Contract Agreement between MWSS and MWCI, late payment of rentals due shall be charged with 2% penalty for every month of delay. However, it was noted that the corresponding 2% penalty for the period February 2007 to October 2008 in the total amount of ₱1,123,639.20 has not yet been billed/collected by MWSS from MWCI. It was also disclosed that said penalty charges is being disputed by the latter per letter of Mr. Ruel T. Maranan, Group Director, HRCS dated November 6, 2008.

We recommended that management :

1. Make the necessary adjustments to record the cost of two (2) chillers advanced by MWCI to reflect the correct balances of the affected accounts in the financial statements.
 2. Immediately comply with the provision of the Lease Contract Agreement pertinent to penalty charges. Evaluate the reasons/excuses cited by MWCI in assessing/billing the penalty charges for rental payments for the period February 2007 – October 2008 and take appropriate action.
7. **Receivables from office rentals/leased properties and electricity totalling ₱9.0 million remained uncollected for more than four (4) years to ten years casting doubt on the collectability of the accounts.**

Further analysis of the Other Receivables account-Leased Property revealed that rental fees in the total amount of ₱1,624,886.56 has been outstanding from five (5) to ten (10) years as of December 31, 2010, thus casting doubt on the collectability of these accounts.

The outstanding receivable from Manila Water Company Inc. (MWCI) for back rental of Right of Way (Loyola) amounting to ₱1,196,403.37 million pertains to rental fees for the years 1997 to 2005 which remained uncollected for more than five (5) years now. MWSS Management explained that MWCI is no longer responsive to their collection efforts.

The recorded receivable from Maynilad Water Services Inc. (MWSI) pertinent to Building Rental Deposit (T. Sora) in the amount of ₱ 427,300.00 was originally recorded in the MWSS books of accounts in 1993 as Guaranty Deposits - Security Deposit.

Verification disclosed that T. Sora area is not among the service area covered by MWSI, as confirmed in the letter of Mr. Randolph T. Estrellado, Chief Finance Officer of MWSI. Likewise, the same was not also recorded as among the payables of MWSI to MWSS, thereby casting doubt on the validity of the account.

Lastly, the balance of J. Buniao Canteen in the amount of ₱ 1,178.19 has been outstanding for almost 10 years. Its present address and contact numbers are no longer available to Management thus the possibility of collection is doubtful.

Meanwhile, analysis of the Due from National Government Agencies revealed that out of total balance of ₱13,598,980.58, receivables from the Office of the Government Corporate Counsel (OGCC), the Department of Public Works and Highways (DPWH) and Pasig River Rehabilitation Commission in the amount of P7.4 million remained unpaid for at least 4 years. Listed below are the details of the account Due from National Government Agencies:

Particulars	Amount	Over 4 years
Due from OGCC - Office Rental	₱ 5,417,647.64	P1,704,802.17
- Electricity	3,649,152.61	3,649,152.61
Supreme Court - Office Rental	2,487,626.87	
DPWH - Office Rental	1,209,411.05	1,209,411.05
Pasig River Rehabilitation Commission		
- Office Rental	391,343.40	391,343.40
- Electricity	443,799.01	443,799.01
Total	₱13,598,980.58	P7,398,508.24

It was noted that the OGCC office rentals amounting to ₱ 5,417,647.64 pertains to rental fees for the years 2006 to 2010 which remained uncollected as of this date, computed as follows:

Particular	Amount	Aging
Balance as of 2006	₱ 1,295,811.83	5 years
Unpaid Rental – 2007	408,990.34	4 years
Unpaid Rental – 2008	2,455,398.35	3 years
Unpaid Rental – 2009	628,723.32	2 years
Unpaid Rental – 2010	628,723.80	1 year
Total	₱ 5,417,647.64	

Likewise, the amount of ₱3,649,152.61 refers to OGCC's arrears in the payment of electricity from 2006 to 2008 which remained uncollected as of December 31, 2010.

Meanwhile, the outstanding balance of the Supreme Court in the amount of ₱2,487,626.87 pertains to office rental for the month of November and December 2010. As of March 31, 2011 no payment has been made by the Supreme Court.

The DPWH office rental in the amount of P1,209,411.05 was outstanding since 2006 or for four (4) years.

The balance of the Pasig River Rehabilitation Commission (PRRC) in the total amount of P835,142.41 remain dormant prior to 2007, hence the possibility of collection is doubtful.

We recommended that management exert extra effort to determine the existence and validity of the receivable accounts from the two concessionaires and private Canteen and if found non-existing, Management shall request for the possible write-off of the accounts from the Commission on Audit pursuant to existing regulations. Management should also provide adequate allowance for doubtful accounts on receivables that were dormant for four to ten years.

We also recommended that management should enforce immediate collection on the unpaid office rental/electric consumption from its lessee specifically those due from national government agencies.

Management commented that the unpaid amount from OGCC represents unpaid 12% VAT on various years which the OGCC is requesting to be inclusive of their lease rental billings which the OGCC netted out when payments were made. Said amount was already included in the new lease contract as part of payable to MWSS and will be paid in future billings.

On DPWH and Pasig River Rehabilitation Commission –Management explained that they will look into the previous records for validation of accounts and will exert effort to collect the same as recommended.

8. **The confirmed balance of Loans Payable – Domestic accounts posted a variance of P10.50 million against its recorded book balance while its accrued interest of P257 million were not recognized in the books, casting doubt on the accuracy and existence of the loans payable and the corresponding accrued interest.**

Our confirmation of the Loans Payable – Domestic, which pertains to SPIAL loan, resulted on confirmed principal loan balance in the total amount of \$8,557,811.00 while the recorded book balance is \$8,797,017.42 with a variance of \$239,206.42.

The Special Project Implementation Assistance Loan (SPIAL) is a portion of the National Government's multi-currency loans from the Asian Development Bank under Loan Nos. 779 and 780. This was relented to MWSS to partly finance the Manila Water Supply Rehabilitation Projects (MWSRP I), the Manila Water Supply Project II (MWSP II) and the Metro Manila Sewerage Project (MMSP).

Based on the BSP exchange rate of P43.885 as of December 31, 2010, the confirmed outstanding principal balance of SPIAL loan account is P375,559,535.74, ($\$8,557,811.00 \times P43.885$) while the recorded book balance is P386,057,242.67 with a variance of P10,497,706.93, thereby overstating the Loans Payable-Domestic account by the same amount.

Meanwhile, the confirmed accrued interest for five (5) ADB loans as compared to the recorded book balances shows an understatement by a total amount of P417,374.36. Management's computation of accrued interest was based on estimates and not on the actual billing received from the lending institutions, thus, understating the interest expense and overstating the net income for the year by

P417,374.36. Moreover, the confirmed interest for two (2) SPIAL loans as of November 15, 2010 is \$5,851,795.43 but no accrued interest was recorded in the books as of December 31, 2010; hence, further understating the accrued interest by P256,806,042.44 in addition to the accrued interest for the period November 16 to December 31, 2010 amounting to P339,608.46.

International Accounting Standards (IAS) 23, Section 7 provides that borrowing costs shall be recognized as an expense in the period in which they are incurred.

To summarize, Loans Payable was overstated by P10,497,706.93 while accrued interest was understated by P257,145,650.90 as follows:

Loans Payable - Domestic	P <u>10,497,706.93</u>
Accrued Interest – ADB SPIAL	
As of November 15, 2010	P 256,806,042.44
November 16-December 31, 2010	<u>339,608.46</u>
Total Accrued Interest	P <u>257,145,650.90</u>
Net Variance	P <u>246,647,943.97</u>

We recommended that management:

1. Reconcile the noted variances/differences between the recorded book balances of Loans Payable - Domestic against the amount confirmed by the Foreign Lending Institutions (FLIs) to reflect the correct balances of these loan accounts. Necessary adjustment should also be effected.
 2. Recognize the accrued interest for SPIAL loan accounts as required under the existing regulations to reflect the correct balances of the accounts. Henceforth, strictly comply with the said regulations pertaining to the recognition of interest in the period in which these are incurred.
- 9. The difference of P16.72 million between the recorded balance of Due to National Treasury and the amount confirmed by the Bureau of Treasury casts doubt on the reliability of the accounts.**

The general ledger showed that the guarantee fee payable to the Bureau of the Treasury as of December 31, 2010 is P129,664,991.70.

Our confirmation of Due to National Treasury from the Bureau of the Treasury representing guarantee fee for project loans resulted in the confirmed balances as of December 31, 2010 in the amount of P146,383,875.77 as against the ledger balance amounting to P129,664,991.70, with a negative variance of P16,718,884.07, which understate the payable account by the same amount.

It was noted that the understatement was due to non-setting up of payables for guarantee fee for July 2010 and November to December 2010 for various loans to the BTR. No payment was also made since July 2010 up to December 31, 2010 per available records.

We recommended that the management validate/reconcile the actual balances of the guarantee fee payable with the Bureau of the Treasury and make the necessary entries/ adjustments to reflect the correct balances of the payable accounts.

Management informed that they have just received the billing on guarantee fee for July 2010 last June 21, 2011. They shall prepare the setting up of payables for the months of July, November and December 2010 and validate/reconcile the actual balances of guarantee fee with the Bureau of the Treasury as recommended. The recognition of payables will be effected as soon as the access to database will be available.

It is further recommended that guarantee fees shall be accrued every year thereafter.

10. Reciprocal accounts-Due from CO/Home Office and Due to Regulatory Office remained unreconciled as of December 31, 2010.

Analysis of the Intra-Agency Payables account disclosed the following:

- a. Discrepancy amounting to P31,958,193.13 between the ledger balance and supporting schedule of the account Due to Operating Units – Regulatory Office;
- b. Due to Other Funds has abnormal debit balance of P607,114.39;
- c. Discrepancy amounting to P157,537,421.11 between the balances of reciprocal accounts Due to Operating Units – Regulatory Office and Due from Corporate Office/Home Office remains unreconciled to date despite repeated audit observation. The setting up and offsetting of charges made to reciprocal accounts without proper coordination between the Regulatory Office and the Corporate Office might have caused the said discrepancy.

We recommended that management:

1. Immediately reconcile the discrepancies between the reciprocal accounts to come up with the valid and reliable balances in the books of both the CO and the RO. Thereafter, a periodic reconciliation of these accounts should be made and ensure that only legitimate and authorized shared expenses are recorded against RO.
2. Make representations with the MWSS Board of Trustees to formulate a written policy on the type and nature of charges to be made on these reciprocal accounts. Ensure that actual charges to these accounts should be approved/acknowledged as valid claims by the authorized official/s of the concerned offices.

3. Reconcile the balance of the controlling account in the General Ledger with the total balance per supporting Schedule.

The MWSS-RO, in its letter to MWSS Administrator dated 20 April 2011, designated two representatives to assist/help in the reconciliation of the reciprocal accounts of the RO and CO. As agreed upon with the CO officials in 1997, the RO shall only share in the BOT related expenses. With regard to recommendation number 2, the RO and CO shall make the necessary representations with the MWSS BOT for guidelines on the type and nature of charges that can be shared by RO and CO.

11. **Electricity Expenses pertaining to current year totalling P2.34 million was charged against Retained Earnings Account resulting in understatement of expenses and overstatement of income for the CY 2010. Moreover, the grant of additional rice and transportation subsidy allowance based on the savings on Water, Illumination and Power Services was not approved by the MWSS Board of Trustees.**

On May 31, 2008, the Office of the President of the Republic of the Philippines issued a Memorandum encouraging all Departments, Agencies, GOCCs and LGUs to conserve electricity and fuel and authorizing the use of all savings on these items as additional rice and transportation subsidy to their employees.

Consequently, on June 28, 2010, the EXECOM of MWSS-RO directed the Administration Department to compute the first half year savings generated from the budget appropriated for fuel and electricity pursuant to the above-cited OP Memorandum to be distributed to all the officials and employees of MWSS-RO pro-rated based on actual attendance of RO personnel. Accordingly, the Chief Accountant prepared/computed for the mid-year savings on electricity from January to June 2010. The Corporate Operating Budget for six months of CY 2010 of MWSS-RO totalled P2,397,841.00 while the expenses totalled P1,377,961.42, incurring a savings of P1,020,779.58.

The following entries were recorded in the books of MWSS-RO in June 2010:

Payroll Register:	DR	CR
767 - Electricity Expenses	1,020,779.58	
403 – 1 Due to Officers and Employees Payment of Additional Rice and Transportation Subsidy for the period January to June 2010		1,020,779.58
Bank Transmittal Register:		
403 – 1 Due to Officers and Employees Payroll	1,020,779.58	
111 – PNB 1 Cash CIB-LC, C/A – PNB Regular Payment of Additional Rice and Transportation Subsidy for the period January to June 2010.		1,020,779.58

Subsequently, in a meeting on October 11, 2010, the MANCOM, after a thorough deliberation and discussion of the generated savings of P1.93 million from the budget appropriated for Fuel and Electricity as of August 30, 2010, and pursuant to Office of the President Memorandum dated May 31, 2008, declared that the said CY 2010 savings be distributed to all the officials and employees of MWSS-RO, prorated based on actual attendance of RO personnel in the nature of an additional Rice and Transportation subsidy.

The succeeding entries recorded in the books of MWSS-RO in October, 2010 were the following:

Payroll Register:	DR	CR
761 - Gasoline, oil and lubricants expenses	565,876.75	
767 - Electricity expenses	1,320,379.10	
403 - 1 Due to officers and employees Payment of additional rice and transportation subsidy as of August 30, 2010		1,886,255.85
Bank Transmittal Register:		
403 - 1 Due to Officers and Employees Payroll	1,886,255.85	
111 - Cash CIB-LC Payment of additional rice and transportation subsidy as of August 30, 2010		1,886,255.85

However, at the end of the year on December 31, 2010, an adjusting entry was recorded in the books, as follows:

Journal Voucher Register		
510 – Retained Earnings	2,341,158.68	
767 – Electricity Expenses To record re-classification of Account charged to Electricity Expenses		2,341,158.68

Per verification, the actual amount spent for Water, Illumination and Power Services amounted to P1,777,572.00 only as against the DBM approved COB of P4,556,000.00, earning a savings of P2,778,428.00 which can cover additional rice and transportation subsidy amounting to P2,341,158.68. However, the above entry is considered erroneous since the expenses and savings were incurred during the current year of 2010, resulting in understatement of expenses and overstatement of income for the current year.

In addition, it was noted that no Board Resolution was issued by the MWSS Board of Trustees to approve the resolutions made by the EXECOM and MANCOM regarding the distribution of the said savings during the year 2010 to all officials and employees of the MWSS-RO.

In view thereof, we recommended reclassification/adjustment of account made on December 31, 2010. We also recommended that management obtain confirmation/approval from the Board of Directors of the distribution of said savings from Corporate Budget appropriated for fuel and electricity in pursuance to OP-Memorandum dated May 31, 2008.

12. Overstatement of Personnel Expenses in the amount of ₱107,400 and Maintenance and Other Operating expenses in the amount of ₱237,074.88 and understatement of Cash in Bank for ₱344,474.88.

The recorded Personnel Expenses and Maintenance and Other Operating Expenses were overstated by ₱107,400.00 and ₱237,074.88, respectively, due to the non-recording of the cancelled checks pertaining to the payment of allowances and benefits to two MWSS Trustees.

Necessary adjustment should be made to correct the overstatement of Personnel Expenses and Maintenance and Other Operating Expenses and understatement of Cash in Bank Account.

Management stated that adjustments were taken up in the Bank Reconciliation Statement as of March 31, 2011 and necessary adjustments were made for the month of April 2011 for stale checks under JV No. 11-34.

13. Various expenses incurred in CY 2009 in the total amount of ₱126,169.66 were charged to CY 2010 expenses resulting to overstatement of Maintenance and Other Operating Expenses accounts and understatement of income.

Various expenses of MWSS-RO were incurred in CY 2009 but were recorded in the books in CY 2010. The expenses includes telephone expenses, office supplies, Repairs and Maintenance and others in the total amount of ₱126,169.66.

Paragraph 25 of Philippine Accounting Standards (PAS 1) states that an entity shall prepare financial statements using the accrual basis of accounting. The effects of transactions and other events are recognized when they occur and they are recorded and reported in the periods to which they relate.

The recording of prior year expenses as current expenses has the effect of overstating the CY 2010 Maintenance and Other Operating Expenses and understating the income for the period. The prior year expenses should have been charged to Prior Years' Adjustments/Retained Earnings.

Necessary adjustment should be made to correct the accounts.

Management committed that they will strictly comply with the PAS.

COMPLIANCE AND FINANCIAL CONTROLS

14. Collections received from the two concessionaires amounting to P141.06 million for the payment of loan to JBIC/OECF were not remitted by MWSS to said foreign loan creditor. On the other hand, collections received from the two concessionaires for the payments of MWSS foreign loans is short by P821,759.66 contrary to Section 6.4 of the Concession Agreement (CA).

Section 6.4 of the Concession Agreement between MWSS and the Concessionaire Maynilad Water Services (MWSI) provides that:

“a) Not later than 14 days prior to the date on which any scheduled payment of principal, interest, fees or other amount is due under a MWSS loan, MWSS shall notify the Concessionaire in writing of the total amount due on that payment date and of the “Peso equivalent” calculated at the then prevailing exchange rate.....Not later than one business day prior to each such payment date, the Concessionaire shall remit to such account as MWSS shall instruct an amount , in pesos, exclusive of any penalties, or default, interest charges not attributable to a later payment of the Concession fee by the Concessionaire.

In the event the Concessionaire does not make any timely payment of a concession fee, the US dollar equivalent of such unpaid amount may be drawable under the Performance Bond, in accordance with Section 6.9 and 10.4 of the Concession Agreement stated herein below.”

6.9 Performance Bond -

On the commencement date and on each Rate Rebasing Date, the Concession shall post a bond, a bank guarantee to all security acceptable to MWSS (a Performance Bond) and in favour of MWSS to secure the Concessionaire’s performance of its obligation Sec. 10.4 (Penalties for Failure to meet Service obligations)

10.4. Penalties for Failure to meet Service Obligations

In the event the concessionaire fails to make timely payment of an assessment, pursuant to this Section 10.4 the Regulatory Office may draw the US dollar equivalent of such unpaid amount under the Performance Bond in accordance with Section 6.9 above or may treat such non-payment as a GEA in accordance with Sec. 9.3.1 (VII).....

The amount of indebtedness to foreign creditors of MWSS is recorded as Loans Payable-Foreign while the collections made from the two (2) concessionaires for the payment of maturing obligations of MWSS is recorded as a reduction from Accounts Receivable - Concession Fee – Debt Service.

Our audit of the said accounts disclosed that collections made from the two (2) concessionaires (MWCI & MWSI) to cover the payment of maturing MWSS obligations, which includes the principal, interest and financial charges of the various foreign lending institutions is short by **P821,759.66** when compared with the payments actually made by MWSS to foreign lending institutions. This is contrary to the above-stated provisions wherein the Concessionaires shall remit the total amount due as instructed by the MWSS not later than one business day prior to each such payment date.

On the other hand, it was also noted that there are some payments received from the two concessionaires for concession fees - debt service intended for the same purpose which were not remitted/paid to the foreign creditor, JBIC/OECF in the total amount of P141,064,291.69. Further verification from the subsidiary ledgers of JBIC/OECF for the years 2007 to 2010 disclosed that no payments were made on the loan balances but only revaluation of the loan balances at year end were reflected thereon.

Moreover, accrued interest amounting to P10,146,904.54 was set up for JBIC loan for the period covering August 21, 2010 to December 31, 2010, under JEV No. 2010-12-010847 dated December 31, 2010. However, the correct amount of accrued interest cannot be established as the actual loan balance, interest and financial charges accruing to the loan is not yet confirmed. Verification from the subsidiary ledger shows that no payment of the principal amount, interest and financial charges was made in previous years.

We recommended that management:

1. Require the immediate remittance of the amount of P141.06 million collected from the concessionaires intended for debt servicing to the concerned foreign lending institutions to reflect the correct balances of the loan and other related accounts.
2. Enforce collection of the total deficit in the amount of P821,759.66 from the two (2) concessionaires pursuant to Section 6.4 of the CA.
3. Reconcile JBIC/OECF account with the Bureau of the Treasury to determine the actual loan balance of MWSS –CO to JBIC since no reply was received from our confirmation with BTR. Likewise, compute the correct accrued interest based on actual loan balance.

Management submitted a schedule of collections made by concessionaires regarding deficit/shortfall on payments made on concession fees-debt service wherein some of the collection were paid several months after the loan due dates while some were collected after December 31, 2010 .

- 15. The actual expenditures for Personal Services (PS) and Maintenance and Other Operating Expense (MOOE) of MWSS-CO and MWSS-RO for CY 2010 exceeded the DBM-approved Corporate Operating Budget (COB) by P167.56 million and P67.14 million, respectively.**

The Corporate Operating Budget (COB) for CY 2010 of MWSS-CO was submitted to the Department of Budget and Management (DBM) for approval only on August 2, 2010 while the COB of MWSS-RO was submitted to DBM only on September 21, 2010 and both were later approved by DBM on December 29, 2010. The DBM's approved total budget for PS and MOOE was only ₱142,969,000.00 for MWSS-CO and ₱100,245,000.00 for MWSS-RO. However, the System's recorded operating expenses for MWSS-CO and MWSS-RO totalled ₱310,531,480.03 and ₱167,389,317.00 respectively, thereby exceeding the approved COB by ₱167,562,480.03 for MWSS-CO and ₱67,144,317 for MWSS-RO, broken down as follows:

	DBM-Approved COB	Actual Expenditures	Savings (Excess Expenditures)
Personal Services			
CO	P62,147,000.00	P159,124,907.51	P (96,977,907.51)
RO	34,079,000.00	89,340,062.00	(55,261,062.00)
	96,226,000.00	248,464,969.51	(152,238,969.51)
MOOE			
CO	80,822,000.00	151,406,572.52	(70,584,572.52)
RO	66,166,000.00	78,049,255.00	(11,883,255.00)
	146,988,000.00	229,455,827.52	(82,467,827.52)
Total	P243,214,000.00	P477,920,797.03	P (234,706,797.03)

The noted differences for PS and MOOE were mainly due to the payment of benefits/allowances disallowed by DBM in their approved COB. These same allowances were previously disallowed by COA for lack of legal basis. These benefits are as follows:

PARTICULARS	CO	RO	TOTAL
COLA	P16,806,046.87	P 8,500,604.02	P 25,306,650.89
Amelioration Allowance	4,121,847.32	2,125,150.89	6,246,998.24
Hazard Pay	1,400,886.63	495,067.74	1,895,954.37
Mid Year Bonus	6,653,027.20	4,483,572.10	11,136,599.30
Total	P28,981,808.02	P15,604,394.75	P44,586,202.77

Further, the following allowances were granted to officials and employees in excess of what is allowed by DBM in their approved COB:

BENEFITS AND ALLOWANCES				DBM REMARKS
	CO	RO	Total	
Salaries of Permanent Positions				
DBM-Approved	P38,917,000	P21,811,000	P 60,728,000	Limited to 204 regular employees per plantilla of personnel
Actual expenses	40,834,659	20,228,971	61,063,630	
Savings (Excess)	(P1,917,659)	1,582,029	(335,630)	

BENEFITS AND ALLOWANCES				DBM REMARKS
	CO	RO	Total	
Salaries and Benefits of Non-permanent positions				
DBM approved	P 683,000	P 1,441,000	P 2,124,000	Excess provision for PS of authorized contractual
Actual expenses	3,049,449	1,724,608	4,774,057	
Excess	(P 2,366,449)	(P 283,608)	(P 2,650,057)	
RATA				
DBM Approved	P 1,625,000	P 3,362,000	P 4,987,000	Excess provisions for positions not entitled to RATA
Actual expenses	9,603,255	5,676,702	15,279,957	
Excess	(P 7,978,255)	(P 2,314,702)	(P 10,292,957)	
YEAR-END BONUS				
DBM Approved	P 3,467,000	P 1,893,000	P 5,360,000	Equivalent to 1 mo. basic salary
Actual expenses	7,643,667	3,983,028	11,626,695	
Excess	(P 4,176,667)	(P 2,090,028)	(P 6,266,695)	
CASH GIFT 13th MONTH PAY				
DBM approved	P 675,000	P 345,000	P 1,020,000	Year-end Bonus equiv. to 1 month and Cash Gift – P5,000/year/employee
Actual expenses	4,529,072	2,234,366	6,763,438	
Excess	(P 3,854,072)	(P 1,889,366)	(P 5,743,438)	
PRODUCTIVITY INCENTIVE ALLOWANCE				
DBM approved	P 279,000	P 13 8,000	P 417,000	Computed at P2,000 per Employee
Actual expenses	6,619,820	12,912,975	19,532,795	
Excess	(P 6,340,820)	(P 12,774,975)	(P 19,115,795)	
LONGEVITY PAY				
DBM approved	P 4,132,000	P - 0 -	P 4,132,000	Pegged at 2009 actual for budgetary purposes only. Disbursements should be granted only to incumbents and at rates as of June 30, 1989.
Actual expenses	8,575,398	1,593,310	10,168,708	
Excess	(P 4,443,398)	(P 1,593,310)	(P 6,036,708)	
CHILDREN'S ALLOWANCE				
DBM approved	P 104,000	P - 0 -	P 104,000	Pegged at P30/mo. and maximum of 4 children for incumbents of positions as of June 30, 1989 per LOImp No. 97.
Actual expenses	43,314	59,500	102,814	
Savings (Excess)	P 60,686	(P 59,500)	P 1,186	
RICE AND MEAL ALLOWANCE				
DBM Approved	P 1,612,000	P - 0 -	P 1,612,000	Rice Subsidy- limited to P1,800 per month for 72 incumbents as of June 30, 1989 per BR No. 2007-134. Meal Subsidy- Pegged at P66/mo. for incumbents of positions as of June 30, 1989 per LOImp No. 97
Actual expenses	7,818,233	3,867,973	11,686,206	
Excess	(P 6,206,233)	(P 3,867,973)	(P 10,074,206)	

BENEFITS AND ALLOWANCES				DBM REMARKS
	CO	RO	Total	
PER DIEM OF GOVERNING BOARD/HONORARIA				
DBM Approved	P 240,000	P 240,000	P 480,000	E.O. No. 1036 as amended by E.O. No. 197 (P500/ meeting x 5 maximum meetings/mo. x 8 BOD members x 12 mos.)
Actual expenses	2,887,126	3,300,000	6,187,126	
Excess	(P 2,647,126)	(P 3,060,000)	(P 5,707,126)	
ANNIVERSARY BONUS				
DBM Approved	P - 0 -	P - 0 -	P - 0 -	Year 2010 is not a milestone year for MWSS
Actual expenses	13,368,485	294,000	13,662,485	
Excess	(P 13,368,485)	(P 294,000)	(P 13,662,485)	
MONETIZATION OF LEAVE CREDITS/TERMINAL LEAVE BENEFITS				
DBM Approved	P - 0 -	P - 0 -	P - 0 -	Chargeable against savings per Budget Circular No. 2002-1
Actual expenses	1,766,877	654,558	2,421,435	
Excess	(P 1,766,877)	(P 654,558)	(P 2,421,435)	
LOYALTY BONUS				
DBM Approved	P - 0 -	P - 0 -	P - 0 -	Chargeable against savings per Memorandum Circular No. 17, s. 1999
Actual expenses	154, 000	1,593,310	1,747,310	
Excess	(P 154,000)	(P 1,593,310)	(1,747,310)	

Government Corporations have to incur expenditures within the limits of their approved budget. Any increase in the approved COB in the course of the budget year shall require submission and approval of a supplemental COB to cover the additional corporate receipts and expenditures.

We recommended that a post facto approval should be secured for the expenses incurred in excess of the DBM approved COB to avoid disallowance. Henceforth, Management should strictly monitor all its expenses in order not to exceed the DBM approved budget for the year. Otherwise, stop granting allowances and additional benefits disapproved by DBM to MWSS officials and employees. Ensure that COBs are submitted to DBM for approval before the actual implementation of the DBM-approved COB.

Management requested for an additional 15 days extension from date of receipt within which to submit their reply to COA and to discuss and revisit the MWSS expenditures for CY 2010.

- 16. Payment of RATA in the amount of P2,925,900.60 for the period January to December 2010 was not in accordance with the rates provided for under Section 47 of the General Appropriations Act for FY 2010 or RA 9970 and DBM approved Corporate Operating Budget of MWSS-RO for CY 2010.**

The grant of Representation and Transportation Allowance is subject to the limitations provided by the General Provisions of Republic Act 9524 (GAA FY 2010), quoted as follows:

“Sec. 47. Representation and Transportation Allowances. The following officials of National Government Agencies, while in the actual performance of their respective functions, hereby authorized monthly commutable representation and transportation allowances payable from the programmed appropriations provided for their offices at rates indicated below, which shall apply to each type of allowances as follows:

- a. P11,000 for Department Secretaries*
- b. P8,700 for Department Undersecretaries*
- c. P7,800 for Department Assistant Secretaries*
- d. P7,000 for Bureau Directors and Department Regional Directors;*
- f. P6,500 for Assistant Bureau Directors, Department Assistant Regional Directors, Bureau Regional Directors, and Department Services Chief;*
- g. P5,500 for Assistant Bureau Regional Directors*
- h. P4,000 for Chief of Divisions, identified as such in the Personnel Services Itemization and Plantilla of Personnel.”*

“The determination of those that are of equivalent ranks with above cited officials in the government shall be made by the DBM”. (Refer to National Budget Circular No. 2009-520 dated March 27, 2009, for implementing guidelines on the implementation of RATA Rates)

The equivalent ranks of these officials per above DBM Circular are as follows:

Officials	Equivalent Rank
Department Secretary	Salary Grade 31
Department Undersecretary	Salary Grade 30
Department Assistant Secretary	Salary Grade 29
Bureau Directors and Department Regional Directors	Salary Grade 28
Assistant Bureau Directors, Department Services Chief	Salary Grade 27
Assistant Bureau Regional Directors	Salary Grade 26
Chief of Divisions	Salary Grade 24

In addition, to the above limitations, the Department of Budget and Management in approving the Corporate Operating Budget for 2010 MWSS- RO operations stated that:

“RATA is limited to rates and officials entitled thereto per Republic ACT (RA) No. 9524, FY 2010 General Appropriations Act (GAA).”

Based on the DBM-approved Corporate Operating Budget of MWSS – RO, the approved RATA for CY 2010 amounted to P3,362,000. However, total RATA incurred during the year was P5,676,702.00 (Finding No. 15)

The excess payments of RATA was due to the following:

- a. There were MWSS-RO officials authorized to receive RATA from January to December 2010 but were paid in excess of the authorized rates under RA 9524 (GAA FY2010) as follows:

Designation	SG	RATA(Total Jan.- Dec.2010)	Authorized RATA Rates x 12 months	Excess
SDA – Chief Regulator	29	223,536.00	187,200.00	36,336.00
DA - Technical Regulation	28	211,141.20	168,000.00	43,141.20
DA - Financial Regulation	28	213,806.40	168,000.00	45,806.40
DA - Customer Service Regulation	28	194,078.40	168,000.00	26,078.40
DA - Administration and Legal	28	213,806.40	168,000.00	45,806.40
DM – Water Quality Control Dept.	26	202,816.80	132,000.00	70,816.80
DM – Operations Monitoring Dept.	26	202,816.80	132,000.00	70,816.80
DM – Financial Audit & Asset monitoring	26	186,201.60	132,000.00	54,201.60
DM – Tariff Control & Monitoring Dept.	26	192,652.80	132,000.00	60,652.80
DM – Complaints Services & Monitoring	26	199,363.20	132,000.00	67,363.20
DM – Metering Efficiency Department	26	195,134.40	132,000.00	63,134.40
DM – Administration Dept.	26	199,363.20	132,000.00	67,363.20
DM – Legal Department	26	186,993.60	132,000.00	54,993.60
Total		2,621,710.80	1,915,200.00	706,510.80

The above officials are receiving RATA at rates authorized under LOI No. 97 which provides RATA equivalent to 40% of basic pay which apply only to officials who were incumbents and were receiving RATA as of July 1, 1989. MWSS-RO officials are non incumbents as of July 1, 1989 since MWSS-RO was established only in 1997 following the privatization of MWSS.

- b. There were MWSS-RO officials who received RATA from January to December 2010 but they do not fall under any of the authorized positions/salary grade and therefore, not entitled to RATA. Neither are they appointed as officer-in-charge of these positions or performing the functions of the position. Therefore, the

payment of RATA to the following amounting to P2.219 million, is without legal basis:

Designation	SG	RATA (Total Jan to Dec. 2010)	Authorized RATA Rates for 12 months	Excess
Head Technical Assistant	23	155,587.20	None	155,587.20
Chief Corp. Atty.	23	181,704.60	None	181,704.60
Technical Assistant	22	157,344.00	None	157,344.00
Supervising Water Utilities Regulation Office	22	155,923.20	None	155,923.20
Technical Assistant A	22	157,344.00	None	157,244.00
Supervising Water Utilities Regulation Office	22	146,656.80	None	146,656.80
Supervising Financial Mgmt. Specialist	22	157,344.00	None	157,344.00
Chief Economist	22	151,437.60	None	151,437.60
Technical Assistant	22	157,344.00	None	157,344.00
Supervising Water Utilities Regulation Office	22	157,344.00	None	157,344.00
Supervising Water Utilities Regulation Office	22	157,344.00	None	157,344.00
Supervising Water Utilities Regulation Office	22	151,891.20	None	151,891.20
Technical Assistant	22	151,437.60	None	151,437.60
Acting Technical Assistant (Nov. & Dec. 2010)	22	26,378.40	None	26,378.40
Senior Corporate Atty.	21	154,309.20	None	154,309.20
Total		2,219,389.80		2,219,389.80

In view of the above findings/observations, we reiterate our previous recommendations, to wit:

1. Discontinue the granting of RATA based on LOI 97 and grant the same at rates authorized under the GAA, consistent with Section 47 of RA 9524.
2. Discontinue the grant of RATA to employees who do not fall under any of the positions enumerated under the GAA.
3. Management should cause the refund of Representation and Transportation allowances received in excess of the prescribed rates and in violation of the pertinent provisions of the GAA as the disbursements are considered without legal basis.

17. Hazard Pay amounting to P1,450,793.55 were paid to MWSS-CO officials and employees for Calendar year 2010 contrary to Section 54 of RA 9336 and Sections 310 and 311 of GAAM Volume 1.

Our audit of the Expense Account disclosed that Hazard Pay in the amount of P1,450,793.55 was paid to MWSS-CO officials and employees from January to

December, 2010, despite the fact that the MWSS office, located at MWSS Compound, Old Balara, Quezon City, is neither a strife-torn or embattled area nor exposed to harmful elements or situations as required under Section 54 of RA 9336 and Sections 310-311 of GAAM Vol. I

Section 55 of the General Provisions of RA 9336 (General Appropriations Act of 2010) states that:

“Departments, bureaus, offices and agencies which are not specifically authorized by law to grant Hazard Duty Pay are hereby allowed to use savings in strife-torn or embattled areas as may be determined and certified by the Secretary of National Defence. Hazard Duty Pay shall be granted for the duration of such assignments.”

Further, Sections 310 and 311 of the GAAM, Vol. I , states that:

“Sec. 310 ... Hazard allowance is a type of compensation paid to employees who are assigned in dangerous strife-torn areas as classified by the Department of National Defense, and whose lives are directly exposed to work conditions which may cause injury, sickness or death, or harmful change in the human organism such as exposure to harmful chemicals, wastes and pollutants, micro-organisms and other harmful elements or situations that endanger life or health”

“Sec. 311. Employees, whether regular or contractual, assigned on a permanent, temporary, special or travel basis to the following areas, which expose them to great damage or contagion or peril to life, are entitled to hardship/hazard allowance:

- a. hardship or difficult areas*
- b. strife-torn or embattled areas*
- c. distressed or isolated stations*
- d. prison camps*
- e. mental hospitals*
- f. radiation-exposed clinics*
- g. disease-infected areas*
- h. areas declared under state of calamity or emergency.”*

Since the MWSS office does not fall under any of the areas enumerated in the above-mentioned regulations, the payment of Hazard Pay therefore has no legal basis. The DBM also disallowed the payments of Hazard Pay as indicated in the DBM-approved Corporate Operating Budget of MWSS-CO.

Further, this is already a reiteration of last year's audit observation.

Management should discontinue the granting of Hazard Pay to its officials and employees since the MWSS employees do not perform their duties in strife-torn or embattled areas and their lives are not directly exposed to harmful elements or situations that endanger life or health. Moreover, the payment of hazard pay was ruled by DBM as without legal basis.

Management commented that hazard pay was granted to its officials and employees way back in 1996 per Board resolution No. 72-96 dated April 24, 1996 pursuant to a certification dated April 23, 1996 issued by Dr. Carmencita Noriega-Reodica, then Secretary of Health. Said allowance is likewise included under Exhibit "F" of the Concessionaire Agreement dated Feb. 27, 1997 and became effective on August 1, 1997 as an existing benefits to MWSS officials and employees. It is also incorporated in the MWSS-CNA of 2002, signed by then Secubay Vegilar of DPWH.

Moreover, the disallowance of hazard pay would violate the principle of non diminution of benefits to MWSS employees as stipulated in the CA.

COA maintain its stand that the applicable laws in hazard pay are Sections 54 of General Appropriations Act, Section 68 of EO 292 and Sections 311 to 313 of GAAM Volume 1. As MWSS did not meet the conditions provided therein, payment of hazard pay is without any legal basis.

Further, it was noted that the certification issued by the then Secretary of the Department of Health (DOH), Dr. Carmencita N. Reodica, which was the basis of management for the grant of hazard pay is no longer applicable, since the certification issued is valid only for Calendar Year 1995.

18. Actual Extraordinary and Miscellaneous Expense for CY 2010 exceeded the DBM-approved budget by P34.23 million. Likewise, extraordinary and miscellaneous expenses were claimed by unauthorized officials of MWSS-RO contrary to Section 28, General Provisions of RA 9574 (GAA FY 2010) and approved DBM Corporate Operating Budget of MWSS-RO for CY 2010.

For CY 2010, management still granted Extraordinary and Miscellaneous Expense (EME) at rates in excess of the prescribed ceiling in the General Appropriations Act (GAA) despite our recommendation to stop such practice.

The DBM-approved Corporate Operating budget of MWSS-CO for CY 2010 requires that "*Disbursements for the Extraordinary and Miscellaneous expenses shall be subject to Section 28, General Provisions of RA No. 9970.*"

The DBM approval also states that Extraordinary and Miscellaneous expenses (EME) was pegged at P382,000 for MWSS-CO and P562,000 for MWSS-RO computed based on Section 28, General Provisions of R.A. No. 9970, FY 2010 GAA. However, records show that the total Extraordinary and Miscellaneous Expenses (Accounts 883 and 884) incurred by MWSS-CO during CY 2010 amounted to P20,372,106.63 or an excess of P19,990,106.63 over the DBM-approved COB for EME. On the other hand, MWSS-RO spent a total of P14,801,315.00 for EME or in excess of the DBM-approved budget by P14,239,315.00. Thus, total EME incurred by the System in excess of the DBM-approved budget amounted to P34,229,421.63.

It was also noted that MWSS officials holding positions not entitled to EME also claimed extraordinary and miscellaneous expenses.

We reiterate our prior year's recommendation that Management adhere to GAA provisions in granting EME and limit its incurrence to the DBM-approved amount of EME.

Management (MWSS-RO) informed that starting May 2011 when the Board of Trustees confirmed its approval of the RO's Corporate Operating Budget, the RO started implementing the limitation of EME rates prescribed under Section 26 of GAA 2011.

19. Actual utilization of Confidential Funds by MWSS-CO exceeded the approved amount by P351,345.99. Likewise, liquidation amounting to P200,000.00 was recorded without the necessary Credit Notice contrary to COA Circular 2003-002 dated July 30, 2003.

Quoted below is Section IV of COA Circular No. 92-385 dated October 1, 1992 pertinent to the audit of Intelligence and/or Confidential Funds:

1) "The agencies' Chief Accountants shall verify periodically the books of accounts to the end that the quarterly allotments, funding warrants and the fund releases, for the above-mentioned purposes are not exceeded.

2) It shall be the responsibility of the department/agency/office head to institute internal control measures to discourage and prevent irregular, unnecessary, excessive, extravagant and unconscionable expenditures in intelligence and confidential operations by their personnel involved."

Records show that on January 24, 2005, Mr. Orlando C. Hondrade, former Administrator of MWSS-CO, requested from the Office of the President the approval of the CY 2004 confidential/intelligence fund in the amount of P10,000,000. The purpose of the fund is to finance the costs of security,

surveillance and monitoring in order to provide adequate measures to protect MWSS' vital facilities so that the delivery of sufficient potable water to Metro Manila and its environs will not be hampered. On February 24, 2005, only the amount of P1,000,000.00 was approved by the President per letter of Executive Secretary Eduardo R. Ermita to the then Acting DBM Secretary Mario L. Relampagos.

Review of the Confidential Fund for CY 2005 to CY 2010 disclosed that the actual utilization of this fund exceeded the P1,000,000 amount approved by the Office of the President contrary to COA Circular No. 92-385.

Based on the breakdown of utilization of confidential fund secured from MWSS Management, the total amount utilized for the years 2005 to 2010 exceeded the approved confidential fund of P1,000,000.00 by P351,345.99.

It is noteworthy to mention that the purpose of the confidential/intelligence fund as stated above was accomplished for more than five (5) years.

Moreover, Guideline No. 6 of COA Circular No. 2003-002, provides that:

“Subsequent cash advances shall be granted only after the issuance of credit advice from the Chairman or the submission of liquidation vouchers/reports for the previous cash advance to the COA Chairman. One copy of the transmittal letter, for the purpose, duly received by the Chairman or his authorized representative, must be forwarded to the Accountant of the agency and the Auditor concerned for reference.”

It was also observed that the subsequent cash advance of P200,000 drawn on February 26, 2010 was granted without the necessary Credit Advice from the COA Chairman or his authorized representative for the liquidation of a previous cash advance amounting to P174,643.84 which is not in accordance with the above-cited regulations.

Relative thereto, the Office of the Chairman, COA, already issued AOM No. 2010-018 on December 13, 2010 pertaining to the misuse of confidential and intelligence fund in the amount of P200,000 and P174,643.84, respectively or a total of P374,643.84. Copies of said AOM was furnished to the Offices of the MWSS Administrator and COA Auditor on February 4, 2011.

Further, we noted that a copy of the transmittal letter covering the liquidation of the subsequent cash advance amounting to P200,000 which was submitted to COA Chairman for audit was not forwarded to the COA Auditor for reference purposes as required under COA Circular No. 2003-02.

We recommended that management:

1. Strictly adhere to the guidelines on the proper utilization and liquidation of confidential/ intelligence funds provided under COA Circular No. 92-385 dated October 1, 1992 and COA Circular No. 2003-002 dated July 30, 2003.
 2. Henceforth, stop the practice of granting subsequent cash advances without the necessary Credit Advice from the COA Chairman or his authorized representative for the liquidation of previous cash advances.
 3. Forward to MWSS Auditor one copy of the transmittal letter for the liquidation of subsequent cash advances for confidential/intelligence fund duly received by the Chairman or his duly authorized representative pursuant to COA Circular No. 2003-002.
 4. Strictly comply with the recommendation made by the Head of COA Confidential/Intelligence Fund Audit Unit indicated under its AOM No. 2010-018 dated December 13, 2010.
- 20. Cash Advances were not fully liquidated as soon as their purposes were served or at year-end, contrary to the provision of COA Circular No. 97-002 dated February 10, 1997 resulting in accumulation of unliquidated cash advances by as much as P113,120.30.**

COA Circular No. 97-002 dated February 10, 1997 provides the guidelines for the grant, utilization and liquidation of cash advances, to quote:

Section 5.1.3 The Accountable Officer (AO) shall liquidate his cash advance of his Official Travel – xxx within thirty (30) days after return to his permanent official station in the case of local travel, as provided for in EO 248 and COA Circular No. 96-004.

Section 5.7 When a cash advance is no longer needed or has not been used for a period of two (2) months, it must be returned to or refunded immediately to the Collecting Officer.

Section 5.8 All cash advances shall be fully liquidated at the end of the year, except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt.

Section 8 of the same Circular provides that it should be the responsibility of the Head of the agency that proper granting, utilization and liquidation of all cash advances are in accordance with the rules and regulations:

Our verification of the Due from Officers and Employees of MWSS-RO showed the following:

- a. Three (3) accountable officers failed to liquidate their cash advances within the prescribed period mentioned above.

Demand letters dated April 27, 2011 were served to them but no replies have been received by the Audit Team.

The non-liquidation of cash advances at the end of the year understates the expenses and overstates the corresponding asset accounts.

The failure of the accountable officers to liquidate their cash advances within the prescribed period shall constitute a valid cause for the withholding of their salaries and the institution of other sanctions as provided in the said COA Circular.

- b. The practice of non-liquidation of cash advances as soon as the purposes were served or at year ends resulted in non-liquidation of prior years cash advances totalling ₱99,740.30 of officers and employees who are no longer connected with the MWSS-RO.

We recommend that management strictly implement COA Circular No. 97-002 dated February 2, 1997 to minimize if not to eliminate unliquidated cash advances at the end of the year. Management should also require the separated officers and employees of MWSS-RO to immediately liquidate their cash advances.

Management informed that the cash advances were already liquidated and booked-up in April 2011. MWSS-RO shall ensure strict compliance with COA Circular 97-002 dated February 10, 1997 to ensure compliance with the guidelines for handling, custody and disposition of cashbooks.

- 21. Cashbooks were not maintained for petty operating expenses of MWSS-RO as required under Section 6 of COA Circular No. 97-002 dated February 10, 1997 and in accordance with sound system of internal control. An employee performing the functions of a collecting officer was not designated contrary to Section 64 of PD 1445.**

Section 6 of COA Circular No. 97-002 dated February 10, 1997 provides the guideline for the handling, custody and disposition of the cashbook, to quote:

“6.1 A newly- appointed or designated accountable officer (AO) shall start with a new cashbook. Before discharging his duties, the new AO shall be briefed by the Accountant and the Auditor on the proper recording of the transactions and the other matters related to his work.

6.2 The AO shall maintain separate cashbooks for salaries, wages, allowances, etc. and petty operating expenses. He shall record the transactions in the prescribed cashbook daily. He may record each invoice/receipt/voucher individually or the total

disbursements for the day depending on the volume of transactions.

6.3 The AO shall reconcile the book balance with the cash on hand daily. He shall foot and close the books at the end of each month. The AO and the Accountant shall reconcile their books of accounts at least quarterly.

6.4 The cashbooks shall be kept at the office of the AO and then placed inside the safe or cabinet when not in use. It may be taken from his custody only by the Auditor or an official duly authorized by the agency head, who shall issue the necessary receipt.

6.5 When the AO ceases to be one, the cashbook shall be submitted to the Accountant or the Treasurer (for local government units) and shall form part of the accounting records. No clearance shall be issued to an AO if he fails to submit the cashbook as required.”

On the other hand, Section 64 of PD 1445 states that “Designation of collecting officers for government agencies.- The head of an agency may designate such number of collecting officers or agents as may deemed necessary.”

Our cash examination on the cash accountabilities of the accountable officers of MWSS-RO disclosed the following findings and observations:

Accountable Officer	Amount	Purpose	Findings & Observations
Maritess Victoria (SDO)	P198,300.00 100,000.00	Tree planting activity Supplies & materials for use of the office	Does not maintain a cashbook; records all transactions in her computer.
Roberto U. Coloso (SDO)	45,000.00	Monthly Prepaid card expenses	Non-maintenance of cashbook
Debbie Cachuela (SDO)	10,000.00	Supplies & materials for use of the office	Petty Cash Vouchers (PCV's) were not pre-numbered
Allan Chuegan (as SDO) (as CO)	100,000.00	Medical reimbursement benefit	Does not maintain a cashbook Petty Cash Vouchers (PCV's) were not pre-numbered As collecting officer, he is accountable for ORs and checks of four bank accounts. Not duly designated as Collecting Officer

The above-mentioned findings and observations showed that the accountable officers of MWSS-RO were not able to observe Section 6 of COA Circular No. 97-002 on the handling and custody of the cashbook and the practices noted were not in accordance with sound system of internal control.

Sound system of internal control requires that Petty Cash Vouchers as accounting records should be pre-numbered, the accountable officer should be designated as collecting officer and there should be a separation of duties so that no one receives collections and at the same time handles cash advances and other funds to safeguard assets and records.

Section 124 of PD1445 also provides that it shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control.

We recommended that management strictly implement the rules and regulations provided under Section 6 of COA Circular No. 97-002 dated February 10, 1997, Sections 64 and 124 of PD 1445 and adhere to sound internal control system in handling cash.

Management committed that starting CY 2011, Cash book will be maintained for cash advances in the prescribed COA format. With regard to the separation of duties of Mr. Alan Chuegan as Special Disbursing Officer (SDO) and Collecting Officer (CO), MWSS-RO shall issue Office Order designating Mr. Alan Chuegan as Collecting Officer of the RO and henceforth will not be designated as SDO of RO.

22. Summary of Unsettled Suspensions, disallowances and charges, NDs and NCs issued prior to 2010

Notices of Disallowances (ND) were issued in the year 2000 disallowing in audit the payment of Mid-Year Financial Assistance, Year-end Financial Assistance, Bigay Pala Anniversary Bonus, Productivity incentive Bonus, Medical Allowance and RATA amounting to P8,740,837.56. These disallowances were affirmed under COA Decision No. 2009-072 dated September 1, 2009. The System has moved for reconsideration of the above cited decision on the ground that is contrary to facts, laws and jurisprudence. The resolution of the motion is pending with the COA Commission Proper.

Notices of Disallowances were issued in 2010 to disallow in audit the payment of the following 2009 transactions: a) allowances, bonuses and other benefits amounting to P150.28 million, b) hazard pay amounting to P991,800 and c) Extraordinary Expenses paid in excess of GAA rates amounting to P3,436,568.25. The ND were appealed by both MWSS CO and RO on January 27, 2011, respectively.

Notice of Suspension (NS) was issued on cash withdrawals amounting to P35,361,133.40 suspending them in audit because these transactions were not substantiated. Under the NS, we requested submission of supporting documents

such as DVs and paid checks. The period within which to comply with the requirements has already prescribed. However, the Fraud Audit Team of COA informed the MWSS-COA Team that they have audit jurisdiction over these transactions, hence they will be issuing the ND.

II. GENDER AND DEVELOPMENT

- 23. The MWSS-CO and RO GAD Plan and Budget for CY 2010 were not submitted to the National Commission on the Role of Filipino Women (NCRFW) now Philippine Commission on Women (PCW) for review and endorsement prior to submission to the Department of Budget and Management (DBM) contrary to Section 5.1 of the DBM, NEDA, NCRF Joint Circular No. 2004-1 dated August 15, 2001. Likewise, both failed to fully implement the activities embodied in their Annual GAD Plan and Budget.**

Executive Order No. 273 dated September 8, 1995 specifically provides that:

“All government agencies, departments, bureaus, offices and instrumentalities, including government-owned and controlled corporations, at the national, sub-national and local levels, are directed:

1.1 To take appropriate steps to ensure the full implementation of the policies/strategies and programs/projects outlined in the Plan;

1.2 To institutionalize Gender and Development (GAD) efforts in government by incorporating GAD concerns, as spelled out in the Plan, in their planning, programming and budgeting processes, but specifically to:

- 1.2.1 Include/incorporate GAD concerns in the:*
- a) formulation, assessment and updating of their annual agency plans.*
 - b) formulation, assessment and updating of their inputs to the medium/long-term, development plans*
 - c) preparation of their inputs to sectoral performance assessment reports, public investment plans and other similar documents*
- 1.2.2 Incorporate and reflect GAD concerns in their:*
- a) agency performance commitments contracts indicating indicating key results areas for GAD as well as in their annual performance report to the President; and*
 - b) annual agency budget proposals and work and financial plans.*

DBM, NEDA and NCRFW Joint Circular No. 2004-1 was adopted to prescribe the guidelines and procedures for the formulation and submission of agency annual GAD plans and budgets and GAD accomplishment reports, and to provide the mechanics for the development of programs, activities and projects that promotes gender-responsive governance, protect and fulfil women's human rights, and promote women's economic empowerment.

Section 5.1 of said Joint Circular specifically provided that agencies shall submit their annual GAD plans and budgets to the NCRFW for review and endorsement prior to the submission of the agency budget proposal. The DBM shall return to the agencies their annual GAD plans and budgets if they do not have the endorsement of the NCRFW.

In addition, Section 5.2 of the said Joint Circular provides that the agency GAD Focal Point shall prepare the annual GAD accomplishment report in coordination with the agency budget officers following the prescribed format to be approved by the agency head. Agencies shall submit to the DBM two (2) copies of the annual GAD accomplishment report for the previous year along with the budget call.

It further defines Gender Mainstreaming – “At the agency level, gender mainstreaming means raising people's GAD awareness and building GAD-related capabilities; putting in place policies, structures, systems, and mechanisms that would facilitate and institutionalize the pursuit of gender equality and women's empowerment, applying GAD-related skills and tools to develop programs, activities and projects addressing gender issues; continuously implementing, monitoring, evaluating and enhancing the agency's gender mainstreaming and women's empowerment efforts; and incorporating GAD in all aspects of the agency's operations.”

Verification disclosed that the GAD Plan and Budget for CY 2010 of both MWSS - CO and RO were not submitted to NCRFW for review and endorsement before its submission to DBM contrary to the above-mentioned provisions.

For CY 2010, a total of P2,952,000.00 was budgeted for the MWSS-CO Annual GAD Plan which consisted of 10 activities related to Gender and Development. However, management was not able to submit the Accomplishment Report for its GAD-related programs, activities and projects for the year. In the absence of such report, the determination whether gender issues are addressed by GAD interventions in MWSS-CO could not be undertaken. Meanwhile, available records showed that for CY 2010, Management implemented only one activity (Activity No. 10) for GAD which was incorporated in their activity for Gender and Development Assessment and Team Building on June 3-5, 2010 and on July 1-2, 2010 held at Bataan White Corals Beach Resort and Hotel and at Subic, Olongapo which was attended by 64 employees. This is covered by cash advances in the total amount of P442,334.00 which was later liquidated for expenses totalling P410,624.82 and charged to Extraordinary Expenses (883 account).

The other nine (9) activities which were mainly geared towards the issues on low-level of GAD awareness was not accomplished during the year. Consequently, the annual budget for the GAD in the amount of P2,952,000 was not fully utilized contrary to the provision set forth in the General Appropriations Act (GAA) which provides that agencies are tasked to formulate a GAD Plan and to implement the same by utilizing at least 5% of their total budget appropriations.

On the other hand, for the year 2010, the MWSS-RO allotted a total budget of P6,645,000.00 for GAD activities and incurred actual expenditures in the amount of P2,968,473.00 that was charged to Extraordinary Expenses-GAD/Cultural (Account Code 883-3). Further, the GAD Accomplishment Report submitted was not in the prescribed format and there was also no indication that said accomplishment was submitted to DBM as required in the above regulations.

We recommended and management agreed to strictly adhere to the provisions of Executive Order No. 273 and Joint Circular No. 2004-01 and General Appropriations Act particularly on the pertinent provision on the required budget and utilization of funds and to implement the programs, activities and projects under MWSS-CO and RO Annual GAD Plan and Budget to address the Gender issues by GAD intervention in the agency.

MWSS-RO GAD Committee will strictly comply with the requirements prescribed under Joint Circular No. 2004-1 and for CY 2011, the RO shall follow the prescribed format under the aforestated Joint Circular.

SPECIAL AUDIT

A special Audit Team was created under COA Office Order No. 2010-504 and 2010-699 dated July 29, 2010 and October 15, 2010, respectively, to conduct Special/Fraud Audit Investigation on the alleged irregularities in the disbursement of funds of the MWSS from Calendar year 2005 until June 30, 2010.

Subsequently on January 19, 2011, a Special Audit Team was created under COA Office Order No. 2011-036 to compose the Commission On Audit Group for the Joint Investigation Team with the Office of the Ombudsman (OMB) to conduct the joint audit of the MWSS. The audit is still on-going as of date (June 15, 2011).