

**STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEAR'S AUDIT  
OBSERVATION**

AUDIT OBSERVATION	RECOMMENDATIONS	ACTION TAKEN/ COMMENTS
<p>1. The validity of the System's Property, Plant and Equipment and Inventory accounts amounting to ₱40.19B (net of depreciation) and ₱61.26M, 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.</p>	<p>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.</p>	<p>Property Management is under-going physical inventory as of this date. Submission of Physical Inventory Report would lead to reconciliation between Accounting and Property records.</p> <p>See Finding No. 1</p>
<p>2. The Property, Plant and Equipment (PPE) account includes unserviceable motor vehicles and other transportation equipment totalling P93.82M and undetermined amount of unserviceable office equipment and other machineries and equipment.</p>	<p>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.</p>	<p>Appraisal and disposal of assets to be arranged by the PMD.</p> <p>See Finding No. 1</p>
<p>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</p>	<p>Necessary adjustments should be made to correct the understatement/overstatement of the accounts.</p>	<p>Payment for the sale is still not recorded in the books pending PMD's submission of Inspection &amp; Inventory Report</p>

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<p>4. The reported Cash in Bank – Local Currency accounts were understated by P5.7M when compared with the confirmed amounts.</p>	<p>1</p> <ol style="list-style-type: none"> <li>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.</li> <li>2. Prepare the necessary adjustments on the cash and other affected accounts for its fair presentation in the Financial Statements.</li> </ol>	<p>See Finding No. 4</p>
<p>5. Various reconciling items that remained unadjusted as of December 31, 2010 overstated the cash accounts of MWSS-Corporate Office in the amount of P9.82M and understated the Cash in Bank account of MWSS-Regulatory Office in the amount of P4.63M or a net overstatement of P5.19M.</p>	<p>1</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>5. Investigate and exert extra effort to determine the unaccounted differences/withdrawals.</li> </ol>	<p>See Finding No. 4</p>
<p>6. The Other Receivables account pertaining to leased</p>	<ol style="list-style-type: none"> <li>1. Make the necessary adjustments to record the cost of two (2)</li> </ol>	<p>Complied. Adjustments were</p>

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<p>property is overstated by P14.42M 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 P1.1M were not billed/collected affecting the reliability of the affected accounts.</p>	<p>chillers advanced by MWCI to reflect the correct balances of the affected accounts in the financial statements.</p> <p>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.</p>	<p>already made on the cost of two (2) units water chiller advanced by MWCI.</p> <p>MWSS Management and MWCI will meet to discuss the settlement of penalty charges.</p>
<p>7. Receivables from office rentals/leased properties and electricity totalling ₱9M remained uncollected for more than four (4) years to ten years casting doubt on the collectability of the accounts.</p>	<p>1. 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.</p> <p>2. 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.</p>	<p>Partially implemented.</p>
<p>8. The confirmed balance of Loans Payable – Domestic accounts posted a variance of P10.50M against its recorded book balance while its accrued interest of</p>	<p>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</p>	<p>On-going reconciliation with the Bureau of the Treasury.</p>

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<p>P257M were not recognized in the books, casting doubt on the accuracy and existence of the loans payable and the corresponding accrued interest.</p>	<p>correct balances of these loan accounts. Necessary adjustment should also be effected.</p> <p>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.</p>	<p>Accrued interest already recorded.</p>
<p>9. The difference of P16.72M 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.</p>	<p>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.</p>	<p>On-going reconciliation with the Bureau of the Treasury.</p>
<p>10. Reciprocal accounts-Due from CO/Home Office and Due to Regulatory Office remained unreconciled as of December 31, 2010.</p>	<p>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.</p> <p>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.</p>	<p>Under process to be brought up to the MWSS Board of Trustees for final policy on the sharing of charges.</p> <p>See Finding No. 3</p>

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		3. Reconcile the balance of the controlling account in the General Ledger with the total balance per supporting Schedule.	
11. Electricity Expenses pertaining to current year totalling P2.34M 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.		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.	Partially complied.
12. Overstatement of Personnel Expenses in the amount of P107,400 and Maintenance and Other Operating expenses in the amount of P237,074.88 and understatement of Cash in Bank for P344,474.88.		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.	Complied. 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 P126,169.66 were charged to CY 2010 expenses resulting to overstatement of Maintenance and Other Operating Expenses accounts and understatement of income.		Necessary adjustment should be made to correct the accounts.	See Finding No. 6
14. Collections received from the two concessionaires amounting to P141.06M for		1. Require the immediate remittance of the amount of P141.06 million collected from the conces-	MWSS has not received any billings from the BTR on the

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<p>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).</p>	<p>sionnaires intended for debt servicing to the concerned foreign lending institutions to reflect the correct balances of the loan and other related accounts.</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> </ol> <p>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 .</p>	<p>JBIC loan. However, as regards the amount of ₱141.06 received from the two Concessionaires as payment for the loan, the said amount shall be remitted to BTR and request for the reconciliation of the said account to determine its actual loan balance as recommended.</p>
<p>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 ₱167.56M and ₱67.14M, respectively.</p>	<p>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</p>	<p>The Management is in coordination with the DBM for the MWSS to be able to secure post facto approval as recommended.</p> <p>See Finding Nos. 8, 9, 10, 11, 12, 13, 16, 19, 20 and 21</p>

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	the DBM-approved COB.	
16. Payment of RATA in the amount of P2.92M 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.	<ol style="list-style-type: none"> <li>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.</li> <li>2. Discontinue the grant of RATA to employees who do not fall under any of the positions enumerated under the GAA.</li> <li>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.</li> </ol>	<p>Under further study and evaluation.</p> <p>See Finding No. 12</p>
17. Hazard Pay amounting to P1.45M 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.	<p>This is already a reiteration of last year's audit observation.</p> <p>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.</p>	See Finding No. 13
18. Actual Extraordinary and Miscellaneous Expense for CY 2010 exceeded the DBM-approved budget by P34.23M. Likewise, extraordinary and miscellaneous expenses were claimed by unauthorized officials of MWSS-RO contrary to	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.	Complied.

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<p>Section 28, General Provisions of RA 9574 (GAA FY 2010) and approved DBM Corporate Operating Budget of MWSS-RO for CY 2010.</p>		
<p>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.</p>	<ol style="list-style-type: none"> <li>1. Strictly adhere to the guidelines on the proper utilization and intelligence funds provided under COA Circular No. 92-385 dated October 1, 1992 and COA Circular No. 2003-002 dated July 30, 2003.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>Management will strictly adhere to the guidelines on the utilization and liquidation of the fund.</p>
<p>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.</p>	<p>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.</p>	<p>Complied.</p>

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<p>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.</p>	<p>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.</p>	<p>Not complied.</p>
<p>22. Summary of Unsettled Suspensions, disallowances and charges, NDs and NCs issued prior to 2010</p>		<p>See Finding No. 24</p>
<p>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.</p>	<p>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.</p>	<p>Management will strictly comply with the requirements as recommended by COA.</p> <p>See Finding No. 25</p>