

## AUDIT OBSERVATIONS AND RECOMMENDATIONS

### A. Introduction

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### B.1 Current Year's Audit Observations and Recommendations - MWSS Corporate Office (CO)

1. **The accuracy and existence of the two accounts, Land and Land Improvements, and Building & Structures with carrying value of P19.226 billion and P27.788 billion respectively, were not ascertained due to incomplete inventory taking required under Section 102 of PD 1445 and COA Circular 80-124.**

**Also included in the Building & Structures account were Other Structures with carrying value of P27.577 billion which was not accurately stated due to:**

- a. **Capitalizing borrowing costs incurred after the completion of the project with an aggregate cost of P269.68 million, inconsistent with PAS 23;**
- b. **Recognizing depreciation charges only on the period the asset was reclassified to the PPE account and not when the asset was used as required under PAS 16, resulting in an understatement of P218.733 million; and**

- c. **Inclusion of the cost of consultancy services for the feasibility study and preliminary design of Angat Water Utilization and Aqueduct Improvement Project (AWUAIP) Phase II incurred in CY 2005 in the amount to P18.50 Million, contrary to PAS 38.**

1.1 Our audit was guided by the following:

- a. COA Circular No. 80-124 issued in consonance with the provisions of Section 102 of PD 1445 otherwise known as the Government Auditing Code of the Philippines which states that physical inventory-taking, being an indispensable procedure for checking the integrity of property custodianship has to be regularly enforced at least once a year. All inventory reports shall be prepared and shall be properly reconciled with accounting and inventory records.
- b. PAS 23 paragraph 25 which provides that *“Capitalization of borrowing costs shall cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.”*;
- c. PAS 16 paragraph 56 which states that *“Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the Management.”*
- d. PAS 38 paragraph 54 which specifically state *“no asset arising from research or from research phase of an internal project should be recognized. Expenditure on research or from research phase of an internal project shall be recognized as an expense when it is incurred.”*

1.2 Audit of PPE accounts with aggregated balance of P47,014,477,153.51 revealed that except for the General & Administrative Equipment with carrying amount of P231.924 million, no complete physical inventory taking was undertaken on the following PPE accounts as of December 31, 2014:

Account	Amount
Land and Land Improvements	19,226,484,649.64
Building & Structures(net of accumulated depreciation)	27,787,992,503.87
Total	47,014,477,153.51

1.3 As a consequence of incomplete inventory taking, the existence and accuracy of the PPE account balance of P47.014 billion at the end of the year was not ascertained. There were no alternative procedures done by Management to establish the existence and accuracy of the assets at the time of audit.

1.4 Moreover, in CY 2013 Annual Audit Report, there were significant findings on the Land account which included Transfer Certificates of Title (TCT) of 128 lots with an area of 194.91 hectares recorded in the books but were not found during the actual inventory of land titles and in the inventory list of TCTs in MWSS vault. Also, the Transfer Certificates of Titles of eight lots with an area of 7.78 hectares were not found during

the actual inventory of land titles; these were land recorded in the books and included in the inventory of TCTs in MWSS vault. Management informed that these titles are for reconstitution and some are still for titling with the Land Registration Authority.

1.5 For building & structures account, we observed that there were structures reported in the prior year's inventory report as demolished or no longer existing but were not yet dropped from the books.

1.6 Also included in the Building and Structures was the Other Structures account with a carrying amount of P27,576,896,206 as of December 31, 2014. Adjusting entries were made during the year to transfer the cost of the Angat Water Utilization and Aqueduct Improvement Project (AWUAIP) Phase 2 project from Construction-in-Progress to Property Plant & Equipment (PPE) – Other Structures account.

1.7 Audit of the adjusting entries revealed the following:

**1.7.1 *Borrowing costs incurred after the completion of the project was included in the cost of PPE, contrary to PAS 23.***

1.7.1.1 As defined by the Standard, borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds. Capitalization is allowed by the Standard as an alternative treatment for cost of borrowing directly attributable to the acquisition, construction or production of a qualifying asset.

1.7.1.2 The standard further provides that if the funds are borrowed specifically for the purpose of acquiring a qualifying asset, the amount of capitalizable borrowing cost is the actual borrowing cost incurred during the period less any investment income from the temporary investment of those borrowings.

1.7.1.3 A Preferential Buyer Loan Agreement between Export-Import Bank of China and MWSS was signed on January 7, 2010 approving the loan amount of US\$116,602 Million for the sole purpose of financing the payment of approximately 95% of the contract amount for AWUAIP Phase II. The borrowing entails the payment of the following:

- Three percent (3%) annual interest;
- Management fee of 0.4% of the loan equal to US\$466,408 in one lump within 30 days after the Loan Agreement had become effective but not later than the first Disbursement Date of the Agreement);
- Commitment Fee of 0.4% per annum on the daily unutilized portion of the Loan. Such commitment fee shall accrue from and including the effectiveness date of the Loan up to but excluding the last day of the Disbursement Period; and

- Other bank charges.

1.7.1.4 Based on the Certificate of Turnover, the project was substantially completed on July 17, 2012 and turned over to the Concessionaires for operation on September 10, 2012. Hence, borrowing costs incurred after this date should not be capitalized and shall be recognized as expense in the period in which they were incurred.

1.7.1.5 Borrowing costs pertaining to the AWUAIP as of December 31, 2014 aggregated to P476,756,694.56 and includes the interest expense, management fees, commitment charges and guarantee fees paid for the project, as shown below:

Particulars	Amount
Interest/Commitment charges	346,745,119.64
Guarantee fees	130,011,574.92
Total	476,756,694.56

1.7.1.6 Audit showed that out of the total borrowing cost of P476,756,694.56, only the amount of P207,073,145.72 should be capitalized while the balance of P269,683,548.84 which pertains to payment of charges and fees after September 2012 should be treated as expenses to conform with PAS 23. Details are as follows:

Period/ Due date	Interest & Commitment charges	Period/Due date	Guarantee fees	Total
January 21, 2014	76,446,848.38	Jan-March 2014	5,512,960.47	81,959,808.85
July 21, 2013	71,046,236.40	Oct-Dec 2013	18,278,981.80	89,325,218.20
January 21, 2013	40,630,742.87	July-Sept 2013	39,056,467.36	79,687,210.23
		April – June 2013	6,654,302.96	6,654,302.96
		Jan- March 2013	1,637,045.41	1,637,045.41
		Oct-Dec 2012	10,419,963.19	10,419,963.19
Total	188,123,827.65		81,559,721.19	269,683,548.84

1.7.1.7 The capitalization of borrowing costs after the project has been completed resulted in the overstatement of the PPE-Other Structures account and the corresponding depreciation charges and the understatement of the interest expense and other financial charges accounts.

1.7.2 ***Depreciation charges was recognized only in the period the AWUAIP II project was reclassified to the PPE account and not when it was used in***

**operation as required under PAS 16 resulting in understatement of P218.733 million.**

1.7.2.1 The AWUAIP Phase II project was completed and turned over to the Concessionaires for operation on September 10, 2012. Accounting records showed that the completed project totalling P6,340,093,489.94 was reclassified from Construction in Progress account to Property Plant and Equipment in August 2014 only.

1.7.2.2 We noted that the depreciation expense of P9,510,140.24 per month was recognized only in September 2014 or a month after the asset was reclassified from construction in progress account to a property, plant and equipment account. It did not recognize depreciation charges commencing from the period on which the asset was made available for use in September 2012 to conform to paragraph 56 of PAS 16.

1.7.2.3 Granting that the recorded monthly depreciation of P9,510,140.24 is correct, the total accumulated depreciation from October 2012 to December 31, 2014 should have been P256,773,786.34 computed as follows:

	2012 (Oct- December)	2013	2014	Total
Annual Depreciation	28,530,420.70	114,121,682.82	114,121,682.82	256,773,786.34

1.7.2.4 However, the total accumulated depreciation recorded in the books for the AWUAIP II project as of December 31, 2014 totalled P38,040,560.96 only or a difference of P218,733,225.38, computed as follows:

	Amount per books	Should be amount based on MWSS cost	Discrepancy
Total accumulated depreciation as of December 31, 2014	38,040,560.96	256,773,786.34	218,733,225.38

1.7.2.5 The non-recognition of depreciation expense from the date it was available for use in September 2012 resulted in the misstatement of the book value of the PPE account and the overstatement of income.

1.7.3 **Cost of consultancy services for the feasibility study and preliminary design of AWUAIP Phase II amounting to 18.596 million which was completed on August 2005 was capitalized inconsistent with PAS 38.**

- 1.7.3.1 The cost of AWUAIP Phase II capitalized during the year included cost of consultancy services for the feasibility study and preliminary design of the project which was completed on August 2005 based on the Project Completion Report.
  - 1.7.3.2 Under PAS 38 *“no asset arising from research or from research phase of an internal project should be recognized.”*
  - 1.7.3.3 Accordingly, the cost incurred in the amount of P18,595,958.89 during the conduct of initial feasibility study should have been recorded as expense when incurred. Its inclusion to the PPE account resulted in the overstatement of the PPE account and its depreciation charges and understatement of income.
- 1.8 ***We reiterated our prior year’s recommendation and Management agreed to regularly conduct annual physical inventory of all its assets and reconcile any discrepancies between the property and accounting records.***
- 1.9 ***We recommended and Management agreed to require the Finance Department to review and analyze the cost of the AWUAIP project reclassified to the PPE account taking into consideration the provisions in PAS 16 and 23 to arrive at an accurate balance of the PPE – Other Structures account; thereafter, prepare the appropriate adjusting entries.***
2. **Documentary requirements enumerated in Annex E of the Revised IRR of RA 9184 relative to the contract for the implementation of the Angat Water Utilization and Aqueduct Improvement Project (AWUAIP) Phase II with the revised contract amount after final quantification of P5.805 billion were not complied with.**
  - 2.1. The AWUAIP Phase 2 project involved the rehabilitation and repair of Aqueduct No.5 of the raw water conveyance system from Angat Dam to La Mesa Dam. The project, which allowed the recovery from leaks of approximately 394 million liter per day was completed by China International Water and Electric Corporation (CWE) on July 16, 2012, ahead of its original completion date of May 6, 2013.
  - 2.2. The original contract cost was P5,298,994,185.82 and the revised contract amount after the final quantification was P5,805,312,520.62. The project was financed through a loan from China Export-Import Bank (China Eximbank) totalling US\$116,602,000. The entire proceeds of the facility shall be applied by MWSS for the sole purpose of financing the payment of approximately 95% of the Contract amount. The remaining 5% will be Government counterpart in the project cost which amounted to P288,278,445.55.
  - 2.3. Review of the documentation on the final payment for the AWUAIP Phase 2 disclosed that the disbursements were not supported with the following required documents in claiming for any variation as stipulated under Section 1.5 of Annex E of the IRR of R. A. 9184:

- a. Notice of Findings by the contractor submitted to MWSS/Construction Consultant on the need for variation order;
- b. Approval of Variation Order prior to the commencement of work; and
- c. Notice to Proceed issued by MWSS.

2.4. We issued AQM No. CO-15-08 requiring the submission of the abovementioned documents. In reply, Management submitted the following comments/justifications:

- a. On the Notice of Findings by the contractor submitted to MWSS/Construction Consultant on the need for variation order and on the approval of Variation Order prior to the commencement of work under the variation order, the Deputy Administrator for Engineering & Operations informed that:
  - i. The contractor submitted the Variation Order No. 1 and was recommended by the Consultant to MWSS on August 2, 2012. (Copy of the letter attached as **Annex "A"**) and the same was forwarded by Management to OGCC for Legal opinion (copy of the letter and OGCC opinion attached as **Annex "B and C"**).
  - ii. The variation Order No. 1 will have no additional cost to the project as it will be limited to the project's original cost. The Variation Order No. 1 of net deductive amount of PhP 256,390.38 was approved by MWSS Board on December 4, 2012, thus revising the contract amount from PhP5,298,994,185.82 to PhP5,298,737,795.44.
  - iii. On 16 January 2013, the previously recommended Variation Order plus other legitimate documents for payment was submitted by the Contractor, denominated as Final Quantification/Variation Order No. 2 of the Project.
  - iv. The submission went through a series of joint reviews, evaluations and discussions with our Construction Consultants (EDCOP, et. al.), Common Purpose Facilities (MWCI and MWSI) and MWSS Project Team. Subsequently, it was forwarded to the Office of the Administrator on March 25, 2013.
  - v. However, for prudence and extraordinary due diligence, the Management sought Third Party review from DPWH and NEDA on April 11, 2013 and May 28, 2013, respectively, (copy of the letters and answers of the concerned agencies, attached as **Annex D**).
  - vi. Final Quantification/Variation Order No. 2 was approved by the Board per Resolution No. 2013-115-CO. Also attached are OGCC's letter dated 15 November 2013 and 22 November 2013 on the matter. (**Annex E**).

- b. On Notice to Proceed issued by MWSS for the Variation Order. - Bid

quantity overruns and additional items of work necessary for the completion of the project were submitted.

- 2.5. The explanation/justification given by Management was found to be unsatisfactorily complying with the requirements of R. A. 9184 due to the following provisions of RA 9184 and its IRR:

- a. Section 1.5 of Annex E of the Revised IRR of R.A. 9184 provides that *“In claiming for any Variation order, the contractor shall, within seven (7) calendar days after such work has been commenced pursuant to Section 3.2 hereof; or within twenty eight (28) calendar days after the circumstances or reasons justifying a claim for extra cost shall have occurred, deliver a notice giving full and detailed particulars of any extra cost in order that it may be investigated at that time. Xxx”*.
- b. The same IRR provides that *“under no circumstances shall a contractor proceed to commence work under any Change Order or Extra Work Order unless it has been approved by the Head of the Procuring Entity or his duly authorized representative.*

- 2.6. We recognized the effort of Management and the prudence and extraordinary diligence to secure impartial third party review of the Final Quantification of Variation Order No. 2 from the Secretary of the DPWH and the Socioeconomic Planning Secretary of the NEDA. The DPWH Secretary recommended the possibility of asking for a discount in the item in the Variation Order No. 2 from the Contractor and based on the summary of cost of revision due to final quantification a deduction of P40 million was made from the final costing for the project. Hence, MWSS was able to save P40 million for the project.

However, Management action resulted in the delay in payment of the Contractor's claim which entailed higher commitment fee charges in the loan from China during the time elapsed from January 2013-January 2014 amounting to P1,687,065.06.

- 2.7. ***We recommended that Management:***

- a. ***Obtain Notice of Findings from the Contractor notifying MWSS thru its Construction Consultant of the need for Variation order; and***
- b. ***Submit approved Variation Order and the Notice to Proceed issued prior to the commencement of the work in accordance with the amended contract.***

- 2.8. Management informed that they will submit the required documents and asked that they be given time to comply with the requirements.

3. **For Accounts Receivable of P1.118 billion and P98 million representing amount collectible from Maynilad Water Services Inc. (MWSI) for penalties on delayed payment of concession fee, and of borrowing cost, respectively, the account, *Other Deferred Credits*, a liability account, was credited instead of the appropriate**



income account. This erroneous entry made in CY 2007 remained uncorrected as at December 31, 2014.

Also, although part of the balance of Other Deferred Credits amounting to P97.660 million was already earned income, this remained unreclassified to the appropriate Income account/Retained Earnings.

- 3.1. The Standard Government Chart of Accounts defines **Deferred Credits** as account used to record **amount collected for revenues not yet earned**.
- 3.2. Paragraph 60 of Framework for the Preparation and Presentation of the Financial Statements provides that an essential characteristic of a liability is that the entity has a present obligation. An obligation is a duty or responsibility to act or perform in a certain way.
- 3.3. The **Other Deferred Credits** account as of December 31, 2014 reported an aggregate total of P2,037,065,297.72. Analysis of this account disclosed that it is the accounting practice to credit the account, **Deferred Credits to Income** in recording a receivable or amount due from the Concessionaires and third parties. This is not in accordance with Paragraph 60 of the Framework and the basic accounting rule that a deferred credit/revenue is recorded only when there is cash actually received in advance for services to be rendered or for revenues not yet earned.
- 3.4. Of the aggregate balance of P2,037,065,297.72, the amount of P1,311,222,103.85 or 64% were not proper credits to the account because there was no cash collected to recognize an unearned revenue at the time the following accounts were recorded in the books, as shown and discussed below:

<b>Subsidiary ledger account- Other deferred credits</b>	<b>Amount</b>
<b>Credits with no collections received</b>	
a. Deferred credits to Income – Penalty on delayed payment –Concession Fee – MWSI	1,118,315,273.77
b. Deferred credits to Income – Penalty on delayed payment –Borrowing Cost – MWSI	95,246,576.31
<b>Sub-Total</b>	1,213,561,850.08
<b>Credits with collections already earned income</b>	
c. Other Deferred credits to Income- Miscellaneous- Others	50,821,287.15
d. Deferred credits to Income – Rental of MWSS property	210,560.77
e. Other Deferred credits to Income – Disposal Public Auction	31,830,924.06

f. Other Deferred credits to Income – cost of lot for housing	13,019,097.58
g. Other Deferred Credits to Income-Others	1,752,678.95
h. Amount withheld for liquidated damages	25,705.26
Sub-total	97,660,253.77
Total	1,311,222,103.85

***Item a: Deferred credits to Income – Penalty on delayed payment – Concession Fee – MWSI***

The credit to the account was made in CY 2007 when the penalty on delayed remittance of concession fee by MWSI from the period March 12, 2001 to July 20, 2005 with total amount of P1,118,315,273.77 as of December 31, 2014 was recorded in the books as an Accounts Receivable.

From the beginning, the entry to record the penalty as a credit to Deferred Credit to Income the amount due from MWSI was erroneous because there was no money collected/received in advance. In fact, the collection of said penalty from MWSI was not allowed by the Rehabilitation Court in an order dated February 6, 2008. Subsequently, MWSS requested COA for authority to drop from its books of accounts the said amount.

***Item b: Other Deferred credits to Income – Penalty on delayed payment – Borrowing Cost – MWSI***

This account with credit of P95,246,576.31 pertains to accounts from MWSI that have not been collected and therefore is not a correct credit to the deferred credits to income account because it does not meet the definition of a deferred credit stated above. This entry was made in CY 2007.

***Item c: Other Deferred Credits to Income-Others***

This account with credit of P50,821,287.15 pertains to the fund received as a grant from the International Bank for Reconstruction and Development (IBRD) in CY2004 as assistance to MWSS in the preparation for the Manila Third Sewerage Project (Fund 91). Documents gathered revealed that the amount was already spent as evidenced by a debit to a Construction in Progress account. Therefore, it is no longer a proper credit to the deferred credit account.

***Item d: Deferred credits to Income – Rental of MWSS property***

The account pertains to cash collected in prior periods for the payment of rental fees which should have been reclassified to rental income account.

***Item e: Other Deferred credits to Income – Disposal Public Auction***

The account pertains to the proceeds from the disposal/public auction of unserviceable assets. Under Section 2.2 (a) of the MOA dated September 16, 1997 between MWSS and the Department of Finance, “35% of proceeds from sales of non-operating assets retained by MWSS xxx shall be deposited in a special account with the Bureau of Treasury”.

Accounting Records showed that the amount of P31,830,924.06 was the accumulated balance of proceeds from sale of unserviceable assets starting CY 2007. Analysis revealed that the account was temporarily used to record the amount received before the corresponding PPE account and its accumulated depreciation is requested for the dropping from the books of accounts the corresponding fixed asset account and its accumulated depreciation and the allocation of the proceeds as provided in Section 2.2(a) of the MOA.

Apparently, the accounting of the proceeds from the sale of unserviceable assets in accordance with the abovementioned MOA was not recorded in the books of accounts.

The failure to reclassify to the proper accounts the proceeds from the sale overstated the PPE and the corresponding accumulated depreciation. On the other hand, the loss or gain from the sale of the unserviceable assets was not recognized in the books resulting in the understatement of the loss or gain from the sale of the property on the year the transaction occurred.

***Item f: Other Deferred credits to Income – cost of lot for housing***

The account with the credit of P13,019,097.58 as **undistributed** collections for the cost of lot –La Mesa Housing Project, showed that the proceeds from the sale of the lot was not properly allocated in accordance with Section 2.2 (a) of the Memorandum of Agreement (MOA) dated September 16, 1997 as stated above.

***Item g: Other Deferred credits to Income - Others***

The Miscellaneous- Others account with credit of P1,752,678.95 has been dormant since CY 2007. Verification disclosed that the credit to the account was not proper for the reason that the account was described in the subsidiary ledger as an advance payment to the consultant for the Pasig River Environmental and Rehabilitation Sector Development

Program (PREMRSDP). As such, the credit to the account did not meet the definition of a deferred credit to income

**3.5. We recommended and Management agreed to:**

- a. ***Require the Finance Department to immediately analyze and review each of the subsidiary ledgers of the Other Deferred Credits account to ensure that only cash collections received in advance for services that are yet to be rendered are included in the Other Deferred Credits account at the end of each accounting period; and thereafter, prepare the necessary adjusting entries; and***
- b. ***Deposit to the Bureau of Treasury special account the amount equivalent to 35% of proceeds from sales of non-operating assets retained by MWSS in compliance with Section 2.2 of the MOA between MWSS and DOF.***

4. **Revenue from Concession Income in the amount of P464.434 million was not accurately reported due to (a) Income pertaining to CY 2013 with an aggregate total of P229.229 million was recognized as revenue during the year and (b) income received in CY 2014 totaling P235.205 million was not recognized as current year's income.**

**Also, no accrual of income from debt service and progress billing totaling P34.541 million was made contrary to PAS 1 and the Conceptual Framework for the Preparation and Presentation of Financial Statements.**

- 4.1. PAS 1 paragraph 25-26 provides that *“an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. When the accrual basis is used, items are recognized as assets, liabilities, equity, income and expense (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.”*

The Framework for the Preparation and Presentation of Financial Statements provides that *“income is recognized when it is probable that an increase in future economic benefit related to an increase in or a decrease in a liability has arisen and that the increase in economic benefits can be measured reliably.”*

- 4.2. The sources of revenue (*Income from Waterworks* account) of MWSS include, among others, the following:
  - a. *Concession Income* refers to the payments received from the Concessionaires for the Corporate Operating Budget of the MWSS in accordance with Section 6.4 (b) of the Concession Agreement among MWSS and the Concessionaires, Manila Water Co. Inc (MWCI) and Maynilad Water Services Inc (MWSI);

- b. *Concession Fee - Debt Service* are payments received from the Concessionaires for the payment of loans as provided under Section 6.4 (a) of the Concession Agreement; and
- c. *Concession Fee – Progress Billing* are payments received from the Concessionaires for bills issued to collect the amount payable to the contractors for MWSS-implemented projects.

4.3. Audit of the Income from Waterworks account showed the following:

4.3.1. **Concession Income –**

4.3.1.1. The practice of Management in amortizing/deferring the income pertaining to the term extension received over a period of 12 months resulted in a discrepancy of P5,975,714.86 between the amount received as concession fees during the year with the amount recorded in the books.

4.3.1.2. Concession Income received from the Concessionaires are recorded in the books of accounts as Income from Waterworks System – Concession Fee- Corporate Operating Budget (COB). For CY 2014, concession fees amounted to P933,748,851.47, as shown below:

Summary of Concession Fees received CY 2014			
	MWSI	MWCI	Total
Original Contract	231,578,732.18	231,759,754.55	463,338,486.73
Term Extension Contract	235,205,182.37	235,205,182.37	470,410,364.74
	466,783,914.55	466,964,936.92	933,748,851.47

4.3.1.3. The concession fees recorded in the books amounted to P927,773,136.61, with details shown below:

Summary of Concession Fees recorded in the books CY 2014			
	MWSI	MWCI	Total
Original Contract	231,578,732.18	231,759,754.55	463,338,486.73
Term Extension			
CY 2013	57,307,366.86	171,922,100.70	229,229,467.56
CY 2014	176,403,886.74	58,801,295.58	235,205,182.32
Sub –Total	233,711,253.60	230,723,396.28	464,434,649.88
Overall Total	465,289,985.78	462,483,150.83	927,773,136.61

4.3.1.4. Presented below is the detailed computation on how the amortization/deferral of income understated the income collected during the year:

Year	Particulars	Reference	Amount	
CY 2014	Income received	Table in para 6.3.1.2		470,410,364.74
CY 2013	Total Income per books	Table in para 6.3.1.3	229,229,467.56	464,434,649.88
CY 2014			235,205,182.32	
	Discrepancy			5,975,714.86

The discrepancy was due to the practice of Management in amortizing/deferring over a period of 12 months the income pertaining to the term extension received. The amortization/deferral extended to the succeeding calendar year contrary to the provision on Conceptual Framework in the Preparation and Presentation of the Financial Statements that income should be recognized when the economic benefit has arisen and can be measured reliably. The amortization/deferral of income resulted in the understatement of income and the overstatement of liability (deferred credits to income).

#### 4.3.2. **Concession Fee - Debt Service**

- 4.3.2.1. Guarantee Fees on various loans for the period October to December 2013 with an aggregate amount of P30,120,415.38 were billed and recorded as income for the year which is not in accordance with PAS 1 and the Conceptual Framework.
- 4.3.2.2. Audit revealed that the Concessionaires were billed the actual shares on Guarantee Fees on various loans for the period October to December 2013 only on January 30, 2014 notwithstanding that the monthly bills were issued by the Bureau of Treasury and were received by MWSS in CY 2014. The billing in the amount of P30,120,415.38 should have been recorded in the books in December 2013 and not in CY 2014 so that income are recognized in accordance with PAS 1 and the Conceptual Framework.
- 4.3.2.3. The breakdown of income recognized during the year is as follows:

Loan	MWSI	MWCI	Total
ADB 1379 - PHI	4,298,316.14	1,714,796.38	6,013,112.52
ADB 986 – PHI	997,033.92	3,988,414.01	4,985,447.93
1991 FRENCH PROTOCOL	71,460.88	7,940.11	79,400.99
IBRD 4019 - PHI	409,832.12	353,640.02	763,472.14
EXIMBANK OF CHINA	9,139,490.91	9,139,490.89	18,278,981.80
Total	<b>14,916,133.97</b>	<b>15,204,281.41</b>	30,120,415.38

#### 4.3.3. **Concession Fee – Progress Billing**

- 4.3.3.1. The non-accrual of income collectible from the concessionaires for their share on progress billing in CY 2012 resulted in the

recognition of revenue during year which is not in accordance with aforementioned provisions in PAS and the Conceptual Framework.

- 4.3.3.2. Receivables from the Concessionaires for their share in the Progress Billing of Consulting Services in the Construction Supervision of the Angat Water Utilization and Aqueduct Improvement Project (AWUAIP-Phase 2) covering the period August 1, 2012 to September 30, 2012 under Payment Certificate No. 13 in the amount of P4,421,118.74 were recorded only in CY 2014. Consequently, the income was recognized only in CY 2014 instead of CY 2012, the period to which the transaction relates.

4.4. ***We recommended and Management agreed to require the Finance Department to:***

- a. ***Record the Concession Fee due to Term Extension on the year the amount was received; and stop the practice of amortizing/deferring income over the period of one year to comply with PAS 1 and the Conceptual Framework in the Preparation and Presentation of Financial Statements; and***
- b. ***Accrue all income earned at the end of the year by promptly issuing Statement of Accounts (SOAs) /Billing Statements to Concessionaires and other debtors***

5. **The carrying amount of various PPE – General & Administrative Equipment (GAE) accounts with aggregate balance of P376.956 Million was doubtful of validity and accuracy due to the following:**

- a. **Inclusion of unserviceable assets valued at P213.623 million which should be properly reclassified to Other Assets account;**
- b. **Non-recognition of impairment loss on obsolete and unserviceable assets per PAS 36 and Note 4 of the Notes to the Financial Statements;**
- c. **Inclusion of accounts with negative carrying amount and with a debit balance in Accumulated Depreciation;**
- d. **Recording of Equipment turned over from the AWUAIP Phase II project as Other Structures and not to the appropriate PPE account;**
- e. **Unaccounted unserviceable PPE-GAE totaling P33.995 million; and**
- f. **Discrepancy of P4.309 million between the records of the PMD and the Finance Department in the unit costing of motor vehicles turned over from the project.**

**Also, failure to observe timely disposal of unserviceable assets resulted in further deterioration and decline in its value totaling P213.623 million;**

5.1. Our audit is guided by the following:

- a. PAS 36 on Impairment of Assets which provides that *“an entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset”* and that one of the indications of possible impairment is the **obsolescence or physical damage of an asset**;
- b. PAS 36 which defines Impairment as a *“fall in the market value of an asset so that its recoverable amount is now less than its carrying amount in the financial statement”*. The carrying amount is the amount at which an asset is recognized in the statement of financial position after deducting accumulated depreciation and accumulated impairment loss;
- c. COA Circular 2004-008 which provides that *“the value of obsolete and unserviceable assets awaiting final disposition as well as those assets still serviceable but are no longer being used shall be recorded as Other Assets. It further provides that these items are not subject to depreciation*;
- d. Section 79 of PD 1445 which requires the *“the disposal of government property that has become unserviceable for any cause, or is no longer needed, it shall, upon application of the officer accountable therefore, be inspected by the head of the agency or his duly authorized representative xxx 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 xxx”*; and
- e. As stated in Note 4 of the Notes to the Financial Statement, impairment of assets which is one of the significant accounting policies of MWSS.

5.2. As of December 31, 2014, the following PPE-GAE accounts showed the following balances:

Account Name	Cost	Accum. Depreciation	Net Book Value
Office Equipment	151,252,750.54	136,475,876.07	14,776,874.47
Communication Equipment	47,489,935.44	43,390,846.22	4,099,089.22
Technical & Scientific Equipment	244,786,269.04	224,193,040.37	20,593,228.67
Other Transportatio Equipment	448,828,657.76	330,207,983.05	118,620,674.71
IT Equipment & Software	116,727,086.29	105,263,113.98	11,463,972.31
Medical, Dental and Laboratory Equipment	56,473,047.34	52,954,675.42	3,518,371.92
Other Machinery and Equipment	196,269,998.74	200,166,336.48	(3,896,337.74)
Motor Vehicles	137,018,822.16	139,277,871.41	(2,259,049.25)
Total	1,398,846,567.31	1,231,929,743.00	166,916,824.31

5.3. Review of the transactions disclosed that the PPE-GAE accounts were not properly valued for the following reasons:



5.3.1. ***The unserviceable assets valued at P213.623 million were not reclassified to Other Assets account and the recognition of impairment loss in the books of accounts was not made.***

5.3.1.1. The summary list of returned general and administrative equipment (GAE) from previous projects of MWSS revealed that there were unserviceable GAEs turned over by the concessionaires from 2001 to 2014 with original cost of P321.174 million. Of this amount, P107.552 million was reported to have been disposed of, leaving a balance of P213.623 million. Details are shown below:

General Administrative Equipment Accounts	Received	Disposed	Balance
Other Transportation	147,509,943.31	107,551,580.26	39,958,363.05
Laboratory and Medical	11,230,890.10	0	11,230,890.10
Construction and Engineering	75,881,113.26	0	75,881,113.26
Communication	4,646,482.42	0	4,646,482.42
Tools, Shop and Garage	2,881,172.39	0	2,881,172.39
Technical and Scientific	67,630,465.65	0	67,630,465.65
Computer Hardware and Software	2,307,990.75	0	2,307,990.75
Office Equipment	9,086,570.50	0	9,086,570.50
Total	321,174,628.38	107,551,580.26	213,623,048.12

5.3.1.2. Audit showed that there was no recognition of impairment loss on the above unserviceable assets and the same were not reclassified to *Other Assets* account. This is contrary to the MWSS accounting policy on impairment of assets stated in Note 4 of the Notes to the Financial Statement.

5.3.1.3. The failure to recognize impairment losses and to reclassify these accounts resulted in overstatement of the agency's PPE and Retained Earnings account and the understatement of the Other Assets account.

5.3.2. ***MWSS failed to observe timely disposal which resulted in further deterioration and decline in value of its unserviceable assets.***

5.3.2.1. Disposal proceedings should be immediately initiated to avoid further deterioration of the property and consequent depreciation in its value. A systematic and timely disposal will yield benefits of, among others, a higher appraised value and by enabling storage areas available for other purposes (*Manual on Disposal of Government Property*).

5.3.2.2. Physical inspection conducted on February 6, 2015 at the PAGASA Stockyard in Balara, Quezon City revealed that there are significant numbers of unserviceable assets that are being kept in two storage locations. The bulk consisted of assets from MWSS projects turned over by the Concessionaires and some are properties which either have become obsolete or unserviceable prior to MWSS privatization such as unserviceable motor vehicles and other transportation equipment, IT and printing equipment, construction equipment, machineries, furniture and fixtures, gym equipment, water pipes and meters, printed forms, scrap metals, etc. Please see attached pictures.

5.3.2.3. MWSS's lack of action to dispose resulted in the accumulation of significant number of unserviceable properties kept in the stockyard. The timely disposal of these unserviceable materials could also serve as a control measure against possible theft and further deterioration and decline of their value.

5.3.3. ***There were accounts with either negative carrying amount and debit balance in the accumulated depreciation.***

5.3.3.1. Shown below are the accounts with either negative carrying amount or debit balance in the accumulated depreciation:

Property Number	Cost	Acc. Depreciation	Carrying Amount
223-99-System Software	0.00	6,139,494.57	(6,139,494.57)
248-02-99	0.00	172,219.04	(172,219.04)
248-03-03-99	0.00	40,452.70	(40,452.70)
248-03-03-04-99	0.00	718,226.58	(718,226.58)
223-99-Various IT & Software	174,296.77	(5,023,508.91)	5,197,805.68
233-99-Med,Dental&LabEqmt	7,346,777.58	10,957,474.95	(3,610,697.37)
240-99-240-999	136,768,463.24	154,913,843.35	(18,145,380.11)
241-99-MotorVehicles	81,139,365.03	94,285,666.02	(13,146,300.99)
Total	225,428,902.60	262,203,868.30	(36,774,965.68)

5.3.3.2. We observed that:

- a. The System Software (223-99-System Software) and Other Transportation Equipment (248) which was lumped into a single unreconciled account were carried without cost but provided with depreciation.
- b. The accumulated depreciation of a group of various unreconciled IT & Software showed a debit balance of P5,023,508.91. At no instance shall an accumulated depreciation of a depreciable asset carry a debit balance.

- c. Unreconciled accounts of Medical, Dental and Laboratory Equipment, Other Transportation & Equipment and Motor Vehicles was provided with depreciation greater than their acquisition cost, resulting in a negative carrying amount.
- d. Unreconciled PPE accounts were depreciated beyond the asset's estimated useful life. Review of accounting records disclosed that various unreconciled PPE accounts were provided with depreciation without considering the condition of the assets at the time of the reconciliation.
- e. It was also observed that various unreconciled PPE accounts were provided with depreciation charges even beyond the asset's estimated useful life, as shown in the table below:

Reconciling Account	Acquisition Date	Estimated Useful Life	No of years depreciation charges were made
221-99-Ofc-Eqpmnt	Jan 1, 2000	5	13
223-99-Various IT & Software	Jan 1, 2000	5	13
229-99-CommEqpmnt	Jan 1, 2000	5	15
233-99-Med,Dental&LabEqmt	Jan 1, 2000	5	15
236-99-Technical&SctificEqmt	Jan 1, 2006	5	8
240-99-240-999	Jan 1, 2000	5	15
241-99-MotorVehicles	December 31, 2006	5	7

- f. The failure to reconcile the foregoing PPE accounts with a carrying amount of P36,774,965.68 and the provision of depreciation beyond their estimated useful life challenge the accuracy, validity and valuation of the PPE accounts reported in the Statement of Financial Position.

5.3.4. ***General Administrative Equipment (GAE) used in the AWUAIP Phase II project were recorded as Other Structures and not separately classified into their appropriate PPE accounts thus, misstating prior and current year depreciation charges.***

- 5.3.4.1. Audit of the accounts revealed that general administrative equipment (GAE) used in the project, except for the transportation equipment, were capitalized as project cost under the Other Structures account and not separately classified to appropriate PPE accounts. This consisted of computer hardware and software, office equipment, furniture and fixtures, construction and engineering equipment, laboratory and medical equipment and other inventory

materials which under COA Circular 2003-007, the estimated useful life is from 5 to 10 years.

5.3.4.2. Considering that the Other Structures account was depreciated with an estimated useful life of 50 years, the inclusion of the GAE assets subjected it to the same depreciation period resulting in the misstatement of depreciation charges in prior years and the current period.

5.3.4.3. GAEs from AWUAIP Phase 1 & Phase 2 that were turned over to MWSS cannot be accounted for due to incomplete information in the Inventory Report, namely: unit cost, property number, asset number, accountable person and the location/office assigned. Inquiry from the Finance Department revealed that the costs of the GAEs were not known.

5.3.5. ***Unaccounted unserviceable PPE-GAE of P33.995 million***

5.3.5.1. Review of the accounting records showed a discrepancy between the Property Management Department (PMD) Inventory Report of the amount disposed and the Finance Department records of unserviceable GAEs dropped from the books of accounts or an unaccounted variance of P33.995 million.

5.3.5.2. As reported by PMD in the CY 2014 Inventory of GAE, P107.552 million unserviceable GAEs have been disposed while accounting records showed that there were only about P73.556 million worth of motor vehicles and other transportation equipment dropped from the below:

Equipment Category	Property Inventory Report	Accounting Record	Variance
Other Transportation	107,551,580.26	73,556,512.42	33,995,067.84

5.3.5.3. The noted discrepancy disproved the existence, accuracy and valuation of the accounts which Management asserted in its financial statements.

5.3.6. ***A discrepancy of P4.309 million was noted between the PMD records and the Finance Department in the cost of motor vehicles turned over from the project.***

5.3.7. ***Prior year depreciation charges for Motor Vehicles totaling P5.93 Million was erroneously recorded as a credit to the Motor Vehicles account instead of the Accumulated Depreciation – Motor Vehicles.***

5.4. ***We recommended that Management:***

- a. *Immediately conduct the disposal process thru auction or sale of the unserviceable properties to generate additional fund considering that the non-operating assets are subject to further deterioration and diminishing market value;*
- b. *Conduct periodic inventory and inspection of all unserviceable GAE property to avert possible losses;*
- c. *Determine the recoverable amount from the obsolete and unserviceable assets and recognize appropriate impairment loss;*
- d. *Reclassify the obsolete and unserviceable GAE assets to the Other Asset account;*
- e. *Immediately review the accounting records to determine the GAE assets eligible for dropping and reconcile with the records of the Property Management Department;*
- f. *Immediately review the accounting records and facilitate reconciliation of the accounts with negative book value and debit balance of accumulated depreciation;*
- g. *Determine the cost of the AWUAIP Phase II GAE and reclassify them into appropriate PPE accounts, review depreciation charges and effect adjustments to correct the accounting entries;*
- h. *Conduct an investigation to determine the officers and employees responsible for the unaccounted unserviceable GAE property and equipment and hold them liable;*
- i. *Reconcile the discrepancy of P4.309 million between the PMD records and the books of accounts on the cost of the motor vehicles; and*
- j. *Prepare the necessary correcting entry on the erroneous recording of prior period depreciation.*

5.5. The Property Management Department Manager informed that they submitted to the Chairman, Appraisal Committee, the request for the appraisal of MWSS unserviceable GAE and other scrap materials in their letter dated April 13, 2015. To avert possible losses, they will conduct periodic physical inventory and inspection of all unserviceable assets. The Acting Manager Finance Department agreed to implement the recommendations affecting the books of accounts.

6. **Dividends payable to the National Government in the amount of P282.477 million for CY 2014 has not been booked up and remitted as required under Section 7(a) of RIRR of RA 7656.**

- 6.1. Section 7(a) of RIRR of RA 7656 provides that “xxx all GOCC’s shall declare cash dividend and remit to the BTr at least 50% of the dividend due on or before April 30 following the dividend year, based on the financial statements submitted to COA for audit. The balance thereof shall be computed based on the COA audited net income and shall be remitted to the BTr within seven (7) working days after receipt of the COA Annual Audit Report for the dividend year.”
- 6.2. Section 10 of RIRR of RA 7656 also provides that “xxx GOCC’s which fail to declare and remit dividends on the stipulated deadlines provided in Section 7 hereof shall be assessed a penalty charge for late payment equivalent to the prevailing 364-day regular treasury bill rate plus five percent (5%) on the dividend due.”
- 6.3. Audit disclosed that the net income of MWSS for CY 2014 subject to dividend payment amounted to P564.954 million. The amount of dividend due to the Bureau of Treasury should be P282.477 million. However, we noted that there was no dividend payable recorded in the books as of December 31, 2014 and no payment was made to the BTr pertaining to the CY 2014 dividends as of to date.
- 6.4. ***We recommended that Management immediately record in its books of accounts the amount of dividends payable and remit the same to the Bureau of Treasury.***
- 6.5. The Acting Finance Manager informed that they will record in the books of accounts and remit the same to BTr in CY 2015.
7. **Other Payables accounts totaling P65.269 million consisting of P36.055 million money claims for retirement benefits of former MWSS employees and P29.214 million Cost of Living Allowance and Amelioration Allowance of former MWSS employees, the setting up of which was pursuant to Supreme Court Decisions, were reverted/closed to Retained Earnings account without first complying with the Supreme Court ruling that MWSS submit a report of its compliance on the payment of Retirement benefits under RA 1616 of former MWSS employees and a report showing that MWSS has paid all the respondents and other employees who are similarly situated with their COLA and AA pursuant to SC Decision GR No. 171351 dated March 14, 2008, an audit requirement.**

**Also, the Intra-Agency Payables - Due to GSIS, Pag-ibig and Other GOCCS amounting to P2.047 million were reverted/closed to Retained Earnings without any supporting document.**

- 7.1. Section 98 of PD 1445 allows the reversion to the unappropriated surplus of the general fund any unliquidated balance of accounts payable outstanding for more than two years or more, provided no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. (Emphasis supplied)
- 7.2. Validation of the CY 2014 transaction of the payable accounts showed the following accounts were closed to Retained Earnings contrary to the above cited provision, to wit:

7.2.1. Other Payables account pertaining to money claims for Retirement benefits under RA 1616 of former MWSS employees amounting to P36.055 million.

In CY 2008, the Management set up money claims for the payment of the Retirement benefits of its former employees amounting to P375.338 million (JEV No. 2008-09-007848) in view of the ruling of the Supreme Court in the case of Zenaida R. Laraño, et al (MWSS Retirees) vs Commission on Audit through GR 164542 dated December 18, 2007 wherein the High Court ruled that:

*"IN VIEW WHEREOF, the petition is partially GRANTED. Petitioners who were affected by the reorganization of MWSS and qualified to retire under Republic Act No. 1616 are entitled to receive their retirement benefits thereunder.*

*The Governments Service Insurance Commission is DIRECTED (1) to EXPEDITE the payment of the claims of the petitioners affected by the reorganization and qualified to retire under RA1616; and (2) to SUBMIT to this Court its REPORT of compliance within ten days therefrom."*

7.2.2. Other Payables relating to money claims for Cost of Living Allowance (COLA) and Amelioration Allowance (AA) of former MWSS employees amounting to P29.214 million.

In CY 2008, the Management set up money claims for the Cost of Living Allowance (COLA) and Amelioration Allowance (AA) for its former employees amounting to P39.575 million (JEV 2008-09-007947) and P182,583.58 (JEV 2008-09-007765), respectively, in view of the ruling of the Supreme Court in the case of Genaro C. Bautista, et al vs MWSS through GR No. 171351 dated March 14, 2008 wherein the High Court ruled that:

*"WHEREFORE, the Court of Appeals Amended Decision is AFFIRMED WITH MODIFICATION in that:*

- 1. Petitioner MWSS is ordered to pay respondents and other employees who are similarly situated, whether incumbents or non-incumbents, the balance in the amount equivalent to ninety-five percent (95%) of their Cost of Living Allowance beginning November 1, 1989, when it was discontinued up to March 16, 1999, the date of effectivity of DBM Circular No. 10.*
- 2. The Agreement between respondent Genaro Bautista and other respondents to segregate ten percent (10%) of the amount payable to each of respondents, as and by way of litigation expenses and attorney's fees, is declared valid and binding. Similar contracts, agreements or arrangements signed by other MWSS employees with their respective agents/lawyers are also declared valid and binding."*

- 7.3. The above-cited Journal Entry Vouchers showed that the undisbursed amounts of P36.055 million and P29.214 million were reverted to Retained Earnings in compliance to DBM/COA Joint Circular No.99-6 on dormant account and Section 98 of PD 1445.

However, Section 98 of PD 1445 allows the reversion to the unappropriated surplus of the general fund any unliquidated balance of accounts payable outstanding for more than two years or more, **provided no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. (Emphasis supplied)**

- 7.4. For Retirement benefits under RA 1616 of former MWSS employees, the payables which emanated from a Supreme Court decision should not be closed without first complying with the High Court ruling requiring MWSS to submit a report of its compliance on the payment of Retirement benefits under RA 1616 of former MWSS employees

As regards the reversal of the balance of the money claims for COLA and AA amounting to P29.214 million, the journal vouchers should be supported with a report showing that MWSS has paid all the respondents and other employees who are similarly situated with their COLA and AA pursuant to SC Decision GR No. 171351 dated March 14, 2008.

- 7.5. We also noted that the accounts were not dormant since there were payments made in CYs 2013 and 2014 as follows:

Retirement Claims	2.235 million
COLA payments	1.038 million

- 7.6. Further, our audit disclosed that Intra agency payable - Due to GSIS, Pag-ibig amounting to P2.047 million were reversed/closed to Retained Earnings without any supporting document to the Journal Entry Voucher. These accounts are the outstanding balances due to the government agencies that are still unaccounted / unreconciled consisting of the following:

Account	Amount
Due to GSIS	1,519,417.70
Due to Pag-ibig	98,368.74
Due to other GOCCs	430,174.84
Total	2,047,961.28

Without any proof that the intra agency payables were verified and reconciled with the records of the concerned government agencies, the amount should not be written off. Instead, the amounts should be remitted to the concerned agency.

- 7.7. ***We recommended and Management agreed to require the Finance Department to:***



- a. ***Reverse the entries made to close its obligations covered by Supreme Court rulings and payables to the government bodies/agencies not supported with documents/analysis of transactions in the aggregate amount of P67.318 million;***
  - b. ***Comply with the Supreme Court ruling requiring the submission of a report of its compliance on the payment of Retirement benefits under RA 1616 of former MWSS employees;***
  - c. ***As regard the money claims for COLA and AA amounting to P29.214 million, prepare a report showing that MWSS has paid the COLA and AA pursuant to SC Decision GR No. 171351 dated March 14, 2008 to all the respondents and other employees similarly situated; and***
  - d. ***Analyze the accounts and prepare adjustments in the books of accounts as may be necessary.***
8. **Various cash accounts prior to the MWSS privatization in 1997 totaling P55.145 million were reclassified to *Other Assets* account without any valid basis and contrary to Section 73(1) of PD 1445 and COA Circular 2004-008.**

8.1. Our audit was guided by the following:

- a. Section 73(1) PD 1445 stated that *“When a loss of government funds or property occurs while they are in transit or the loss is caused by fire, theft, or other casualty or force majeure, the officer accountable therefor or having custody thereof shall immediately notify the Commission or the auditor concerned and, within thirty days or such longer period as the Commission or auditor may in the particular case allow, shall present his application for relief, with available supporting evidence. Whenever warranted by the evidence credit for the loss shall be allowed. An officer who fails to comply with this requirement shall not be relieved of liability or allowed credit for any loss in the settlement of his accounts.”*
- b. COA Circular 2004-008 dated September 20, 2004 which defines *Other Assets* as account used to record the value of obsolete and unserviceable assets awaiting final disposition as well as those assets still serviceable but are no longer being used. These items are not subject to depreciation”. (underline ours)

8.2. Review of the subsidiary ledgers under the *Other Assets* account revealed that the following outstanding balances exist in the books of accounts:

Account Code	Account Description	Balance
290-05-09	Unaccounted/Unliquidated Cash Advance	875,350.67
290-05-11	Claims from Accountable Officers for Cash Shortages	3,509,305.72

290-05-12	Returned Dishonored Checks	17,586,551.27
290-05-13	Bank Reconciliation	5,747,157.91
290-99-08	Cash Collecting Officers	6,720,010.42
290-99-09	Cash - LBP East Branch	2,792,960.22
290-99-10	Cash - LBP Malabon Branch	7,515,962.53
290-99-11	Over the Counter (OTC)	10,397,543.76
TOTAL		55,144,842.50

- 8.3. Confirmation with the banks disclosed zero balances of the Cash in Bank accounts and they could not provide us with the other information on how the accounts got zero balances.
- 8.4. Considering that the abovementioned accounts are related to cash, we are concerned on the Finance Department's intention in transferring the foregoing balances to the Other Assets account without taking action to determine the liability and accountability of the persons who were involved in the outstanding cash balances. The significance of these accounts is also emphasized as these are claims of the agency against its former accountable officers and creditors which due to neglect have caused undue loss to MWSS.
- 8.5. Based on the definition of the Other Asset account under COA Circular 2004-008 the above accounts cannot be classified under the Other Assets account.
- 8.6. We would like to emphasize that although the transactions pertained to prior periods, the present Management has also to exercise its fiscal responsibility, which shall be on the greatest extent shared by all those exercising authority, over the financial affairs, transactions, and operations of the System.
- 8.7. ***As the accumulated balance of these accounts is material, we recommended Management to:***
- a. ***Require the Finance Department to justify the recording of the balances to Other Assets account;***
  - b. ***Substantiate the validity of these account balances by providing sufficient and relevant supporting documents/information; and***
  - c. ***Immediately take legal action to run against erring accountable officers and MWSS creditors responsible for the outstanding cash accountabilities.***
- 8.8. Management informed that there were difficulties in the reconciliation and take-up of these accounts. Conduct of clean-up drive in all warehouses to look for files of the "old" MWSS was made in CY 2000 to CY 2003. However, all these proved futile; thus reclassification to the Other Assets account was made. The Finance Department will look into the closing audit made by the Punongbayan and Araullo during the onset of the privatization to look into the details of the accounts.

9. **A difference of P15.998 million was noted between the book balance of the Investment in the Special Reserve Fund as at year-end and the amount confirmed by the BTr as of December 31, 2014.**

- 9.1. The *Special Reserve Fund* account showed a yearend balance of P369,457,921.38. However, the BTr in its letter dated April 6, 2015, confirmed the outstanding balance of the Fund amounting to P353.460 million; or a difference of P15.998 million, with details as follows:

Government Securities	323,700,000.00
Less: unamortized premium on bonds	6,847,671.14
Add: unamortized discount on bonds	(16,397.32)
Money Market Placements	330,531,273.82
Cash Retained at BSP-Treasury Single Acct	22,929,048.35
<b>Total</b>	<b>353,460,322.17</b>
Balance per Books	369,457,921.38
<b>Difference</b>	<b>15,997,599.21</b>

- 9.2. ***We recommended and Management agreed to examine and analyze the outstanding balance confirmed by the BTr, reconcile the fund balance with the BTr and effect the corresponding adjustments for the difference noted amounting to P15.998 million.***

10. **Payments made to the Contract Collectors for their Gratuity/Separation Pay amounting to P14.635 million from CYs 2007 to 2011 pursuant to Supreme Court Ruling and Civil Service Commission Resolution were not supported with the documentation required under COA Circular 2012-001. Similarly, the accuracy of the year-end balance of the *Other Payables – Contract Collectors* account of P45.57 million representing unpaid claims of the Contract Collectors for their gratuity/separation pay was not established.**

- 10.1. The Supreme Court ruled that “MWSS is ordered to pay terminal leave pay and separation pay and/or severance pay to each of herein petitioners on the basis of remunerations/commissions, allowances and bonuses each were actually receiving at the time of termination of their employment as contract collectors of MWSS. Let the case be remanded to the Civil Service Commission for the computation of the above awards and the appropriate disposition in accordance with the pronouncements in this Decision.” (*GR No. 154472 dated June 30, 2005*)

- 10.2. Pursuant to the above Supreme Court Decision, the Civil Service Commission (CSC) *ordered the payment of the said benefits in CSC Resolution No. 07-0850 dated April 30, 2007, relevant portions of which read, as follows:*

*“A perusal of the ‘Estimated Computation of Contract Collector’s Claim’, which provided for the computations submitted by the MWSS, show that the MWSS computed the separation and the terminal leave benefits of the 305 claimants, including other contract collectors who are similarly situated. The computations were based on the commissions based on available records of the claimants.*

*In cases where records were no longer available, the MWSS based its computations on the average commission of ninety-six (96) contract collectors as gathered from available index payment records. As indicated in said "Estimated Computation of Contract Collector's Claim", the average pay received by contract collectors is Ten Thousand Three Hundred Thirty - Two Pesos and Six Centavos (P10,332.06). The MWSS further informed the Commission that the computations are also subject to the usual accounting and auditing rules.*

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*"Wherefore, the Commission hereby adopts the attached 'Estimated Computation of Contract Collector's Claim' submitted by the Metropolitan Waterworks and Sewerage System as the computations of the severance/separation pay and terminal leave benefits of Alexander Lopez et.al. pursuant to the directive of the Supreme Court in its Decision dated June 30, 2005 in the case, Alexander Lopez et.al. vs. MWSS (G.R. No. 154472). Accordingly, the MWSS is hereby directed to process and pay the severance/separation pay and terminal leave benefits of all claimants listed in the 'Estimated Computation of Contract Collector's Claim' immediately upon receipt of this resolution."*

10.3. The MWSS Board of Trustees issued Board Resolution Nos. 2007-012 and Board Resolution No. 08-0932 approving the appropriation of P15 million and P55 million respectively for the payment of the Contract Collectors' Separation pay and other benefits in compliance with the above Supreme Court Decision.

10.4. Accounting records showed that 254 contract collectors were paid separation pay as of December 31, 2014 with an aggregate amount of P14,635,190.13, to wit:

Year	Amount
CY 2007	4,350,048.33
CY 2008	2,128,427.70
CY 2009	7,735,461.60
CY 2010	385,736.29
CY 2011	35,516.21
Total	14,635,190.13

10.5. Based on gathered information and the results of our audit, it was noted that the computation of length of service was based only on the Index of Payment, hence, the accuracy of the disbursement of the separation pay was not ascertained, as discussed below:

- a. Management admitted that there are issues yet to be resolved with respect to accrued leave. The Division Manager, Human Resource and Records Management Department (HRRMD) thru the Department Manager, HRRMD, in reply to our audit query on why payments have not been made to the contract collectors, informed that there are issues which are yet to be resolved before MWSS could come up with the computation of the number of earned leave. The contract collectors do not have time cards and leave cards for them to ascertain the accrued leave.

- b. Management also informed that *“anent the fact that the absences was extracted from the Index of Payment was considered leave of absence without pay and interrupted the length of service, the same remains an issue of whether the leave previously deducted on the length of service pre suppose the claim that their accrued leave is intact as said absences were not paid.”*
- c. The documents attached were merely handwritten computation in sheets of paper which was not properly certified correct/attested by the Human Resource & Records Management Division and verified by the Finance Department. Moreover, the photocopies of index card of payments were not authenticated and not clear copies.
- d. The disbursement vouchers pertaining to the separation pay benefits of the 139 contract collectors totalling P6,886,524.79 were not supported with documents required under COA Circular No. 2012-001 dated June 14, 2014 such as service record or proof of employment or contract agreement.
- e. The Special Power of Attorney (SPA) for the payment of separation pay was not attached to the claims of four Contract Collectors, namely:

Collector	Check No	Amount
Learned Bautista	155531	10,205.70
Benjie Geronimo	155536	16,596.90
Generoso Regalado	155538	20,150.58
Rodolfo Magno	155781	37,676.44
Total		84,629.62

Special Power of Attorney is an authority to act on behalf of the Principal, the absence of such does not give the agent the right to receive payment from the Management

- f. The Disbursement Voucher and its supporting documents for the payment made to Gloria Fajardo (in behalf of Roman Fajardo) were not attached to the Journal Entry Voucher taking up the disbursements.
- 10.6. Similarly, the P45.568 million year-end balance of Trust Liability – Contract Collectors was not ascertained.. Although the CSC approved the payment based on the *Estimated Computation of Contract Collector’s Claim*’, we noted that the data/information used as basis for the computation was not reliable. As noted above, the estimated number of years and estimated average collection were based only on Index of Payments and not on service record/certificate of employment, leave card or its equivalent and statement of collections duly certified by the Finance Department.
- 10.7. There is no doubt that the Contract Collectors are entitled to Separation Pay. However, the aforementioned CSC resolution provides that any payment or disbursement of fund is subject to the usual accounting and auditing rules. Therefore, all payments should comply with COA Circular 2012-001 dated June 14,

2012 on the revised guidelines and documentary requirements for common government transactions.

10.8. ***In the processing of individual claims, we recommended that Management:***

- a. ***Require the Human Resource and Records Management Department to properly name/identify and certify correct the schedules/computation sheet attached to the vouchers and used as basis in the computation of the separation pay; and***
- b. ***Submit the documents required under COA Circular No. 2012-001 dated June 14, 2014 such as service record or proof of employment and contract agreement of the 139 contract collectors who were paid separation pay totalling P6.886 million; and likewise submit the Special Power of Attorney of the four Contract Collectors and the Disbursement Voucher and its supporting documents for the payment made to Gloria Fajardo (in behalf of Roman Fajardo).***

10.9. The Manager, Administrative and General Services Division informed that the Human Resource and Records Management Division could not submit the required documents as there are no available records on file in their Office.

10.10. We issued Notice of Suspension No. 15-001-05(PY) dated February 18, 2015 requiring the submission of documents such as service record or proof of employment and contract agreement of the 139 contract collectors who were paid separation pay totalling P6,886,524.79 to complete the audit. To date, not all of the requirements have been submitted. Pursuant to Section 9.4 of the CY 2009 COA Revised Rules on Settlement of Accounts (RRSA), we will issue a Notice of Disallowance for failing to comply with the submission of the documentary requirements within the 90 days period.

11. **The validity and existence of the Sinking Fund totaling P29.510 million for the redemption of the Angat Serial Bonds was not established due to the negative result of confirmation by the Bureau of Treasury.**

11.1. On December 12, 1989, a Sinking Fund was set aside for the redemption of the Angat Serial Bonds managed by the Bangko Sentral ng Pilipinas and was later on transferred to the Bureau of Treasury (BTr) on June 30, 1995.

11.2. On April 30, 2002, the Angat Serial Bonds with value date, August 26, 2003, were fully redeemed by MWSS. Due to the redemption, the Bureau of Treasury transferred to MWSS Current account 244-500163-8 with PNB MWSS Branch with value date August 26, 2003 the sinking fund amounting to P27,813,984.44. However, the MWSS books of accounts showed a sinking fund balance of **P29.510 million** as of December 31, 2014. We noted that there has been an unreconciled difference between the MWSS books and BTr books since CY 2003.

11.3. The Bureau of Treasury, in reply to the confirmation, informed that there was no Sinking Fund under their custody for the Angat Serial Bonds. Inquiry with Management revealed that they are not aware of the existence of the said Fund.

11.4. ***We recommended and Management agreed to require the Finance Department to immediately reconcile the sinking fund transactions with the Bureau of Treasury on the sinking fund transactions to determine the correctness of the sinking fund balance recorded in the books.***

12. Deficiencies were noted in the sale of 53 units of unserviceable vehicles, to wit:

- a. The negotiated price in the sale of the unserviceable vehicle in the amount of P2.420 million was found to be lower than P3.025 million, the minimum price equivalent to 80% of the appraised value of P3.782 million, required under Section J of the Manual on Disposal of Government Property;
- b. Discrepancy in the unit costs of the unserviceable vehicles between the records of the Property Management Department and Finance Department; and
- c. A difference of one unit of motor vehicle was noted between the actual number of vehicles withdrawn from the MWSS Stockyard supported with gate pass, and the total number of vehicles in the Notice of Award to the buyer

12.1. Part 3, Section J of the Manual on Disposal of Government Property provides that:

*"In case the second public bidding fails, the property may be sold at a private or negotiated sale. Negotiation within one (1) month from the date of the second failed bidding shall be done with the bidders of the first and/or second failed bidding and other prospective bidders (such as those who obtained bid forms but did not submit bid tenders) at a price not lower than 80% of the appraised value. If the negotiation is done after one (1) month, participants in the negotiation shall be expanded to include other potential buyers aside from those aforementioned."*

12.2. Audit of the sale of the 53 units of unserviceable vehicles disclosed the following:

12.2.1 ***The negotiated price in the sale of the unserviceable vehicle in the amount of P2.420 million was found to be lower than P3.025 million or 80% of the appraised value of P3.782 million which is not in accordance with Section J of the Manual on Disposal of Government Property.***

12.2.1.1 On September 5, 2014, 53 units of MWSS unserviceable vehicles were disposed through negotiated sale after failure of two public biddings held on July 8, 2014 and July 30, 2014, respectively. The sale thru public auction is authorized thru Board Resolution No. 2014-049-CO dated June 3, 2014.

12.2.1.2 The results of the negotiated sale are as follows:

Particulars	Minimum Price	Remarks
1 <sup>st</sup> Public Bidding	3,781,627.24	Bidding Failed
2 <sup>nd</sup> Public Bidding	3,781,627.24	Bidding Failed
1 <sup>st</sup> Negotiated Sale	3,025,301.79	Price reduced by 20%: Bidding Failed
2 <sup>nd</sup> Negotiated Sale	2,420,241.43	Price is further reduced by 20%: Awarded to Winning Bidder

12.2.1.3 Using the guideline in the Manual on Disposal of Government Property, the unserviceable vehicles' appraised value amounting to P3.782 million should have been disposed at a minimum price of P3.025 million. However, due to the further reduction made, subject vehicles were only sold for P2.420 million.

**12.2.2 *Discrepancy in the unit costs of the unserviceable vehicles between the records of the Property Management Department and Finance Department was noted; thus, accuracy of the amounts recorded in the books for the sale and dropping of the unserviceable vehicles was doubtful.***

12.2.2.1 Part II, Section H of the Manual on Disposal of Government Property, on Dropping from the Books of Accounts provides that *"Upon disposal of property, the pertinent portions of the Inventory and Inspection Report, Report on Waste Materials or Invoice-Receipt for Property, whichever are applicable, shall be accomplished. These reports shall be the basis for dropping the property from the books of accounts and for taking up the proceeds from sale of property."*

12.2.2.2 Examination of documents pertaining to the 53 unserviceable vehicles revealed that there were differences totaling P1.406 million between the records of the Property Management Department and Finance Department, to wit:

Particulars	Units	Unit Cost		Total Difference
		Per Finance	Per PMD (I & I)	
KIA Ceres Panoramic	24	420,909.09	463,000.00	1,010,181.84
Nissan ADMAX Panel	25	450,818.18	435,000.00	395,454.50
Total				P1,405,636.34

12.2.2.3 The difference resulted in the over/understatement in the recognition of gain or loss on disposal of unserviceable vehicles and the cost and related depreciation of motor vehicles.



**12.2.3 Comparison between the actual number of vehicles withdrawn from the MWSS Stockyard supported with gate pass and the total number of vehicles per Notice of Award to the buyer showed a difference of one unit of motor vehicle.**

12.2.3.1 Examination of gate passes issued revealed that there were 54 vehicles that were pulled out from the MWSS stockyard while the notice of award showed that only 53 unserviceable vehicles were sold to the bidder.

**12.3. We recommended that Management:**

- a. ***Require the Disposal Committee to submit justification to COA Audit Team on why the negotiated price in the sale of the unserviceable vehicle was lower than 80% of the appraised value which is not in accordance with Section J of the Manual on Disposal of Government Property;***
- b. ***Strictly comply with the provisions of the Manual on Disposal of Government Property in the disposal of government property to avoid any transactions that are disadvantageous to the Government;***
- c. ***Reconcile the Finance and Property records on all vehicles included in the Motor Vehicles Account and substantiate all additions/deductions from the account; thereafter, review accounting entries made to record the sale and dropping from the books of the 53 unserviceable vehicles and prepare the necessary adjusting entries, if warranted; and***
- d. ***Reconcile the records of the Property Management Department against the report on the actual number of vehicles pulled out from the stockyard.***

12.4. Management has not submitted its comment as of to date.

**13. MWSS continued to allow the employment of some personnel and payment of their salaries/benefits despite the invalidation of their appointments by the Civil Service Commission (CSC) in their letter dated January 30, 2008.**

13.1. The audit was anchored on the following rules and regulations:

- a. Section 12(14), Chapter 3, Title I-A Book V of EO 292, restated in CSC Resolution No. 1000009 dated August 10, 2010, which provides that the CSC is endowed with the authority to take appropriate action on all appointments and other personnel matters in the civil service;
- b. Section 65, Chapter 10, Book V of EO 292 stating that *“No person employed in the Civil Service in violation of Civil Service law and rules shall be entitled to receive pay from the government, but the appointing authority responsible for such unlawful employment shall be personally liable for the pay that would have accrued had the*

*employment been lawful, and the disbursing officials shall make payment to the employee of such amount from the salary of the officers so liable.”; and*

- c. COA Circular No. 2012-001 dated June 14, 2012 enumerated the documentary requirements for the payment of salaries.

13.2. Our audit disclosed the following:

13.2.1 The permanent appointment of the Secretary A assigned at the Office of the Deputy Administrator for Engineering & Operations effective September 1, 2006 was invalidated by the CSC due to the following:

- a. It is a case of REEMPLOYMENT as she does not have a valid Appointment after September 1, 2006.
- b. Violation of Item 2.2.1a of DBM Circular Letter No. 2 dated January 5, 2006 which prohibits among others, Reemployment; and
- c. She lacks the appropriate CS Sub Professional Eligibility.

In a letter dated November 9, 2006, the Director of the CSC informed the former MWSS Administrator that the permanent appointment of the Secretary A was invalidated for having been issued in violation of Item 2.2.1a, Section 2.1 of DBM Circular Letter No. 2 dated January 5, 2006

MWSS requested for reconsideration on the action taken by the CSC in a letter dated November 24, 2006; however, there was no document/information presented on the action taken by the CSC. Apparently, Management did not also follow up with the CSC the result of their request for reconsideration.

13.2.2 Based on the CSC special audit of MWSS appointments, the appointment of Finance Service Chief A dated September 1, 1997 was invalidated pursuant to CSC-NCR letter dated May 18, 1998. Service Record of the Finance Service Chief A in the CSCFO-UP indicated that a motion for reconsideration was filed. However, verification with the records of the Office for Legal Affairs, CSC Central Office, and Legal Services Division, CSC-NCR revealed that no motion for reconsideration/appeal was received by the said offices. Thus, absent proof that a motion for reconsideration/appeal was filed or a Resolution was promulgated in favor of the Finance Service Chief A, his continued stay in the position has no basis.

13.2.3 Discrepancies in the position title appearing in the appointment papers, payroll and in the plantilla of personnel of some employees were shown below. Under COA Circular 2012-001 dated June 14, 2012, a copy of the duly approved appointment, approved payroll or list of payees indicating their net payments (among others) are among the documents to support payment of salaries and payroll.

Summary Of Employees With Variances In Position/Designation			
POSITION			REMARKS
Per Appointment Paper	Per Payroll	Per Plantilla	
Executive Assistant A	Executive Assistant Iii	Executive Assistant Iii	No Executive Assistant A in Plantilla.
Project Mgt. Officer A	Project Mgt. Officer A	Principal Engineer A/Proj. Mgt Officer A	
Senior Investment Specialist	Financial Planning Specialist B	Financial Planning Specialist B/Senior Investment Specialist	No Senior Investment Specialist in Plantilla.
Finance Services Chief A	Corporate Finance Services Chief	Corporate Finance Services Chief	No Finance Services Chief A in Plantilla.
Sr Building Electrician B	Electrician/Mechanic B	Electrician/Mechanic B/Sr. Building Electrician B	No Sr. Building Electrician B in Plantilla.
Pipefitter A	Right Of Way Asst. A	Right Of Way Asst. A/Pipefitter	No Pipefitter A in Plantilla.
Technical Assistant A	Sr. Technical Assistant A	Sr. Technical Assistant A	
Plant Electrician A	Plant Electrician/ Mechanic A	Plant Electrician/ Mechanic A	No Plant Electrician A in Plantilla.

13.3. Considering that the approved plantilla is the basis in the preparation of appointments and that the said appointments are the basis in the preparation of the payroll, we issued Notice of Disallowance (ND) No.15-002-05 (PY) dated April 20,2015 amounting to P822,129 on the salaries received by the Secretary A.

We did not disallow the salaries of the Finance Services Chief A because he was included in the appeal filed by Management with CSC on June 4, 2015. Moreover, his appointment was more of change in position title only, being a CPA, unlike the Secretary A who lacked the appropriate eligibility.

13.4. ***We recommended that Management comply with the recommendation of the CSC to make due representation to the CSC Commission Proper by way of an appeal to reconcile the lapses made without prejudice to the filing of appropriate charges to those who may have erred or caused such lapses.***

13.5. Management informed that appeals were already filed and received by the CSC Central Office on June 4, 2015. They also informed that the services of the Secretary A were terminated effective May 1, 2015.

14. **Payment by MWSS of the electricity expenses in the Balara Guest House occupied by a private individual/guest totaling P194,156 from CY 2011 to 2013 was considered an illegal expenditure of government fund under Annex B of COA Circular 2012-03 which provides for the updated guidelines for the prevention and disallowance of irregular, unnecessary, excessive, extravagant and unnecessary expenditures of government funds. Likewise, notwithstanding that the occupant had an unpaid rental fee amounting to P155,254, MWSS allowed the continued use of the guest house.**

- 14.1. Financial transactions of the government should be governed by the fundamental principles enumerated in Section 4 of PD 1445 which included, among others, the principle that “(2) Government funds shall be used spent or used solely for public purposes.”
- 14.2. Review of the ledger account showed that there were payments to MERALCO for electric consumption in the Balara Guest House totalling P194,156.50. Inquiry revealed that the Balara Guest House was being occupied by the former official of the MWSS Regulatory Office and his family.
- 14.3. Considering the circumstance on the use of the Balara Guest House, the electricity expenses incurred from CY 2011 to 2013 are considered personal expenses of the occupant and therefore the payment thereof was not in accordance with Section 4(2) of PD 1445. The payments totalling P194,156.50 are considered illegal disbursement of fund and not allowable in audit.
- 14.4. Likewise, the contract of lease that expired on March 31, 2012 was not renewed but MWSS allowed the occupant to continue the use of the facility notwithstanding the fact that the occupant was not paying the monthly lease. Documents showed that the original contract of lease was from October 1, 2008 to September 30, 2010 with a monthly rental fee of P3,000/month. It was later renewed with rental fee of P7,500 commencing on April 1, 2011 until March 31, 2012. Based on accounting records, the total unpaid rent amounted to P155,254.
- 14.5. The use of the MWSS property by a private individual without any contract of lease is tantamount to relinquishing the right of MWSS to the use of the Balara Guest House for MWSS official activities. The present occupant is the one benefitting with the free use of the Balara guest house.
- 14.6. ***We recommended that Management immediately demand from the occupant the immediate payment of the electricity expenses shouldered by MWSS in the amount of P194,156.50***
- 14.7. ***Also, considering that Management continued to allow the present occupant the use of the Balara Guest House, we recommended the preparation of the contract/agreement and demand for the immediate payment of all unpaid rental fees.***
- 14.8. Management informed that demand letters for the payment of electricity and billing for the unpaid rentals were served to the occupant. However, no payments have been received by MWSS CO to date.
- 14.9. In view thereof, we will issue the necessary Notice of Disallowance for the electricity expenses paid by MWSS and Notice of Charge for the unpaid rental.

15. **Payments of the claim for reimbursement for transportation and miscellaneous expenses incurred by the lawyers of the Office of the Government Corporate Counsel (OGCC) in the amount of P540,000 were not supported with official receipts and other documents to support the validity and necessity of the expenses incurred.**

**Likewise, the reimbursements for gasoline expenses and personal expenses totaling P166,365 were considered illegal expenditures under COA Circular 2012-003 since the OGCC lawyers were paid Representation and Transportation allowance by OGCC.**

15.1. Our audit was anchored on the following:

- a. Section 4(6) of PD 1445 which states that “All against government funds shall be supported with complete documentation”;
- b. Section 54 of the GAA CY 2014 which provides that “no amount of representation or transportation allowance, whether commutable or reimbursable, which exceed the rates authorized under this section may be granted xxx”
- c. Annex B of COA Circular 2012-003 which enumerates the cases considered illegal expenditures which included, among others, the grant of gasoline allowance or reimbursement of gasoline expenses to officials who are receiving transportation allowance;
- d. Section 2, Rule 6 of the OGCC Lawyers’ Manual which states that “*Any reimbursement of actual expenses incurred shall be supported by receipts or, when applicable, a certification duly signed by an officer of the government corporation.*”

15.2. The Legal expenses recorded in the books of accounts in CY 2014 in the amount of P2,150,000 included the payments to the OGCC for its assistance as its statutory counsel in the handling, preparation and prosecution of the arbitration cases filed by MWCI and MWSI and the reimbursements of the OGCC lawyers’ transportation and miscellaneous expenses in the amount of P1,250,000 and P780,000 respectively.

15.3. Accounting records showed that 13 OGCC lawyers individually claimed reimbursement of transportation and miscellaneous expenses totaling P900,000. Verification of the supporting documents revealed the following:

- a. Claims from the period October to December 2013 and January – June 2014 aggregating P540,000 were not supported with official receipts and other documents evidencing the nature of the expenses. We noted that only xerox copies of the identification cards of the lawyers were attached to the vouchers.
- b. From July to December 2014, the claims were supported with official receipts. Audit of the Official Receipts supporting the reimbursements disclosed the following:

- i. The claims for gasoline expenses in the amount of P161,465.41 are considered illegal expenditures under Annex B. 3.13 of COA Circular 2012-003. Confirmation revealed that they were paid representation and transportation allowances by their mother agency, the OGCC.
- ii. Several meal expenses totaling P109,538.55 were incurred beyond regular office hours and in some instances at expensive restaurants offering buffet services and therefore may **not** be considered as economical and necessary in the performance of their duties.
- iii. The reimbursement of an official receipt for the purchase of polo shirt in the amount of P4,900 was a personal expense and not allowable in audit.

**15.4. *We recommended that Management:***

- a. ***Require the submission of the supporting documents necessary to support the validity and propriety of the reimbursed expenses totaling P540,000;***
- b. ***Require the concerned OGCC lawyers who have claimed RATA from OGCC to refund the amount of P161.465 corresponding to the gasoline expenses reimbursed and cost of the polo shirt ; and***
- c. ***Abide by the guidelines set forth under COA Circular 2012-003 to prevent irregular, unnecessary, extravagant and excessive use of government funds to avoid audit disallowances.***

15.5. Management informed that they will stop the reimbursement to OGCC lawyers.

**16. The procurement activities for the janitorial service contract were completed in 166 days, thereby exceeding the allowable 124 calendar days period of action for procurement of goods required under Section 38.2 of the IRR of RA 9184 by 48 days.**

16.1. Section 38.2 of the IRR of RA 9184 provides the maximum periods and earliest possible time for action on specific procurement activities as provided for in Annex "C" of the IRR of RA 9184. The latest allowable time for period of action on the procurement of goods is 124 calendar days.

16.2. We computed the procurement timeliness provided by the GPPB on the procurement of goods and compared it to the actual activities and the result was as follows:

Procurement Timelines - Latest Possible Time

Activity	Should be	Actual	No of days delay
Advertisement	2/20/2014	2/20/2014	166 days
Pre-bid Conference	4/1/2014	3/19/2014	
Submission of Bids	4/13/2014	4/1/2014	
Bid Evaluation	4/20/2014	4/8/2014	
Post-qualification	5/20/2014	4/22/2014	
Issuance of Notice of Award	4/29/2014	6/27/2014	
Contract Preparation and Signing	7/7/2014	8/1/2014	
Issuance of Notice to Proceed	8/4/2014	8/6/2014	

- 16.3. As shown in the table above, the activities from the advertisement of the Invitation to Bid up to the post-qualification of the bid were ahead of the prescribed schedule. However, the delay was due to late issuance of the notice of award, contract preparation and signing and in the issuance of the notice to proceed as shown below:

Activity	Should be	Actual	No of days delay
Issuance of Notice of Award	4/29/2014	6/27/2014	59
Contract Preparation and Signing	7/7/2014	8/1/2014	25
Issuance of Notice to Proceed	8/4/2014	8/6/2014	3

- 16.4. We invited the attention of the Management to the particular provision of Section 65.1, Rule XXI of the Revised IRR of RA 9184 which states as follows:

*“Section 65.1 Without prejudice to the provisions of R.A. 3019 and other penal laws, public officers who commit any of the following acts shall suffer the penalty of imprisonment of not less than six(6) years and one (1) day, but not more than fifteen (15)years:*

*b) Delaying without justifiable cause (underscoring ours), the screening for eligibility, opening of bids, evaluation and post evaluation of bids, and awarding of contracts beyond the prescribed period of action provided for in this IRR.”*

- 16.5. Also, review of the supporting documents showed that only an Abstract of Bid as Read was submitted. There was no Abstract of Bid as Calculated prepared pursuant to Section 32.3 of the IRR of RA 9184 which provides and we quote”

*“After all bids have been received, opened, examined, evaluated, and ranked, the BAC shall prepare the corresponding Abstract of Bids. All members of the BAC shall sign the Abstract of Bids and attach thereto all the bids with their corresponding bid securities and*

*the minutes or proceedings of the bidding. The Abstract of Bids shall contain the following:*

- a) Name of the contract and its location, if applicable;*
- b) Time, date and place of bid opening; and*
- c) Names of bidders and their corresponding calculated bid prices arranged from lowest to highest, the amount of bid security and the name of the issuing entity.”*

- 16.6. ***We recommended and Management agreed to strictly comply with the provisions under Section 38.2 of the IRR of RA 9184 on the implementation and period of action of procurement activities on the procurement of goods and Section 32.3 with respect to the preparation of the Abstract of Bid as Calculated.***

## **B.2 Current Year’s Audit Observations and Recommendations – MWSS Regulatory Office (RO)**

1. **Payment of honoraria and reimbursable expenses to two expert witnesses totaling P946,179 were not supported with contracts required under COA Circular 2012-001 dated June 14, 2012 to establish validity of claim.**

**Moreover, the engagement of the legal experts as expert witnesses in the arbitration cases between MWSS and the Concessionaires was not in accordance with Annex B of the IRR of RA 9184 and lacked compliance with the provisions of Memorandum Circular No. 9 dated August 27, 1998 of the Office of the President, and COA Circular No. 86-255, as amended by COA Circular No. 95-011.**

- 1.1 To strengthen MWSS Regulatory Office (RO)'s position on the Corporate Income Tax (CIT) issue, presentation of the professional opinions of experts in the fields of law and income taxation is vital. Thus, MWSS RO paid honoraria and reimbursable expenses in the amount of P946,178.81 to two expert witnesses in connection with the arbitration proceedings on the water rate adjustments disputed by Manila Water Co. Inc. (MWCI) and Maynilad Water Services Inc. (MWSI).

- 1.2 Audit of the payments to the expert witnesses charged under the legal services account showed the following:

- 1.2.1 The payments were not covered with contracts/agreements between MWSS and the two expert witnesses which would define the scope of services, legal service fees, contract period and terms of payment.

COA Circular 2012-001 dated June 14, 2014 enumerates the five general requirements for all types of disbursements, which include among others, the need for the submission of sufficient and relevant documents to establish the validity of claim.



1.2.2 The engagement of the legal experts was not in accordance with Annex B of the IRR of RA 9184. The General Principles on Consulting Services (Annex B) of RA 9184 listed the types of consulting services to be provided by consultants that included, among others, the Advisory and Review Services. The said services “include advice on particular projects or problems. X x x x x. They also include such services as appearances before commissions, boards or other judicial bodies to give evidence or otherwise submit professional opinions”.

1.2.3 The hiring of the expert witness was thru Follosco Morillos and Herce law firm, the external legal counsel of MWSS RO for the arbitration. Another expert witness was engaged as legal expert on the basis that the MWSS Legal Team found his views on the CIT issue to be insightful and consistent with the MWSS position on the matter, making him the perfect witness for MWSS.

We find such basis for the selection not in accordance with the different modes of procurement provided in Annex B of the Revised IRR of RA 9184. The different modes of procurement under RA 9184 should have been considered.

1.2.4 Also, the hiring of the expert witnesses as legal experts thru Follosco, Morillos and Herce law firm was in circumvention of Memorandum Circular No. 9 dated August 27, 1998 of the Office of the President, of COA Circular No. 86-255 dated April 2, 1986, as amended by COA Circular No. 95-011 dated December 4, 1995, which requires the written conformity and acquiescence of the OGCC as well as the concurrence of COA prior to the hiring of private lawyers or firm.

We noted that the Office of the Government Corporate Counsel merely confirmed the invoices/billings submitted to MWSS by Baniqued & Baniqued law firm and the Agabin Verzola Hermoso & Layaoen law firm in their letters dated October 3, 2014, October 13, 2014 and November 17, 2014 respectively.

1.3 We made other observations on the payment to the expert witness hired thru Follosco, Morillos and Herce law firm:

- a. **Instead of MWSS RO as the addressee, the engagement letter dated July 3, 2014 as expert witness in the arbitration case between MWSS and MWSI was addressed to Follosco Morillos and Herce law firm with conforme signed by a Partner of the said law firm.**
- b. Similarly, the engagement letter dated August 27, 2014 for the preparation of an expert opinion in connection with the arbitration case between **MWSS and MWCI was addressed to the Follosco Morillos and Herce law firm but without their conforme.**

- c. MWSS Board of Trustees Resolution Nos. 2014-066 RO for MWSS vs. MWSI and 2014-095 RO for MWSS vs. MWCI dated July 15, 2014 and November 13, 2014 respectively, **merely confirmed** the engagement as expert witness in the arbitration cases, upon recommendation of its arbitration counsel, Follosco Morillos and Herce law firm.
  - d. The engagement letter and MWSS Board Resolution No. 2014-095 (RO) confirming the engagement of the expert witness for the arbitration between MWSS and MWCI **came after his opinion** was rendered on August 22, 2014.
  - e. The disbursement voucher was not supported with copy of the opinion in the Ad Hoc Arbitration between MWSS and MWSI.
  - f. The claim for reimbursable expenses totalling P7,932.96 was not supported with receipts.
- 1.4 As regards the payment to another expert witness for the arbitration with MWSI, we also observed that the documents attached to the voucher did not include a copy of the opinion in the matter of Ad Hoc Arbitration between MWSS and MWSI although he was also paid for the said arbitration case.
- 1.5 ***We recommended that Management:***
- a. ***Submit copy of the contract between MWSS and the expert witnesses;***
  - b. ***Comply with the pertinent provisions of Memorandum Circular No. 9 dated August 27, 1998 of the Office of the President, COA Circular 86-255, as amended by COA Circular No. 95-011; and***
  - c. ***Henceforth, strictly abide with the pertinent provision under Annex B of the IRR of RA 9184***
- 1.6 Management commented that under the May 7, 2014 Legal Services Agreement (LSA) with Follosco Morillos and Herce Law Offices (the Firm) , the law firm shall render legal services which include, but not limited to strategic planning on viable courses of action or formulation of procedural strategies, legal study and recommendation on the defenses, preparation, filing and submission of opinions, letters, affidavit, pleadings, memorials and other documents needed in the arbitrations. In executing the LSA, MWSS authorized the Firm to engage expert witnesses who would help articulate its position on the technical issues involved.

As our rejoinder, the engagement of the additional experts may be categorized in either of these two scenarios:

- a. *In case the engagement of the expert was covered by the original contract of the law Firm. –*

The payment of honoraria and other reimbursable costs in the amount of P946,178.81 to the two experts should not be charged to MWSS-RO since the services rendered by the expert were already included in the original contract of the Firm. However, no document has been submitted to prove that there was variation or amendment to the contract to show that additional payment will have to be paid due to the engagement of the additional experts. If the Board Resolution was meant to amend the original contract, then an amended contract should have been approved also by the same approving authority as the original contract.

- b. *In case the engagement of the expert was not covered by the original contract of the law Firm -*

If the Board Resolution served as basis for a separate engagement of the lawyers as expert witnesses, then a new service contract agreement should have been appropriately approved by Management and confirmed by the OGCC and COA, and used as basis for payment to the expert witnesses. This however presupposes that the hiring of the two experts was valid under the alternative modes of contracting under the IRR of RA 9184.

- 1.7 Management also commented that executing a contract directly with the witnesses would adversely affect their impartiality particularly before the eyes of the members of Tribunal.

As our rejoinder, the issue at hand is compliance and appropriateness of the transactions made by Management to the existing rules and regulations and not on the professional conduct of experts and consultants being hired by government. The value of their expertise and professionalism depends on the appreciation of the hearing panel of arbitrators and not as explained by Management that executing a contract directly with the witnesses would adversely affect their impartiality particularly before the eyes of the members of Tribunal. Experts or expert witnesses hired by government should safeguard the interest of government and should be guided by the government rules and regulations. This is more of the reason why the subject engagement should be covered by a contract to define the specific functions of the expert or expert as witness. If the purpose in hiring of the experts was to provide an independent opinion for the Arbitrators to appreciate the position of Management, then they should not receive remuneration from MWSS-RO as that would draw questions on the professional credibility of the experts. It is usually the Panel of Arbitrators who hires for a fee experts or expert witnesses if an independent view or opinion is necessary.

- 1.8 Finally, Management commented that the lawyers are expert witnesses and not consultants. As such, the provisions of RA 9184 on the procurement of government services are inapplicable.

As our rejoinder, we maintain our position that the engagement of Consultants or expert witnesses for the purposes of attaining the government objective is classified as consulting services covered by Annex B of the Revised IRR of RA 9184.

2. The reported year-end balance of Inter-Agency Payables to BIR, GSIS, PAG-IBIG Fund and Philhealth included abnormal debit balance of P358,486. Moreover, a balance of P58,662 pertaining to GSIS, PAG-IBIG and Philhealth remained unremitted for more than two years that may result in the forfeiture of claims/benefits due to the members/ employees of MWSS.

2.1 Inter-agency Payables are contributions due to/ collections received/ amounts withheld for remittance to different government agencies such as BIR, GSIS, Pagibig and Philhealth. The Inter-agency Payables account showed year end debit balance of P358,486.39 consisting of the following:

Account Code	Account Name	Amount
DUE TO BIR		
412-1	DUE TO BIR - ITW Employees	(358,793.65)
412-3	DUE TO BIR - VAT Professionals	(24,039.06)
412-4	DUE TO BIR - EWT Suppliers/Services	30,889.99
412-5	DUE to BIR - Final VAT Withheld	(45,881.79)
Total		(397,824.51)
DUE TO GSIS		
413-1	DUE TO GSIS - Gov't. Share	367.99
413-2	DUE TO GSIS - Employee Share	(216,274.45)
413-3	DUE TO GSIS - State Insurance	(461.70)
413-4	DUE TO GSIS - Plans	3,850.02
413-5	DUE TO GSIS - Loans	220,146.36
Total		7,628.22
DUE TO PAG-IBIG		
414-1	DUE TO PAG-IBIG - Gov't.Share	14,906.15
414-2	DUE TO PAG-IBIG - Employee Share	37,500.00
414-3	DUE TO PAG-IBIG - Employee Loans	(748.75)
Total		51,657.40
DUE TO PHILHEALTH		
415-1	DUE TO PHILHEALTH - Gov't. Share	(25,835.00)
415-2	DUE TO PHILHEALTH - Employee Share	5,887.50
Total		(19,947.50)
		(358,486.39)

- 2.2 As shown above, subsidiary ledgers showed abnormal debit balances in their sub-accounts. Analysis revealed that these pertained to balances in prior years which remained unreconciled and unadjusted.
- 2.3 Our analysis revealed that the Due to GSIS- Employee Share account in the amount of P216,274.45 contained an error in the posting of transaction. The remittance to GSIS for loans of employees was posted as debit to Due to GSIS-

Employee Share account instead of Due to GSIS- Loans, thus, resulting in an unremitted balance in the Due to GSIS- Loans with the same amount.

- 2.4 Also, review of the subsidiary ledgers showed that some contributions withheld from CY 2012 and earlier period in the total amount of P58,661.64 were not remitted as required by laws/regulations. This may cause forfeiture of claims/ benefits due to the members/ employees of MWSS and deprive the concerned agencies of the timely use of the funds due them. Details are as follows:

<b>Account Name</b>	<b>Ending Balance</b>
DUE TO GSIS - Gov't. Share	P 367.99
DUE TO PAG-IBIG - Gov't.Share	14,906.15
DUE TO PAG-IBIG - Employee Share	37,500.00
DUE TO PHILHEALTH - Empl. Share	5,887.50
<b>Total</b>	<b>P 58,661.64</b>

- 2.5 We invited the attention of the Management to the following:

- a. Section 6 paragraph b of Republic Act No. 8291 (GSIS Act) states that each employer shall remit directly to the GSIS the employee's and employer's contributions within the first ten (10) days of the calendar month following the month to which the contributions apply. The remittance by the employer of the contribution to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees.
- b. Section 20 paragraph b of Title III Rule III of the Revised Implementing Rules and Regulations of the National Health Insurance Act of 1995 (Republic Act 7875 as amended by Republic Act 9241) states that the monthly premium contribution of employed members shall be remitted by the employer on or before the tenth (10th) calendar day of the month following the applicable month for which the payment is due and applicable.
- c. Under RA 7742, an Act amending PD 1752, known as the Pag-ibig Fund Law, the schedule of remittances for Company-members is provided as follows:

<b>1<sup>st</sup> Letter of Company Name</b>	<b>Remittance Schedule</b>
A to D	10 <sup>th</sup> to 14 <sup>th</sup> day of the month
E to L	15 <sup>th</sup> to the 19 <sup>th</sup> day of the month
M to Q	20 <sup>th</sup> to the 24 <sup>th</sup> day of the month
R to Z	25 <sup>th</sup> to the end of the month

- 2.6 ***We recommended and Management agreed to:***

- a. ***Require the Accounting Office to analyze the accounts with abnormal balances that remained unreconciled/unadjusted over the years and prepare the necessary adjusting entries to correct the account balance; and***



competent authority or by other modes of extinguishment of obligation as provided by law. Section 103 of PD 1445, states that, “[e]xpenditures of government funds or uses of government property in violation of law or regulations shall be a personal liability of the official or employee found to be directly responsible therefor.”

- 4.2 On the other hand, COA Resolution 2013-016 states that “the filing fees for appeals from Notices of Disallowances and Charges are paid by government officials/employees in their personal capacity ...”
- 4.3 Considering that the audit disallowances are personal obligation, consequently, the filing fees on appeals from disallowances are also personal expenses of the appellants.
- 4.4 Review of the payments charged in the Miscellaneous Expense account showed that the payment for filing fees for appeals from the Notice of Disallowances issued by the COA were charged against the fund of the MWSS Regulatory Office. Details of payments are in the table below:

Date	OR No.	Ref.	Particulars	Amount
1/3/2014	39993034	Check No. 4738 DV010-01/14	Appeal Filing Fee for AA, COLA, RATA 2012/ PIB 2011 Health Insurance 2011-June 2013	20,200.00
4/29/2014	3999924	Check No. 4835 DV169-05/14	Appeal Filing Fee for various Fraud Audit Office NDs	20,200.00
7/8/2014	3997374	Check No. 4914 DV# 303-07/14 PCV # 14-279	Appeal Filing Fee for Hazard and Longevity Pay	2,303.26
8/5/2014	2481139	Check No. 4943 DV# 346-08/14 PCV # 14-336	Appeal Filing Fee for ND: Janitorial and Security Services	2,040.85
10/24/2014	2481934	Check No. 4998 DV # 490-11/14 PCV # 14-501	Appeal Filing Fee for ND Rice Allowance	1,385.53
12/5/2014	2482390	Check No. 7508 DV # 524-12/14 PCV # 14-589	Appeal Filing Fee for ND Welfare Fund	8,436.49
12/23/2014	2482522	PCV # 14-622	Appeal Filing Fee for ND: EME and Health Insurance	1,114.97
TOTAL				55,681.10

- 4.5 ***We recommended that Management require the concerned officers and employees to refund the amount of filing fees paid.***

## C.1 Reiteration of Audit Observations and Recommendations - MWSS CO

Some audit recommendations on several audit observations in the CY 2013 Annual Audit Report pertaining to the MWSS CO were not acted upon/addressed in CY 2014; hence the reiteration as presented below.

1. **Of the balance of Other Receivables at P5.832 billion, which includes dormant accounts totaling P296.825 million, the amount of P5.110 billion or 88% were not recognized as liabilities in the books of the Concessionaires; hence its collection was doubtful.**

- 1.1. *Other Receivables* account pertains to the disputed claims between MWSS and Maynilad Water Services Inc. (MWSI) arising from the latter's refusal to pay for the additional Corporate Operating Budget (COB) incurred by MWSS when MWSI defaulted in the payment of concession fee-debt service.
- 1.2. The total subsidiary ledger balances of the Other Receivables showed the following balances:

Concessionaire	Amount
Maynilad Water Services Inc. (MWSI)	5,692,429,781.98
Manila Water Services Inc. (MWSI)	124,745,622.34
Due from Welfare Fund	11,357,250.00
Others – various	3,039,480.17
<b>Total</b>	<b>5,831,572.134.49</b>

- 1.3. In the MWSS Agency Action Plan and Status of Implementation (AAPSI) for CY 2013 Annual Audit Report, Management informed that it has endorsed on February 12, 2014 to the Office of the Government Corporate Counsel the dispute on the Other Receivables – MWSI. Considering MWSI's refusal to pay the amount demanded, local arbitration proceedings per Concession Agreement may be reasonably expected to start within the remaining months of CY 2014. The OGCC has requested MWSS for the submission of several documents needed before the arbitration process can start.
- 1.4. The account consisted of the following receivables:

Other Receivable-MWSI	Amount
MWSI-Borrowing Cost-BNP PARIBAS-US\$150M-Interest	3,776,336,730.46
MWSI-Borrowing Cost-BNP PARIBAS-US\$150M-Withholding Tax	176,328,836.38
MWSI-Borrowing Cost-BNP PARIBAS-US\$150M-Others	167,860.76
Sub-total	3,952,833,427.60
Borrowing Cost-DBP/LBP	248,604,910.71
Penalty for Delayed Remittance of COB	1,118,315,273.76
Interest/Penalty on Unpaid Borrowing Cost	95,246,566.31
<b>TOTAL</b>	<b>5,415,000,178.38</b>

- 1.5. Confirmation of other receivables was obtained from the two concessionaires and the result showed the following:



Concessionaire	Book balance	Confirmed amount	Difference
Maynilad Water Services Inc. (MWSI)	5,692,429,781.98	707,228,026.15	4,985,201,755.83
Manila Water Services Inc. (MWCI)	124,745,622.34	0	124,745,622.34
<b>Total</b>	<b>5,817,175,404.32</b>	<b>707,228,026.15</b>	<b>5,109,947,378.17</b>

- 1.6. Of the total other receivable from MWSI amounting to P5,692,429,781.98 as shown in the table above, a total of P707,228,026.15 or only about 12% of the total other receivables were recognized as its liabilities and the remaining 88% were not recognized as liabilities. Details are as follows:

Particulars	Maynilad Water Services Inc. (MWSI)		
	Per Books	Per Confirmation	Difference
MWSI-Borrowing Cost-BNP PARIBAS-US\$150M	3,952,833,427.60	-	3,952,833,427.60
Borrowing Cost – DBP/LBP	248,604,910.71	-	248,604,910.71
Penalty for Delayed Remittance of COB	1,118,315,273.76	607,217,007.93	511,098,265.83
Interest/Penalty on Unpaid Borrowing Cost	95,246,566.31	-	95,246,566.31
Inventory Held In Trust	158,479,797.63	97,261,018.22	61,218,779.41
Guarantee Deposits	94,996,518.27	-	94,996,518.27
Mabuhay Vinyl	4,993,546.00	-	4,993,546.00
LMG Chemphil	4,627,025.16	-	4,627,025.16
Bldg. Rental T.Sora	427,300.00	-	427,300.00
MWSI Rehabilitation-Related Expenses	97,065.00	-	97,065.00
Bidding Expenses	532,089.83	-	532,089.83
Financial Assistance (AWUAIP, BNAQ 6-Phase-2)	2,750,000.00	2,750,000.00	-
AWSOP Telemetry	781,914.72	-	781,914.72
Financial Plan Fee for field based investigation	56,739.62	-	56,739.62
Philippine Information Agency	7,500,000.00	-	7,500,000.00
Electricity	2,289,978.27	-	2,289,978.27
Telephone	(102,370.90)	-	(102,370.90)
<b>TOTAL</b>	<b>5,692,429,781.98</b>	<b>707,228,026.15</b>	<b>4,985,201,755.83</b>

- 1.7. On their confirmation reply, MWSI stated that:

- The borrowing cost for BNP Paribas and DBP/LBP, penalty on delayed payment of concession fee including interest penalty on non-payment of borrowing cost amounting to P5,415,000,178.38 are part of the disputed claims of MWSS to MWSI.
- Guarantee deposits amounting to P94,996,518.27 is subject to reconciliation with MWSS;
- MWSI confirmed P97,261,018.22 out of P168,100,368.79 or only about 58% of the total receivable which includes inventory held in trust, Mabuhay Vinyl and LMG Chemphil;

- d. MWSI also negatively confirmed the following receivables:
- e. *Bldg. Rental Deposit-Tandang Sora Branch* - concessionaire commented that this should have been charged to Manila Water;
- f. *The expenses related to MWSI Rehab and Bidding Expenses-* MWSI denied the claims and commented that these should have been charged to MWSS;
- g. *Financial Plan Fee for field based investigation* – MWSI contended that this cost should have been charged to the consultant for Laiban study;
- h. *AWSOP Telemetry* – a shared cost with MWCI if proven legitimate;
- i. *The PIA receivable account of P7.5 Million* – MWSI contests that no Memorandum of Agreement was executed with MWSS; and
- j. *MERALCO/Telephone/Rental* – MWSI commented that these are brought by timing differences.

- 1.8. On the other hand , of the total other receivables from MWCI recorded in the books amounting to P124,745,622.34, **none** has been acknowledged by MWCI in their confirmation reply. These are the following:

Particulars	Manila Water Company Inc. (MWCI)		
	Per Books	Per Confirmation	Difference
Inventory Held In Trust	43,747,433.66	-	43,747,433.66
Guarantee Deposits	65,583,129.78	-	65,583,129.78
LMG Chemphil	7,730,290.55	-	7,730,290.55
Financial Assistance (AWUAIP, BNAQ 6-Phase-2)	1,977,500.00	-	1,977,500.00
AWSOP Telemetry	781,914.72	-	781,914.72
Financial Plan Fee for Field investigation	22,200.00	-	22,200.00
Electricity	3,049,303.92	-	3,049,303.92
La Vista	591,346.80	-	591,346.80
Back Rental of ROW - Loyola	1,196,408.37	-	1,196,408.37
Arbitration Expenses – Contract No. STP-01	66,094.54	-	66,094.54
Total	124,745,622.34	-	124,745,622.34

- 1.9. The above receivables from MWSI and MWCI also included dormant accounts totaling P296.825 million which were already reported in previous year's audit findings. These are the following:

Particulars	MWSI	MWCI
Inventory Held In Trust	61,218,779.41	43,747,433.66
Guarantee Deposits	94,996,518.27	65,583,129.78
Mabuhay Vinyl	4,993,546.00	-
LMG Chemphil	4,627,025.16	7,730,290.55
Bldg Rental-T.Sora	427,300.00	-
MWSI Rehabilitation-Related Expenses	97,065.00	-

Particulars	MWSI	MWCI
Bidding Expenses	532,089.83	-
Financial Assistance (AWUAIP, BNAQ 6-Phase-2)	-	1,977,500.00
AWSOP Telemetry	781,914.72	781,914.72
Financial Plan Fee for field based investigation	56,739.62	22,200.00
Philippine Information Agency	7,500,000.00	-
Telephone	(102,370.90)	-
La Vista	-	591,346.80
Back Rental of ROW-Loyola	-	1,196,408.37
Arbitration Expenses-Contract No. STP-01	-	66,094.54
TOTAL	175,128,607.11	121,696,318.42

1.10. Considering that MWSI has recognized only 12% of the Other Receivables and that MWCI has not recognized any of the recorded receivables, the collectability of the amount of P5,109,947,378.17 remains doubtful.

1.11. ***We reiterated our prior years' recommendation and Management agreed to:***

- a. ***Submit a report on the updates on the arbitration of the disputed claims with MWSI as reported in the Audit Action Plan and Status of Implementation; and***
- b. ***Decide on actions to be taken on dormant accounts receivables from the Concessionaires as these have been non moving for several years already and were not acknowledged as their liabilities.***

2. **Among the foreign loans under the Long-Term Liabilities of MWSS was JBIC/OECF loan (Loan #PH110) of P1.275 billion for which no loan payment was remitted to the Bureau of Treasury despite the collections made from the Concessionaires amounting to P1.614 billion. This was attributed to the unresolved issue between MWSS and the Bureau of Treasury on whether the said is a liability of MWSS, or an equity of the Government to MWSS.**

2.1. In the CY 2013 AAR, we reported that MWSS did not remit to the Bureau of Treasury (BTr) the collections received from the Concessionaires amounting to P1.608 billion for the payment of its loan with JBIC/OECF for the period February 2006 to December 2013. As of December 31, 2013, the loan balance per MWSS records amounted to P1,458.649 million.

2.2. As of December 31, 2014, the JBIC/OECF loan amounted to P1,275.243 million. (The amount of loan decreased due to fluctuations/changes on foreign exchange at the reporting date).

2.3. Management explained that the non-remittance was due to the unresolved issue on whether the loan was equity of the Government or will remain as a loan since the Concessionaires continued the projects. However, the BTr informed the MWSS that based on its records, the equity of the government amounted to

P106.072 million and that there was no document/agreement stating that the aforesaid amount should be treated as a grant or a subsidy of the government.

- 2.4. The BTr, in its letter dated April 14, 2014 disclosed that the MWSS outstanding loan for the account of JBIC/OECF as of March 31, 2014 amounted to P2.551 billion. The BTr demanded for the immediate settlement of the remittances received from the Concessionaires for the payment of foreign loans. In CY 2014, despite the demand made by the BTr, MWSS did not remit any payments.
  - 2.5. In the confirmation reply dated February 27, 2015 to COA MWSS, BTr informed that the loan with JBIC/OECF is still for verification.
  - 2.6. For CY 2014, we noted that there were no collections received by MWSS from the Concessionaires for the payment of JBIC/OECF loan.
  - 2.7. ***We reiterated our prior year's recommendation that MWSS Immediately remit to the Bureau of Treasury the amount collected from the Concessionaires as payment for the JBIC/OECF loan.***
  - 2.8. Management informed that they will continue with their request from the Bureau of Treasury for the treatment of the JBIC fund as additional equity of the National Government in the Capital of MWSS.
3. **The Cash and cash equivalents in the amount of P2.212 billion remained insufficient to cover the unpaid foreign loans already billed by the Bureau of Treasury and all recognized Trust Accounts, aggregating P2.455 billion at year-end. The Cash and cash equivalents already include the amount of P1.924 billion representing collections from the Concessionaires for the payment of the said foreign loans. (With related finding under Audit Observation No. C.1.2)**

**Also, collections for the payment of foreign loans totaling P1.803 billion were not restricted.**

- 3.1. Analysis of the account balances of the Cash and cash equivalents in the books of **MWSS Corporate Office** as of December 31, 2014 showed that the Cash and Cash equivalents in the amount of P2.212 billion was not sufficient to cover the Loans Payable to lending institutions and all recognized Trust Accounts in the total amount of P2.456 billion at the end of the year as shown below:

<b>Analysis of Cash &amp; Cash Equivalents vs. Trust Accounts As of December 31, 2014</b>	
Cash	Amount
Cash & Cash Equivalents	2,212,345,669.66
Trust liabilities/receipts for payment of loans	
Collections received from the two Concessionaires for the payment of foreign loan (JBIC Phi 110) not yet paid to the Bureau of Treasury as of December 31, 2014:	
JBIC Phi 110	1,613,613,941.95
SPIAL	189,706,349.83
Guarantee fees	112,071,000.29

Due to the Regulatory Office – share in Concession Fee	158,989,806.19
Other Liabilities (trust liabilities)	125,873,442.86
Other Payables – lawyer's fees deducted from claims of former employees	20,763,739.16
Due to Other Government agencies	8,629,747.09
Dividend CY 2013 balance	226,130,961.32
<b>Total Trust Liabilities/receipts for payment of loans</b>	<b>2,455,778,988.69</b>

3.2. In CY 2013 AAR, Management explained that the audit observation could be attributed to the following:

- a. Payment of Dividends in 2010 after the SONA, where the amount paid was over the required remittance; and
- b. When MWSS called on the USD120M Performance bond from Maynilad which was deposited directly to the BSP, it included the initial collection of P355M for JBIC Loan. However, the USD120M Performance Bond was used in the continuous default of Maynilad and for payment for Cost of borrowings. The said amount was not separated from such collections.

3.3. Related thereto, we noted that MWSS reported Receivables (among others) from MWSI consisting of the following:

Particulars	Amount
Borrowing cost – BNP Paribas loan	3,952,833,427.60
Borrowing cost –DBP LBP	248,604,910.71
Interest/penalty on unpaid borrowing cost	95,246,566.31
Penalty for delayed remittance of COB	1,118,315,273.76
Total	5,415,000,178.38

3.4. From the above accounts, MWSI confirmed/acknowledged the existence of its liabilities to MWSS totaling P607,217,007.93.

3.5. The insufficiency of cash to cover the loan payable to the Bureau of Treasury and all its trust account will remain an issue if Management will not be able to collect from MWSI the amount receivable from them.

3.6. Further, we noted that the collections for the payment of its foreign loans have not been restricted. MWSS did not set up a separate account for the subject collections.

3.7. ***We recommended that Management:***

- a. ***Enforce the immediate collection of receivables from MWSI to ensure the cash sufficiency; and***
- b. ***Require the Finance Department to set up in the books a separate account restricted for the collections received from the Concessionaires for the payment of foreign loans.***

3.8. During the exit conference, the Senior Deputy Administrator informed that they are preparing for the initiatory billing regarding the amount receivable from MWSS. Likewise, Management informed that they have referred the matter to the Office of Government Corporate Counsel for arbitration if necessary.

4. For domestic and foreign loans from five creditors under Long Term Liabilities, net negative variances totaling P91.645 million was noted between the aggregate balance of P405.103 million per MWSS records and the balances of P496.748 million as confirmed by the Bureau of Treasury. On the other hand, a foreign loan from IBRD with Loan No. 2676 in the amount of P361.386 million appeared in the records of the Bureau of the Treasury but the MWSS records reflected a zero balance.

4.1 The long term liabilities consists of domestic and foreign loans, with details shown below:

Breakdown of Long Term Liabilities As of December 31, 2014					
Name of bank/creditor	Loan	Purpose	Date Granted	Maturity date	Amount
<b>Domestic loans</b>					
1. LBP DBP	LBP DBP Club Deal Facility	To partly finance the MWSS' maturing 7-year USD 150M 9.25% Fixed rate Bond with the BNP Paribas which matured last March 14, 2011.	March 30, 2011	December 31, 2018	1,044,642,857.10
2. Bureau of Treasury	Loan transfer from NHA	Fund for the transfer of water and sewer systems in Tondo Foreshore, Dagat-Dagatan and Kapitbahayan	Still subject to confirmation and subsequent preparation of MOA between MWSS, NHA and the two concessionaires		98,795,399.07
3. ADB	SPIAL 779 and 780	Manila Water Supply Rehabilitation Project I (MWSRP I), Manila Water Supply Project II	November 1991 and November 1996 respectively	May 15, 2026	189,706,349.83

Breakdown of Long Term Liabilities As of December 31, 2014					
Name of bank/creditor	Loan	Purpose	Date Granted	Maturity date	Amount
		(MWSP II) and Metro Manila Sewerage Project (MMSP).			
4. IBRD	1272/1282	Manila Urban Development Project	November 15, 1981.	July 15, 2020	64,437,087.20
5. ADB	1746	A sanitation component of the PREMRSDP	October 13, 2003	February 1, 2022	197,072,712.10
Sub total					1,594,654,405.30
<b>Foreign loans</b>					
6. IBRD	4019	Manila Second Sewerage Project	June 19, 1996	July 1, 2016	225,326,568.34
7. ADB	1150	Manila South Distribution Project	January 23, 1992	Oct 15, 2016	86,656,986.63
8. ADB	1379	Umiray Angat Transbasin Project	November 27, 1995	July 15, 2020	1,986,611,096.05
9. OECF/JBIC	1146	Angat Water Optimization Project	May 11, 1990	Feb 20, 2020	1,275,242,897.95
10. French Republic	French Loan	Rizal Province Water Supply Improvement Project (RPWSIP)	December 2002	December 31, 2018	28,300,045.72
11. Export-Import Bank of China	AWUAIP II	Angat Water Utilization & Aqueduct Improvement Program	May 7, 2010	Jan 21, 2030	5,145,690,673.54
12. IBRD	4227	Water District Development Project	March 16, 2003	September 15, 2017	23,863,726.82
Sub total					8,771,691,995.05
Total long term liabilities					10,366,346,400.35
<b>Acronyms</b>  LBP DBP – Land Bank of the Philippines/Development Bank of the Philippines NHA – National Housing Authority ADB – Asian Development Bank SPIAL- Special Project Implementation Assistance Loan OECF/JBIC- Overseas Economic Cooperation Fund/Japan Bank for International Cooperation AWUAIP- Angat Water Utilization & Aqueduct Improvement Program					

4.2 Comparison of the recorded balances and the results of confirmation for the five of the 12 loans listed above disclosed discrepancies between the recorded balances

per MWSS records and the results of confirmation with the Bureau of Treasury, as shown below.

Particulars	Balance per Books	Balance per Confirmation	Variance
<b>Foreign Loans</b>			
IBRD 4227 (# 12)	23,863,726.82	23,929,514.26	(65,787.44)
French loan (# 10)	28,300,045.72	36,505,864.51	(8,205,818.79)
Sub-Total	52,163,772.54	60,435,378.77	(8,271,606.23)
<b>Domestic Loans</b>			
Bureau of Treasury (Loan Transfer from NHA) (# 2)	98,795,399.07	5,630,350.23	93,165,048.84
ADB (SPIAL779/780) (# 3)	189,706,349.83	362,319,313.28	(172,612,963.45)
IBRD 1272/1282 (# 4)	64,437,087.20	68,362,720.00	(3,925,632.80)
Sub-total	352,938,836.10	436,312,383.51	(83,373,547.41)
<b>Total of Domestic and Foreign Loans with Records at MWSS</b>	<b>405,102,608.64</b>	<b>496,747,622.80</b>	<b>(91,645,153.66)</b>

In CY 2014, we noted that no payments or remittances were made to the National Housing Authority (NHA) and Bureau of Treasury for the loans under IBRD No. 1272 and ADB No. 1746.

- 4.3 As in previous years, the BTr confirmation disclosed an outstanding IBRD Loan 2676 amounting to P361.386 million. However, in the books of the MWSS CO, this account already reflected a zero balance. We noted that the IBRD loan was obtained by the MWSS for the financing of Manila Water Distribution Project with a principal amount of US\$35.30 million payable in 30 semi-annual installments until May 15, 2006.
- 4.4 For loan account ADB 1746, please refer to Audit Observation #C.2.1.
- 4.5 ***To provide valid and reliable information, we reiterated and Management agreed with our prior year's recommendation to:***
  - a. ***Examine and analyze the outstanding balance confirmed by NHA amounting to P5.630 million and effect the corresponding adjustments for the difference noted amounting to P93.165 million;***
  - b. ***Provide the BTr with the amortization schedule and the necessary documents to prove full payment of IBRD 2676 loan account since BTr confirmed an outstanding balance of P361.386 million; and***
  - c. ***Request for the verification of its accounts for SPIAL, IBRD Nos. 1272, 4227 and Natixis Loan for the differences noted.***
- 4.6 During the exit conference, the Acting Finance Manager informed that meetings with NHA personnel were being conducted to resolve the issue on the loans payable to NHA.



4.7 No comments were received on the other variances noted.

**5. As reported in previous years' audit reports, the reliability and accuracy of some accounts in the MWSS' Statement of Financial Position cannot be ascertained due to the unreconciled/unverified accounts in the net amount of P353.825 million.**

5.1. This is a reiteration of previous years' audit finding with updated figures as of year-end wherein we recommended that Management facilitate the immediate reconciliation of unreconciled accounts pursuant to the provisions of PAS 1 in order that their financial statements will be able to provide the financial users the accurate information about the Agency's financial position, financial performance and cash flows.

5.2. There were General Ledger (GL) accounts with balances prior to privatization in 1997 without subsidiary ledgers. To be able to establish the e-NGAS, all GL accounts with no subsidiary ledgers were temporarily recorded to the 000-00-99 account. Subsequently, Management prepared the subsidiary ledgers for each of the GL accounts with 000-00-99 account subject to reconciliation/verification.

5.3. The MWSS' Statement of Financial Position as at year-end showed the presence of the various unreconciled/unverified accounts in the net amount of P353,824,504.92. Details are shown in the table below:

	No. of Accounts	Amount
Assets	20	530,724,749.66
Liabilities	5	884,549,254.58
<b>Net</b>		<b>353,824,504.92</b>

5.4. It must be noted though that there was a decrease of P8,911,425.26 from last year's unreconciled/unverified accounts balance of P362,735,930.18 representing Managements' effort to clean up its books. Accounts were reclassified into their individual subsidiary ledgers, resulting to the decrease in the balance as shown below:

	2014	2013	Increase (Decrease)
Assets	530,724,749.66	575,883,408.35	(45,158,658.69)
Liabilities	884,549,254.58	938,337,667.02	(53,788,412.44)
Equity	-	281,671.51	(281,671.51)
<b>Net</b>	<b>353,824,504.92</b>	<b>362,735,930.18</b>	<b>(8,911,425.26)</b>

5.5. Details of the increase/decrease of the "for reconciliation/verification" accounts are as follows:

**ASSET**

Prior years (2006) charges made to "for reconciliation/verification" accounts which were previously charged to current subsidiary ledger accounts	(4,548,110.06)
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Reclassification of <b>“for reconciliation/verification”</b> accounts to individual PPE subsidiary ledgers	(216,322,589.31)
Adjustment of reclassification made to individual PPE subsidiary accounts in CY 2013	1,060,660.02
Accumulated Depreciation – 223-99 System Software	(6,139,494.57)
Accumulated Depreciation – 248- Other Transportation Equipment	(930,898.32)
Depreciation Expense relating to <b>“for reconciliation/verification”</b> PPE accounts for CY 2014	(11,484,846.32)
Decrease in Accumulated Depreciation relating to <b>“for reconciliation/verification”</b> PPE accounts as a result of reclassifications made in CY 2014	193,206,619.87
<b>TOTAL INCREASE (DECREASE)</b>	<b>(45,158,658.69)</b>

#### LIABILITIES

Prior years (2006) charges made to <b>“for reconciliation/verification”</b> accounts which were previously charged to current subsidiary ledger accounts	(212,713.95)
Payables reverted to <b>Retained Earnings</b> pursuant to Section 98 of P.D. 1445	(51,048,586.24)
Reclassification to individual subsidiary ledger of EEI Corporation	(2,527,112.25)
<b>TOTAL INCREASE (DECREASE)</b>	<b>53,788,412.44</b>

#### EQUITY

To take up reclassification of Capital Stock subsidiary ledger to reconcile with Bureau of Treasury's records showing a total equity of P6,095,486,782.61 from P6,095,205,112.10 as of 31 December 2008 per BTR's letter dated 20 March 2009.	281,671.51
<b>TOTAL INCREASE (DECREASE)</b>	<b>281,671.51</b>

#### 5.6. Audit of the reconciling entries made showed the following:

- a. The entries were not supported with an analysis and details/breakdown on how the reclassification to the asset, liability and equity accounts were arrived at.
- b. There were equipment totaling P13,439,127.46 reclassified to Property Plant and Equipment notwithstanding that the physical inventory report as of CY 2014 disclosed that these were unserviceable assets and should be recorded as Other Assets.
- c. There were accounts for reconciliation reclassified to Communication and Technical and Scientific Equipment in the amount of P2,535,788.87 not found in the Physical inventory report as of yearend.
- d. The reclassification of the Due to BIR for reconciliation/verification accounts during the year in the amount of P2,527,112.25, to EEI Corporation's subsidiary ledger (SL) was doubtful because review of the subsidiary ledger showed that the said account had zero balance as of December 31, 2007. However, a beginning balance of P1,797,864.44 and adjustment in the

amount of 729,247.81 appeared in the CY 2008 SL. Thus, the amount reclassified was not accurate.

- 5.7. ***We reiterated our previous years' recommendations that Management facilitate the immediate reconciliation of the unreconciled accounts shown in the Statement of Financial Position totalling P353.824 million; likewise, duly support all reconciling entries with an analysis and detailed breakdown of the reclassification made, duly signed by the responsible accounting personnel.***
- 5.8. Management informed that they will continue with the reconciliation of the unreconciled accounts and that they will hire Contract of Service personnel to assist them in the reconciliation.
6. ***Advances to Contractors account totaling P357.226 million was not accurate and valid due to lack of supporting documents. Management did not submit the information/data relative to the advances/mobilization which are necessary to facilitate the audit of the accounts and to determine the persons responsible/liable for the outstanding advances to contractors.***
  - 6.1. In CY 2013 Annual Audit Report, we required the Controllership Division to immediately submit the data on (i) the name of the project to which the above advances were made and the status of said projects; (ii) the information on whether the contractor was fully paid without deducting the above advances; (iii) the date of payment; and (iv) the aging of the advances to contractors.

We then recommended that Management immediately initiate legal action to recoup the advance payments made to contractors, determine and hold liable the persons responsible for the non-recoupment and investigate why the advance payments were not deducted from the progress billings and the non- forfeiture of the surety bonds, if any.
  - 6.2. Verification disclosed that as of December 31, 2014, the balance of Advances to Contractors remained at P357.226 million. In the Agency Action Plan and Status of Implementation (AAPSI) on audit recommendations submitted, Management informed that there is an on-going action to hire contract of service personnel that will assist the Finance Department in the analysis of the account and in the submission of the data/information needed regarding the various projects with outstanding advances to contractors.
  - 6.3. Request from the Engineering Department and the Finance Department reiterating the submission of the information/data regarding the projects where there were outstanding advances to contractors proved futile. Without the data on the projects, we cannot conclude on the accuracy of the account balance. Further, the reasons for its non-recoupment and the persons liable thereto are not known.
  - 6.4. Moreover, the failure of Management to take the necessary action on these outstanding advances is a cause of concern as these are government funds which were not recovered from the contractors.

6.5. ***We strongly reiterated that Management:***

- a. ***Determine the persons responsible for the failure to deduct the outstanding advances from the progress billings and immediately submit the same to this Office;***
- b. ***Institute legal action against the contractors for the unrecouped advances to contractors; and***
- c. ***Take action for the blacklisting of the contractors who have outstanding advances from MWSS.***

6.6. Management has not commented on the audit observation.

7. **The validity of the dropping from the books of accounts of various land accounts totaling P267.207 million was not established due to inadequate documentation.**

7.1. In CYs 2013 and 2014, the following adjustments were made on the land account:

Date	Particulars	Amount
December 23, 2013	To take up into account adjustment in the value of land wherein the book value of the 580,000 sq. m. sold to NWSA employees/awardees (c/o Genaro Bautista -attorney -in-fact) was P231,267,160.26 at the time of sale but was sold for P3,091,400.00 only.	228,175,760.26
December 23, 2014	To take up into account adjustment of land under TCT No. 36069 wherein land areas were overstated due to typographical error. Likewise, lots under said TCT were subdivided, portions of which were sold to SILHOUETTE TRADING.	39,031,614.49
	Total	267, 207,374.75

7.2. We made the following audit observations on the adjustment totaling P228.175 million

- a. The adjustment dated December 23, 2013 pertained to a parcel of land sold in 2006. The entry was made to account for the difference between the selling price and the recorded cost of the land computed as follows:

Selling price	P 3,091,400.00
Cost per book	231,267,160.26
Difference	<u>P(228,175,760.26)</u>

- b. The validity of the adjustment cannot be ascertained due to the following:

- i. The entry was made to reverse the appraisal increment that was purportedly recorded in previous years. However, the validity and accuracy of the adjustment was not verified due to lack of pertinent supporting documents that would prove that there was an appraisal on the land in previous periods totaling P228,175,760.26.
- ii. When the accounts were migrated to e-NGAS in 2007, the cost of the land was among the accounts transferred with beginning balances notwithstanding that the same was already sold in 2006. The cost of the land was only transferred in its subsidiary ledger on 2013 after it was determined that some parcels of land were consolidated in one TCT. These inconsistencies render the entry to record the sale in 2006 questionable. The Finance Department was not able to provide accounting records of the sale in 2006 which precludes the verification of the above adjustment.
- iii. No gain or loss from the sale was recognized considering the significant difference between the selling price and the reported cost of the land.
- iv. The subsidiary ledger still reflects a year-end balance of P3,091,400 instead of a zero balance considering that the land was already sold in CY 2006.

7.3. On the adjustment totaling P39.031 million, the adjustment under JEV No. 2014-12-004950 consisted of the following land:

Property No.	Carrying Amount
201-01-01-13-36069A	32,100,406.28
201-01-01-13-36069E	6,249,199.66
201-01-01-13-36069F	617,679.07
201-01-01-13-36069G	64,329.48
Total	39,031,614.49

7.4. An adjustment to Retained Earnings and Land account was made to drop from the books of accounts the cost of the lot sold to Silhouette Trading in the year 1984 titled under TCT No. 36069. In CY 2013 AAR, we recommended that the discrepancies in the land area between that recorded in the books and the appraisal report aggregating 29,573,398.09 sq.m. should be reconciled. Partial reconciliation on 29,251,965.60 sq.m. was made, summarized as follows:

Property No.	Area per books (sq.m.)	Area per Appraisal Report (sq.m.)	Discrepancy (sq.m.)
201-01-01-13-36069A	25,402,840	254,028.40	25,148,811.60
201-01-01-13-36069E	3,743,320	37,433.20	3,705,886.80
201-01-01-13-36069F	363,360	3,633.60	359,726.40
201-01-01-13-36069G	37,920	379.20	37,540.80
	29,547,440	295,474.40	29,251,965.60

- 7.5. As shown in the table above, the area of the parcels of land shown on the Appraisal Report and the books of accounts is not reconciled. Consequently, the dropping from the books of the cost of the land totalling P39,031,614.49 despite the noted discrepancy of 29,251,965.60 sq.m. was of doubtful validity and accuracy for the following reasons:

The difference in land area due to simple “typographical error” does not necessarily entail adjustment to the cost of the land, unless there is sufficient proof of showing the correct land area which can be determined only thru survey of the property.

- 7.6. Granting that the said transaction was proper at that time, the adjustment made in CY 2014 to Retained Earnings was found not valid and not verifiable because of the failure of the Finance Department to provide information on the accounting entries to record the sale.
- 7.7. The adjustment to Retained Earnings and Land accounts without an in-depth analysis of the previous transactions but solely to comply with the required reconciliation of records is not acceptable in audit.

- 7.8. ***We recommended and Management agreed to:***

- a. ***On the adjustment amounting to P228.18 Million, submit proof that there was an appraisal on the land in previous period;***
- b. ***On the adjustment amounting to 39.03 Million,***
  - i. ***Revert the entry made considering the reason for dropping from the books of accounts was merely due to “typographical error” which is not acceptable in audit; thereafter, prepare reconciliation with accounting records and necessary adjustments;***
  - ii. ***Secure from Land Registration Authority (LRA) the information on the actual land area to determine the correct total of land sold to Silhouette Trading. Thereafter, analyze the transaction and prepare necessary adjustments; or***
  - iii. ***Conduct an independent survey of all land and land rights to determine the actual area of the land, and reconcile the discrepancy of 29,573,398.09 sq.m.***

8. **Income from rental of leased properties in the amount of P86.797 million was not properly reported due to:**

- a. **Absence of contract of lease for collected rent income amounting to P23.204 million;**

- b. **Recognition of income pertaining to prior years but collected in CY 2014 with an aggregate amount of P10.290 million as current year's income contrary to PAS 1 and paragraph 92 of the Conceptual Framework for the Preparation and Presentation of Financial Statements;**
  - c. **Negative results of confirmation of receivables from lessees in the amount P7.019 million; and**
  - d. **Receivables from various lessees in the amount of P5,051,235.63 without supporting documents.**
- 8.1. PAS 1 paragraph 25-26 provides that "an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. When the accrual basis is used, items are recognized as assets, liabilities, equity, income and expense (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework."

On the other hand, the Framework for the Preparation and Presentation of Financial Statements provides that "income is recognized when it is probable that an increase in future economic benefit related to an increase in or a decrease in a liability has arisen and that the increase in economic benefits can be measured reliably."

8.2. Audit of the income from leased properties of MWSS revealed the following:

- a. The correctness of the amount of rent income was not ascertained due to the absence of contract of lease.
- b. Payments were found to have been received from lessees whose contract of lease has expired and there were no action from Management to renew the lease agreement. As a result, we were not able to ascertain on the correctness of the amount collected as income from the lease of the property; these are the following:

Date Contract Expired	Lessee	Amount
October 19, 2011	Manila Water Company, Inc	18,097,798.56
Different dates	41 Right Of Way Lessees	2,690,509.95
July 31, 2008	Globe Telecom	1,167,671.37
June 30, 2009	Smart Communications	1,228,748.96
February 28, 2010	PWWA	19,137.60
Total		23,203,866.44

- c. Lease income in the amount of P10,289,929.41 pertaining to prior years was taken up in the books of accounts as income for CY 2014, details of which are as follows:

Particulars	Amount
Lease income from the use of facility by the Supreme Court of the Philippines for the period May 2012 – December 31, 2013 were recorded as current year's income	6,161,764.71

Adjustment in rental income by Maynilad Water Services Inc. (MWSI) covering the period October 2011 to September 2014 was recognized in full as income for CY 2014	4,128,164.70
<b>Total</b>	<b>10,289,929.41</b>

- d. The lease income earned for the use of the MWSS building by the Supreme Court of the Philippines from May 2012 to December 31, 2014 in the total amount of P 15,161,764.71 was recorded as income for the year. The income earned during the year should only be P9,000,000; thus an overstatement of P6,161,764.71 computed as follows:

Particulars	Amount
Income per Subsidiary Ledger 642-03-000-865-512-000	15,161,764.71
Less: 750,000/month x 12 months (Jan – Dec 2014)	9,000,000.00
<b>Overstatement</b>	<b>6,161,764.71</b>

- e. The adjustment in rental income with aggregate amount of P6,886,655.70 for the use of facilities by Maynilad Water Services Inc. (MWSI) covering the period October 2011 to September 2014 was recognized in full as income for CY 2014. As shown below, the income earned for the year should be P2,758,491 or an overstatement of P4,128,164.70.

Particulars	Amount
Total Adjustment made:	6,886,655.70
Less:	
Adjustment 306,499.00 x 9 months (Jan-Sep 2014)	2,758,491.00
<b>Overstatement (adjustment to rental for the period Oct 2011 – December 2013)</b>	<b>4,128,164.70</b>

- f. The result of confirmation to lessees of receivables on leased properties with an aggregate amount of P7,019,350.19 showed reporting differences between the book balance and the amount confirmed by the lessors as discussed below:

- i. The book balance of amount receivable from the following lessees was higher by P1,864,622.23 than the confirmed amount, to wit:

Lessee	Per Books	Per Confirmation	Difference
OGCC	5,658,537.14	5,118,128.50	540,408.64
LWUA	108,001.00	36,599.46	71,401.54
PWWA	5,238.47	-	5,238.47
PNB	89,181.22	-	89,181.22
MWSI	1,158,392.36	-	1,158,392.36
<b>Total</b>	<b>7,019,350.19</b>	<b>5,154,727.96</b>	<b>1,864,622.23</b>

- ii. The books of accounts of MWSS CO showed that Manila Water Co. Inc. (MWCI) has an abnormal credit balance of P199,103.43. On the



other hand, MWCI confirmed the amount of P1,537,620.95 as the total lease due to MWSS CO as of yearend.

- g. Receivables from various lessees in the amount of P5,051,235.63 lacked supporting documents such as contracts and statement of accounts.
- h. Analysis of receivable accounts relating to leased properties showed dormant receivables of more than seven years with total amount of P5,087,916.52, as follows:

Lessee	Account Number	Amount
DPWH – Office Rental	136-01-01	1,209,411.05
DPWH – Others	136-01-04	2,654,086.44
PRRC - Office Rental	136-03-01	391,343.40
PRRC – Electricity	136-03-02	443,799.01
Multi Media Telephony	149-01-004-574-945-000	388,098.43
J. Buniao (Canteen)	149-01-05-000-000-000-204	1,178.19
TOTAL		5,087,916.52

These accounts were receivables prior to privatization of MWSS in CY 1996.

- i. Inquiry revealed that the Property Management Division and the Finance Department have no copy of the contract of lease to enable them to enforce collection from the above lessees. Moreover, these accounts were receivables prior to privatization of MWSS in 1996.
- j. Error in computation resulting in the overstatement of lease income by P395,232.61 was observed in the following transactions:
  - i. Income recognized for the month of November 2014 overstated the account by P 308,816.38 computed as follows:

Particulars	Amount
Set up of receivable for the month of November with JEV No. 2014-10-004153	3,392,603.76
Rental Rate: 7,058.66 sq.m x Php 436.88	3,083,787.38
Overstatement	308,816.38

- ii. Income from the lease of Philippine Water Works Association (PWWA) and the Philippine National Bank was recorded twice in the books resulting in an overstatement of P86,416.23. Details shown below:

Lessee	Particulars	Amount
Philippine National Bank	The collection of lease for the month of April 2014 was recorded as income under JEV No. 2014-01-000225 when it was already recognized in the books under JEV No. 2014-01-000204 when billed.	84,821.43
Philippine Water Works Association	The collection of lease for the month of April 2014 was recorded as income under JEV No. 2014-04-001656 when it was already recognized in the books under JEV No. 2014-04-001919 when billed.	1,594.80
Total		86,416.23

**8.3. We recommended that Management:**

- a. ***Require the Property Management Department to renew lease contracts in accordance with government rules and regulations and MWSS policy on lease of ROWs as signed contracts served as legal document/basis for the collection of income from leased property;***
- b. ***Comply with the provisions on recognition of income under paragraphs 25-26 of PAS 1 and paragraph 92 of the Conceptual Framework for the Preparation and Presentation of Financial Statements;***
- c. ***Reconcile discrepancies of receivable from lease of properties with the lessees and make necessary adjustments, if necessary;***
- d. ***Consider requesting from the Commission on Audit for authority to write off from the books, accounts which qualifies for de-recognition pursuant to the guidelines in COA Circular 97-001 dated February 5, 1997 on the Guidelines on the Proper Disposition/Closure of Dormant Funds, and COA Resolution No. 2003-002 dated January 30, 2003; and***
- e. ***Require the Finance Department to first determine if the amount of rent collected was already billed and recorded as income before the same is recorded in the books to avoid double recording of revenue.***

8.4. Management has not submitted its comments on the audit observation.

9. **The share of MWSS equivalent to 40% share in the net income from CYs 2004 to 2014 on the operation of the La Mesa Ecopark (La Mesa Resort Zone) by the ABS CBN Foundation Inc. (AFI) remained unrecorded as receivables in the books due to the unresolved issue on the 15% management fee being charged by AFI. Likewise, the post facto approval by the MWSS Board of Trustees of the Memorandum of Agreement (MOA) which will make the agreement fully effective has not been secured.**

- 9.1. In the Annual Audit Reports from CY 2011 to CY 2013, we recommended, among others, that Management should:
- a. Seek the approval from the MWSS Board of Trustees of the 15% management fee being charged by the AFI in order to comply with Section 1.1 of the Memorandum of Agreement;
  - b. Require the post facto approval and ratification of the MOA to enable the Agreement to be fully effective. Otherwise, the MOA could be considered null and void, ab initio.
- 9.2. In response to the above stated recommendation, Management created an audit team in CY 2013 tasked to examine the financial documents of Bantay Kalikasan(BK)/ABS-CBN Foundation Inc. on the conduct of operation of the La Mesa Ecopark (La Mesa Resort Zone). The audit was conducted on April 16 and 18, 2013 at the office of the AFI. We were informed that the MWSS audit team has submitted its findings and observations to Management.
- 9.3. It appears that no decision or action has been taken by Management on the findings by the MWSS audit team. There was no book entry as of December 31, 2014 taking up the amount of Accounts Receivable from AFI or income earned from La Mesa Ecopark Operation.
- 9.4. It was noted that the share of MWSS from the net income from CYs 2004 to 2011 amounted to P19,184,075 if with 15% Management Fee by AFI and P7,420,015 if without Management Fee.
- 9.5. The Agency Action Plan and Status of Implementation (AAPSI) submitted by Management disclosed that a meeting was held in November 2014 between MWSS and the representatives of the AFI to settle the issue on the unremitted income on the operation of the La Mesa Eco Park.
- 9.6. ***We reiterated our prior years' audit recommendations that Management:***
- a. ***Collect the 40% share in the net income from CYs 2004 to 2014 on the operation of the La Mesa Ecopark (La Mesa Resort Zone) by the ABS CBN Foundation Inc. (AFI);***
  - b. ***Settle the issue on the 15% management fee deducted from the gross revenue as management fee of AFI; thereafter, secure the approval of the Board of Trustees in order to comply with Section 1.1 of the MOA; and***
  - c. ***Look into the effectivity of the MOA considering that it has no post facto approval/ratification by the Board of Trustees as of to date and therefore not in compliance with the provision of Section 22 thereof.***

- 9.7. ***If the Agreement were to be found valid, we restate the prior years' recommendations, as follows:***
- a. ***Create the LMRZ-EC that will formulate policies regarding the LMRZ aside from other functions and responsibilities stated in the MOA. Upon creation, members of said body should convene regularly to address and assess the operations and concern of the LMRZ/La Mesa Ecopark;***
  - b. ***Clearly designate the stewardship and control of the Environmental Trust Fund to either LMEB or the LMRZ-EC; and***
  - c. ***Comply with the provisions of Section 6 of the MOA in order to maintain sound internal controls by opening an account in the name of the three (3) contracting parties. All transactions shall be authorized with the consent of MWSS representative***
- 9.8. Management informed that discussions were already made with the AFI on the 15% management fee deducted from gross revenue of La Mesa Eco park by AFI and no final decision has been made by Management.
10. **Reconciling items for Cash in bank – Savings and Current accounts totaling P3.265 million remained unadjusted in the books of accounts despite prior years' audit recommendation for Management to follow up the submission by the banks of the documents necessary to immediately reconcile the discrepancies noted. Other deficiencies noted are:**
- a. **Discrepancy of P867,110 existed between the Cash in bank – Time deposits (local and foreign currency) accounts book balance and the confirmed bank balance.**
  - b. **Weaknesses in the recording of check disbursements were observed, resulting in unrecorded disbursements and inaccurate schedule of outstanding checks.**
  - c. **No bank reconciliation statements had been prepared for Foreign Currency Savings account since CY 2000 as required under Section 74 of PD 1445.**
- 10.1 The bank reconciliation statement, a mandatory accounting report, is a tool to determine the propriety of the recorded Cash in Banks. Reconciliations help ensure that the cash in bank balance total is correct, determine what outstanding payments have not cleared, establish any discrepancies and prepare necessary adjustments to arrive at accurate cash balance at the end of the year.
- 10.2 Review of the bank reconciliation statements submitted showed the following:

- a. Various reconciling items totaling P3,265,210.78 have been continuously carried in the monthly reports which however, remained unadjusted by Management despite our audit recommendation to follow up with the banks the submission of documents necessary to immediately reconcile the discrepancies noted. The details are as follows:

Schedule of Cash in Bank – Savings Accounts Reconciling Items				
As of December 31, 2014				
Bank	Account No.	Details/Description	Year	Amount
DBP	0405-018508-530	Unrecorded Credits	2000 & 2003	(800,644.39)
		Unrecorded Debits	2000;2001;2005	4,110,179.39
		Bank Charges	2014	103.00
Sub-total				3,309,638.00
LBP	0011-3393-36	LBP Top Special Account – per confirmation with the bank, the account has been closed	2014	96,061.35
Sub-total				<b>96,061.35</b>
PNB combo account	116-521-900-112	Unrecorded payment of PNB on Meralco (electric consumptions)	2013 & 2014	(195,494.05)
		Unrecorded Credits	2009 & 2011	(10,000.96)
		Unrecorded fund transfer to Current Combo Account in 2007	2007	15,000.00
		Bank Charges	2012 & 2013	304.50
		Claim as overpayment made by the bank against MWSS' account	2007;2011;2012	23,924.75
		Claim as double take-up/charging of the bank against MWSS' account	No data available	6,069.96
Sub-total				<b>(160,195.80)</b>
PNB (combo account)	116-521-900-104	Claim as double take-up/charging of the bank against MWSS' account	2007 & 2008	33,203.23
		Bank Error: Credit made to MWSS account	2014	(13,496.00)
Sub-total				<b>19,707.23</b>
Total				<b>3,265,210.78</b>

- b. Confirmation of the Cash in Bank Time Deposits account (local and foreign currency) with the bank showed a discrepancy between the book and bank balance, with the latter higher by P867,110.09, to wit:

Cash in bank Time Deposits Result of Confirmation				
For CY 2014				
Bank	Account No.	Book Balance	Bank Balance	Discrepancy
Local Currency Time Deposit				
LBP	various	1,936,126,756.33	1,936,167,767.93	41,011.60
PNB	various	27,206,095.48	28,030,473.65	824,378.17

DBP	various	209,352,427.05	209,352,427.26	0.21
Sub Total		2,172,685,278.86	2,173,550,668.84	865,389.98
Foreign currency time deposit				
LBP	1469-0072-74	1,134,512.39	1,135,777.94	1,265.55
PNB	11652194600000 24	188,997.25	189,451.81	454.56
Sub total		1,323,509.64	1,325,229.75	1,720.11
Total		2,174,008,788.50	2,174,875,898.59	867,110.09

c. Weaknesses in the preparation of bank reconciliation statements and in the recording of check disbursements were observed resulting in the following:

i. Inaccurate list of outstanding checks in the bank reconciliation statement for the PNB accounts due to:

- There were checks appearing in the report as outstanding but were already released to the payees and encashed in the bank totaling P255,764.45, see below:

List of reported outstanding checks but verified encashed in the bank					
As of December 31, 2014					
PNB Account No. 116-521-900-073/244-850075-9					
Date	JEV No	Check No.	Amount	Date released	Date encashed
March 2012	2012-03-000978	36623	12,600.00	02.22.12	02.22.12
April 2012	2012-04-001930	35689	2,424.00	07.05.11	07.05.11
December 2013	2013-12-006343	220966	19,473.21	11.07.13	11.07.13
March 2014	2014-03-001410	224176	17,690.37	03.07.14	03.07.14
August 2014	2014-08-003550	224401	3,667.57	07.11.14	08.07.14
	2014-08-003556	224431	3,600.00	08.13.14	08.13.14
<b>Sub Total</b>			<b>59,455.15</b>		

PNB Account No. 116-521-900-065/244-850012-0					
October 2010	2010-10-008790	218260	17,311.49	09.27.10	09.27.10
May 2013	2013-05-002207/ 2013-05-002338	220864	7,218.46	05.16.13	05.17.13
	2013-05-002210 / 2013-05- 002339	220885	81,126.76	05.21.13	05.27.13
October 2013	2013-10-004379	221910	15,230.40	09.30.13	09.30.13
	2013-10-004940 / 2013-10- 006091	222482	35,634.31	09.24.13	09.24.13
	2013-12-006832	222868	18,890.73	10.04.13	12.10.13
January 2014	2013-11-005725 / 2014-01- 000001	222814	20,897.15	09.30.13	09.30.13
<b>Sub Total</b>			<b>196,309.30</b>		
<b>Total</b>			<b>255,764.45</b>		

- There were checks reported as outstanding as of December 31, 2014 in the amount of P71,316.63 but verification revealed that these were released/claimed in January 2015 and should not be reported as outstanding; see below:

Check No.	Amount	Date check was released
40619	P 10,200.00	January 22, 2015
40620	13,500.00	January 22, 2015
40621	13,500.00	January 09, 2015
40623	12,000.00	January 06, 2015
40627	2,116.63	January 06, 2015
40628	10,000.00	January 05, 2015
40632	10,000.00	January 14, 2015
<b>Total</b>	<b>P 71,316.63</b>	

- ii. Staled checks which were already released to payees were not reverted to the cash account. Those in the custody of the cashier were not stamped "Staled/Cancelled" and reported as such in the list of unreleased checks, a requirement in the accounting for stale checks under Section 52 NGAS manual. The list of stale checks is shown below:

List of stale checks				
As of December 31, 2014				
Date	JEV No	Check No.	Amount	Date released
January 2011	2011-01-000160	34887	45,000.00	01.24.11
February 2014	2014-02-000614	38396	750.00	02.03.14
July 2013	2013-07-002961	38643	8,100.00	cancelled
March 2010	2010-03-002293	216344	42,337.68	02.11.10
Nov. 2010	2010-11-009860	219074	29,656.57	
	-do-	219075	29,656.56	
	-do-	219076	29,656.56	
Nov. 2012	2012-11-005266	220863	182,447.27	11.27.12
Dec. 2013	2013-12-006362	222579	18,511.17	10.29.13
	2013-12-006273	222932	16,549.85	10.01.13
July 2014	2014-07-003206	222245	19,820.31	06.03.14

- iii. Included in the reconciling items were unrecorded checks totaling P145,424.51 some of which were found booked up but charged to another PNB account, see schedule below:

PNB - MWSS Branch - Corporate Office (Fund 07)			
Account No. 116-521-900-073 / 244-850075-9			
Date	Check No.	Amount	Remarks
June 2010	33645	20,361.69	
October 2013	22932 - (222932)	16,549.85	2013-12-006273 (Charged to PNB – Main Fund – Fund 05)
Sub Total		36,911.54	
PNB - MWSS Branch - Main Fund (Fund 05)			
Account No. 116-521-900-065 / 244-850012-0			
September 2013	221586	16,093.81	
	221729	13,866.88	
	221790 - (221910)	15,230.40	2013-10-004379
November 2013	220966	19,473.21	2013-12-006343 (Charged to PNB – Corporate Office –Fund 07)
December 2013	223868	18,890.73	2013-12-6832
March 2014	224176	17,690.37	2014-03-001410 (Charged to PNB – Corporate Office –Fund 07)
July 2014	224400	3,667.57	2014-08-003550 (Charged to PNB – Corporate Office –Fund 07)
August 2014	224431	3,600.00	2014-08-003556 (Charged to PNB – Corporate Office –Fund 07)
Sub Total		108,512.97	
TOTAL		<b>145,424.51</b>	

- iv. Checks were released to payees without the countersignature of the authorized official:

Account No.	Check		Particulars	Amount
	Date	No.		
244-8550012-0	April 30, 2014	224224	Payment of 10% COLA	30,426.21
244-850075-9	March 17, 2014	39592	Payment of salary March 1-15, 2014	6,054.12

- v. There were disbursement vouchers recorded twice in the books, to wit:

Date	Amount	Remarks
May 2013	7,218.46	Recorded under JEV Nos. 2013-05-002207 and 2013-05-002338
	81,126.76	Recorded under JEV Nos. 2013-05-002210 and 2013-05-002339
October 2013	35,634.31	Recorded under JEV Nos. 2013-10-004940 and 2013-10-006091
January 2014	20,897.15	Recorded under JEV Nos. 2013-11-005725 and 2014-01-000001



- d. MWSS CO did not prepare bank reconciliation statements for its Foreign Currency Savings accounts required under Section 74 of PD 1445 since CY 2000, namely:

Bank	Account Number
LBP	1464-0008-91
PNB	244-702234-9

The Cash in Bank – Foreign currency savings account showed a balance of P3,754.08, negative, due to the non recognition of gain or loss arising from foreign currency adjustments on various transactions and dates, a requirement in paragraph 38 of PAS 21. We noted that in the transfer of funds from PNB foreign currency savings account to foreign time deposit of the amount of \$4,241.90, no gain was recognized at the time of transfer, resulting in a negative balance of the account.

- 10.3 We reiterated our previous year's recommendations that Management make representation with the banks for the submission of the debit and credit advices and other relevant documents to support the recording of the bank reconciling items in the books. If any discrepancies are noted in the future, we advised the Management promptly notify the concerned banks so discrepancies can be properly adjusted.
- 10.4 The Acting Finance Manager informed that they have requested the banks for the documents but the result was negative.
- 10.5 ***In view of the foregoing, we recommended and Management agreed to:***
- Strengthen the internal control on check disbursements to ensure that all checks issued were duly countersigned by authorized officials and were all properly recorded in the books; thorough review of the bank reconciliation statements and its supporting schedules should be done to ascertain the accuracy of the report;***
  - Require the Finance Department to recognize gain or loss from foreign currency adjustments on the settlement of monetary items in compliance to paragraph 38 of PAS 21; and***
  - Prepare bank reconciliation statement on all foreign currency bank accounts in compliance with Section 74 of PD 1445.***

## **C.2 Reiteration of Prior Years' Audit Observations and Recommendations - MWSS RO**

- The validity of the reported balance of Accounts Payable at P87.649 million was found doubtful due to:
  - Accrual of undocumented expenses totaling P45.825 million;

- b. **Inclusion of obligation of legal expenses in the amount of P14.724 million which have been paid; and**
- c. **Inclusion of accounts with abnormal balance of P3.281 million.**

1.1 This is a reiteration of CY 2013 audit recommendation which was anchored on the following:

- a. Philippine Accounting Standard 37 which defines accruals as liabilities to pay for goods or services that have been received or supplied but have not been paid;
- b. Paragraph 61 of the Framework for the Preparation and Presentation of Financial Statements which states:

*“A distinction needs to be drawn between a present obligation and a future commitment. A decision by the management of an entity to acquire assets in the future does not, of itself, give rise to present obligation. An obligation normally arises when the asset is delivered or the entity enters into an irrevocable agreement to acquire the asset. Xxx..”*

- c. Section 40, Book 6 of the 1987 Administrative Code of the Philippines which provides that no obligation shall be certified to as accounts payable unless the obligation is founded on valid claim that is properly supported by sufficient evidence and unless there is proper authority to its incurrence. Any certification for non-existent or fictitious obligation and/or creditor shall be considered void.

1.2 The accrual of maintenance and other operating expenditures (MOOE) and capital outlay consisted of the following:

Breakdown of CY 2014 accruals	
Account	Amount
Maintenance & Other Operating Expenses	
Legal Services – arbitration panel	50,913,537.93
Electricity expenses	500,000.00
Other Professional Services	267,080.00
Gasoline, oil and lubricants	180,000.00
Miscellaneous expenses	117,315.00
Security services	77,039.91
Janitorial services	64,272.00
Rent expense	31,248.00
Repairs& Maintenance	20,000.00
Total MOOE	52,170,492.84
Capital expenditure – motor vehicle	8,378,682.00
Total	60,549,174.84

1.3 Audit of the accounts payable account yearend balance revealed deficiencies as shown below:

- a. Of the total obligated amount for legal services of P50,913,537.93, the amount of P14,723,763.85 was not a valid payable. Payment was already made as guarantee deposit for the remuneration and other expenses of the arbitrators and recorded in the books as Other Assets – Guarantee deposits. An adjusting entry should have been made to close the guarantee deposit account (other asset) instead of recognizing an accounts payable.
- b. The amount of P50,913,537.93 obligated for legal services – arbitration was not supported with invoices/official receipts. The amount accrued was arrived at by simply deducting from the total budget for arbitration the total payments during the year, as shown below:

Particulars	Amount
Budget for legal expenses	78,426,614.00
Payments during the year	27,513,076.07
Accrued expenses	50,913,537.93

- c. The other accrued expenses for MOOE and for capital expenditure in the amount of P1,256,954.91 and P8,378,682.00, respectively, were also not supported with any invoice/ billing from the suppliers/contractors, a signed contract and delivery receipt for the purchase of motor vehicles. The Evaluation of Bids for the Supply and Delivery of Motor Vehicles document attached to Journal Voucher No. 12-14-108 was not sufficient basis for the recognition of a liability. The contract for the supply and delivery of the motor vehicles was signed on February 25, 2015 only.
- d. The account *Due to Officers and Employees – Payroll* showed an abnormal or debit balance of P3,281,295.

1.4 ***For audit observation in paragraph 1.3.a, we recommended and Management agreed to prepare the necessary adjusting entries to correct the obligation of payables already paid and recorded as Guaranty Deposits.***

1.5 ***For the other audit observations, we reiterated our prior year's audit recommendations and Management agreed to:***

- a. ***Require the submission of receipts/billings/invoices to support the obligation of expenditures; and***
- b. ***Analyze the Due to Officers & Employees- Payroll account to determine the reason for the abnormal account balance and make the necessary adjustments.***

2. **The accuracy and validity of PPE accounts costing P153.162 million (exclusive of Building costing P2.815 million) as of December 31, 2014 were doubtful mainly due to:**
- The Physical Inventory Report was not reconciled with the accounting records, showing a variance of P125.928 million;**
  - Motor vehicles totaling P8.379 million not yet delivered were already recorded in the books;**
  - Various PPEs with aggregate cost of P4.896 million were improperly recorded as fully depreciated due to error in the application of the estimated useful life of the assets provided under COA Circular No. 2003-007 dated December 11, 2003;**
  - Various unserviceable assets in the amount of P3.742 million remained recorded under the PPE account instead of Other Assets;**
  - Various items costing below P10,000 were included in the PPE account; thus, overstating it by P787,105; and***
  - Laptops and cameras totaling P618,598 were not recorded in the books.**

2.1 Audit of the Property, Plant and Equipment (PPE) accounts disclosed the following:

2.1.1 ***The Physical Inventory Report was not reconciled with the accounting records, showing a discrepancy of P125,927,716.17 with the recorded balance higher than the physical inventory report.***

2.1.1.1 Analysis of the PPE accounts (excluding buildings) showed a book balance of P153,162,184.43 while the physical inventory report showed a total amount of P27,234,468.26 or a variance totaling P125,927,716.17, as shown below:

Account Name	Per Books	Per Inventory	Difference
Office Equipment	972,122.50	1,588,807.72	(616,685.22)
Furnitures and Fixtures	4,476,647.40	3,302,000.00	1,174,647.40
IT Equipment and Software	125,604,445.12	8,568,442.22	117,036,002.90
Library Books	683,209.76	695,127.90	(11,918.14)
Communication Equipment	2,209,745.49	2,109,501.84	100,243.65
Medical, Dental and Laboratory Equipment	11,500.00	21,110.00	(9,610.00)
Sports Equipment	371,513.75	373,220.00	(1,706.25)
Technical and Scientific Equipment	3,804,213.44	549,567.60	3,254,645.84
Other Machineries & Equip. –Electrical and Aircon	585,977.32	648,807.32	(62,830.00)
Other Machineries & Equip.-Tools	44,800.00	0	44,800.00
Other Machineries & Equip.-Appliances	184,333.00	146,613.00	37,720.00
Other Machineries & Equip.-Audio Visual	1,945,019.65	1,611,270.66	333,748.99
Motor Vehicles	12,268,657.00	7,620,000.00	4,648,657.00
Total	153,162,184.43	27,234,468.26	125,927,716.17

2.1.2 ***The procurement of six new motor vehicles costing P8,378,682 was already recorded in the books although deliveries were made only on March 5, 2015.***

2.1.2.1 We noted that the motor vehicles account was debited in the accrual of MWSS RO's liabilities at the end of the year. As discussed in AOM 2014-02 dated March 4, 2015, the accrual was found not valid due to lack of supporting documents. The contract for the supply and delivery of the motor vehicles was signed on February 25, 2015 while the actual delivery was on March 5, 2015.

2.1.3 ***Various PPEs with aggregate cost of P4,896,425.38 were recorded as fully depreciated due to error in the application of the estimated useful life of the assets provided under COA Circular No. 2003-007 dated December 11, 2003.***

2.1.3.1 Details of the PPEs which were erroneously recorded as fully depreciated are as follows:

PPE ACCOUNT	Cost	Book Value	Estimated Useful Life		Accumulated Depreciation as of December 31, 2014		Difference
			Per COA Circular No. 2003-007	Per Books	Per COA	Per Books	
Office Equipment	12,000.00	1,200.00	5	5	9,360.00	10,800.00	1,440.00
Furnitures and Fixtures	740,037.98	74,003.80	10	5	429,345.57	666,034.18	236,688.61
IT Equipment & Software	516,209.00	51,620.90	5	2	377,305.23	464,588.10	87,282.87
Communication Equipment	226,998.21	22,699.82	10	2	151,078.42	204,298.39	53,219.97
Sports Equipment	317,736.25	31,773.62	10	2	151,499.02	285,962.63	134,463.61
Technical and Scientific Equip.	2,469,162.06	246,916.21	10	2 & 5	1,406,862.28	2,222,245.85	815,383.57
Other Machineries (OM) & Equipment-Electrical and Aircon	26,000.00	2,600.00	10	2	13,455.00	23,400.00	9,945.00
OM & Equipment-Appliances	112,987.00	11,298.70	10	2 & 3	64,034.79	101,688.30	37,653.51

PPE ACCOUNT	Cost	Book Value	Estimated Useful Life		Accumulated Depreciation as of December 31, 2014		Difference
			Per COA Circular No. 2003-007	Per Books	Per COA	Per Books	
OM & Equipment-Appliances Audio Visual	475,294.88	47,529.49	10	2 & 5	283,804.96	427,765.39	143,960.43
TOTAL	4,896,425.38	489,642.54			2,886,745.27	4,406,782.84	1,520,037.57

2.1.3.2 The corresponding accumulated depreciation for the above PPEs as of December 31, 2014 amounted to P4,406,782.84. Using the correct estimated useful life per COA Circular No. 2003-007, the accumulated depreciation on the above PPEs should be P2,886,745.27, resulting in a variance of P1,520,037.57, thus understating the PPE account and overstating the accumulated depreciation by the same amount at year end.

2.1.4 ***Various unserviceable assets in the amount of P3,742,222.48 remained recorded under the PPE account instead of Other Assets account.***

2.1.4.1 Review of the physical inventory report showed the existence of unserviceable assets totaling P3,742,222.48 which remained recorded under the PPE account instead of the Other Assets account, details shown below:

Account	Amount
Office Equipment	639,656.86
Communication Equipment	1,906,010.62
Sports Equipment	86,995.00
Technical & Scientific Equipment	157,573.00
OM & E – Appliances	22,642.00
OM & E – Audio Visual	929,345.00
Total	3,742,222.48

2.1.5 ***Various items costing below P10,000 were included in the PPE account; thus, overstating it by P787,105.24.***

2.1.5.1 Review of the PPE schedule showed several items costing below P10,000 that were lumped together into one ITEM resulting in cost of more than P10,000 and therefore classified as PPE. This

overstated the PPE account and the related accumulated depreciation for the year.

- 2.2 Our audit also disclosed that laptops and cameras turned over by the project consultants with a total of P618,598.00 were not recorded in the PPE account (IT Equipment/Software and Other Machineries & Equipment – Audio Visual) and in the Physical Inventory Report as of December 31, 2014.
- 2.3 Further, discrepancies in the amounts between the assets sold/dropped from the books and in the physical inventory report were noted, resulting in negative subsidiary ledger balance details shown below:

Account	Per inventory report	Per books	Variance
Furniture & Fixtures	0	40,015.00	40,015.00
IT Equipment & Software	5,270,049.22	6,268,571.06	998,521.84
OM & E – Electrical & Aircon	37,380.00	37,830.00	450.00
Motor Vehicles	3,762,000.00	3,770,000.00	8,000.00
Total	9,069,429.22	10,116,416.06	1,046,986.84

2.4 ***We reiterated our prior year's recommendation and Management agreed to:***

- a. ***Reconcile the Physical Inventory Report with the accounting records;***
- b. ***Record the acquisition of assets only upon deliveries of the items purchased;***
- c. ***Prepare the necessary adjustments to arrive at the correct net book value of PPEs by using the appropriate estimated useful life of assets provided in COA Circular No. 2003-007 dated December 11, 2003;***
- d. ***Reclassify all unserviceable assets to Other Assets account;***
- e. ***Review all PPEs costing below P10,000 and reclassify the items to Semi-expendable property or Supplies and Materials expense as may be applicable as provided for under COA Circular No. 1997-005;***
- f. ***Record the twelve (12) units laptop and six (6) units digital camera in the PPE account and in the Physical Inventory Report; and***
- g. ***Analyze the PPE accounts such as Furnitures and Fixtures, IT Equipment and Software, Other Machineries and Equipment and Motor Vehicles with unserviceable cost lesser than the cost dropped from the books.***

3. As reported in the CY 2013 Annual Audit Report, the outstanding advances to UP National Engineering Center (NEC) in the amount of P5.967 million as at year end

**for the Public Assessment of Water Services Project (PAWS) was not refunded by UP to MWSS although the project was completed in 2011**

- 3.1 In the CY 2013 Annual Audit Report, we recommended that Management demand for the immediate refund of the unexpended balance of advances to UP.
- 3.2 Management explained that closure activities for the project are still on-going and that the Regulatory Office shall coordinate with UP NEC to facilitate the turnover of the PAWS equipment as well as the Financial Report to be used in the reconciliation of the advances for the eventual refund of the unexpended balance.
- 3.3 ***We recommended that Management take appropriate action to compel UP-NEC to submit the required financial statements to facilitate the liquidation of the outstanding balance.***
- 3.4 Management informed that they have already requested for an updated FS from the UP –NEC to be able to ascertain the amount of the unexpended balance of the PAWS Fund and at the same time to justify the incurrence of the expenses charges against the remaining PAWS budget balance but has not received any reply from UP-NEC. Further, due to the closure of the PAWS Project, former PAWS personnel who are now employed with another company have limited time to comply with their request.

### **C.3 Reiteration of Prior Years' Audit Observations and Recommendations Common to CO and RO**

1. **The collectability of the receivables totaling P108.553 million which consisted of Due From MWSS Officers and employees and Loans Receivable from non-MWSS employees remained doubtful due to Management decision allowing the payment of the loans at the debtor's discretion and not on the agreed monthly amortization and the inaction of Management to recover the receivables from debtors no longer connected with MWSS**

- 1.1 The year-end balance of the *Due from Officers and Employees and Loan Receivables – Others* accounts showed an aggregate total of P108.553 million for CY 2014. Details are as follows:

Account	Corporate Office	Regulatory Office	Total
Due from Officers & Employees(pertaining to loans)	55,759,178.05	0	55,759,178.05
Loans Receivable - Others	7,606,272.14	45,188,381.90	52,794,654.04
Total	63,365,450.19	45,188,381.90	108,553,832.09

- 1.2 Analysis revealed that the collectibility of the receivables/due from MWSS officers, employees and non MWSS employees is doubtful for the following reasons:



### 1.2.1 **MWSS Corporate Office –**

1.2.1.1 During the year, the amount collected was only P2,283,959.58 equivalent to 3.49% of total due from officers and employees and loan receivables totaling P65,417,064.90. This was caused by Management decision allowing the payment of loans at the debtor's discretion and not based on the agreed monthly amortization. Details are shown below:

Due from Officers and Employees	Remittances/ Collections	Incumbent	Separated	Others
Housing Loan	131,821.89	131,821.89	-	-
Car Loan	172,012.96	172,012.96	-	-
Housing Project Loan	1,724,541.08	1,387,853.11	336,687.97	-
Medicard	39,775.51	39,775.51	-	-
Fortune Care Inc.	20,365.85	16,561.73	3,804.12	-
Balara Quarter Rental	28,558.92	28,558.92	-	-
Car Loan	166,883.37	-	-	166,883.37
<b>TOTAL</b>	<b>2,283,959.58</b>	<b>1,776,584.12</b>	<b>340,492.09</b>	<b>166,883.37</b>

1.2.1.2 The outstanding balances from officers and employees who are no longer connected with MWSS totaled P12,731,760.71 or 20% of the total receivables of P63,365,450.19 of which P2,392,595.77 or 19% have been outstanding for more than 10 years. We observed that for the past several years, MWSS has not taken any action to recover the amount due from them.

1.2.1.3 There were accounts with abnormal receivable balances totaling P916,861.33 resulting from non-setup/recording of loans/receivables granted in the individual subsidiary ledgers.

Included also are accounts “for reconciliation/verification” where the name of debtors and the corresponding receivables could not be determined since there are no subsidiary ledgers, in the amount of P19,192,840.00.

### 1.2.2 **MWSS Regulatory Office -**

1.2.2.1 The year-end balance of loans receivable decreased by P973,661.47 equivalent to only 2% of the total loan receivables totaling P45,188,381.90.

1.2.2.2 The collections of P973,661.47 were received from six borrowers who are no longer connected with MWSS RO. The low collection rate was due to the non-payment of the P25 million loan (seed money) of MWSS RO Multi-purpose Cooperative and the moratorium imposed on the payment of loans due to the welfare fund and other MWSS-based loans per MWSS Memorandum Circular No. 2012-002 dated October 23, 2012.

- 1.2.2.3 In the AAPSI, Management informed that the Transfer of Certificate of Title for the land is now in the possession/custody of the Regulatory Office as additional security for the P25 million seed money/loan while development activities are on-going and until processing of the individual titles in favor of the beneficiaries and the execution of mortgages and loan documents are completed. Further, Management informed that the inability of the employees to repay their contracted obligations was due to the removal of bonuses, allowances and other benefits as their source of income.
- 1.2.2.4 We find the explanation/justification untenable since the loans were taken from government funds and the grant was not for public purpose; thus prohibited under Section 4(2) of PD 1445 which provides that government funds shall be spent or used solely for public purpose.
- 1.2.2.5 The documents pertaining to payment of P25 million to the RO Multipurpose Cooperative of the seed money for the housing program was forwarded to the COA Fraud Audit Office in accordance with COA Office Order Nos. 2010-504 and 2010-679 dated July 29, 2010 and October 15, 2010 respectively, regarding the audit of the MWSS disbursement of funds from CY 2005 to June 30, 2010.

**1.3 We recommended that Management of both MWSS CO and RO:**

- a. Reconsider its decision allowing the payment of loans at the debtor's discretion. Instead, enforce collection of monthly amortization such that the loans are fully paid within the period stipulated in the contract; and***
- b. Initiate legal action to recover the unpaid receivables from officers and employees no longer connected with MWSS.***

**1.4 For MWSS CO, we recommended that Management require the Finance Department to reconcile its records and monitor the balances due from employees, officers and non-employees thru the preparation of quarterly aging schedule.**

**1.5 Also, we reiterated our prior year's recommendation that MWSS RO Management demand for the return by the MWSS Multi-Purpose Cooperative of the P25 million seed money.**

**1.6 During the exit conference, Management of MWSS CO informed that a waiver to deduct the balance of the outstanding loans from other benefits the concerned employees will receive will be required. The MWSS RO informed that they already have signed authorization to deduct from retirement benefits any balance of loans from MWSS. MWSS RO started deducting the monthly loan payments in March 2015.**

2. **The rules and regulations on the grant, utilization and liquidation of cash advances/revolving funds/petty cash funds were not observed by the Accountable Officers/Special Disbursing Officers.**

2.1 The rules and regulations governing the granting, handling and utilization of cash advances were restated in COA Circular No. 97-002 dated February 10, 1997 for adherence by the duly designated accountable officers and to monitor and effectively control the utilization of government resources.

2.2 On the other hand, Section 1.2 of COA Circular 2012 -001 dated June 14, 2012 provides that the liquidation period for travelling expenses should be within 30 days after the return of the official/employee concerned to his official station for local travel and the liquidation period for special purpose should be as soon as the purpose of the cash advance has been served.

2.3 Review of the transactions pertaining to the grant, utilization and liquidation of cash advances/revolving funds/petty cash funds showed that the abovementioned COA Circulars were not followed. Violations in accounting and auditing rules and regulation on the utilization of the cash advance were observed, as follows:

a. Cash advance was granted even if the previous cash advance was not liquidated as shown in the schedule below:

Accountable Officer	Granted			Date of Liquidation	Purpose
	Date	Check No.	Amount		
Marivic Miguel	12/20/13	39254	29,000	01/ 22/14	To cover expenses - Reconnaissance and Inspection of Raw Water source in Palo, Leyte on January 6-7, 2014
	1/16/14	39315	150,000	02/04/14	To cover expenses - JOB fairs at UP-Diliman and Ateneo de Manila University in January 2014.
Orlando Bautista	3/13/14	39580	60,000	03/ 20/14	To defray expenses - WWD Kick-off activity for 200 participants (food and drinks)
	3/17/14	39595	48,070	04/ 23/14	To defray expenses - WWD Celebration at MOA (t-shirt, banner, food etc.)
Orlando Bautista	9/2/14	40200	36,350	10/13/14	To cover expenses -114 <sup>th</sup> CSC Anniversary
	9/15/14	40233	210,000	10/14/14	Topographic Survey of Dam Site and Other critical areas in Daraitan, Quezon

Accountable Officer	Granted			Date of Liquidation	Purpose
	Date	Check No.	Amount		
	10/10/14	40333	140,000	12/05/14	Extension of Topographic Survey
	11/12/14	40437	75,000	12/16/14	Topographic survey of Dam Site and Other critical areas in Daraitan, Quezon
	12/11/14	40579	92,125	01/06/15	To cover food expenses – Annual Christmas Gift Giving in Umiray
	12/18/14	40607	102,000	01/08/15	To cover expenses in the 2014 Christmas Celebration

- b. The liquidation of the following cash advances were delayed from one to five months contrary to the provision in Section 1.2 COA Circular 2012-001:

**MWSS – CO**

Accountable Officer/Purpose of Cash Advance	Date/End of Activity	Date of Liquidation	Date of Refund of Unexpended Cash Advance	Amount	Delay in Liquidation (no of days)
Orlando Bautista-To defray expenses of attendees to the WWD Celebration at MOA (t-shirt, Banner, Food, etc)	March 21, 2014	April 23, 2014	April 23, 2014	48,070	33
Orlando Bautista-To defray expenses on the 49 <sup>th</sup> Project Implementation Officer's Meeting (Food expenses, Tarpaulin, others)	June 4, 2014	July 01, 2014	July 01, 2014	64,000	27
Orlando Bautista- To defray expenses in the media launching of "MANILA BAYanihan, Para Sa Kalikasan"	July 18, 2014	August 4, 2014	August 12, 2012	14,000	25
Orlando Bautista-To cover expenses-114 <sup>th</sup> CSC Anniversary	September 6, 2014	October 13, 2014	October 13, 2014	36,350	37
Orlando Bautista- Topographic survey of Dam Site and Critical areas in Daraitan, Quezon	September 26, 2014	October 10, 2014	October 14, 2014 November 7, 2014	210,000	42
Orlando Bautista- Extension of Topographic survey of Dam Site and Critical areas in Daraitan, Quezon	October 21, 2014	December 05, 2014	December 05, 2014	140,000	45
Orlando Bautista-	November	December	December	75,000	23

Accountable Officer/Purpose of Cash Advance	Date/End of Activity	Date of Liquidation	Date of Refund of Unexpended Cash Advance	Amount	Delay in Liquidation (no of days)
Topographic survey of Dam Site and Critical areas in Daraitan, Quezon	23, 2014	16, 2014	16, 2014		
Orlando Bautista- To cover food expenses of MWSS Personnel and Umiray residents including toll fees in the Annual christmast Gift Giving to Indigenous People of Brgy. Umiray.	December 13, 2014	December 29, 2014	January 6, 2015	92,125	24
Orlando Bautista-To cover expenses in the 2014 Christmas Celebration	December 19, 2014	December 29, 2014	January 8, 2015	102,000	20
Imelda Ponce - To defray expenses related to Government Corporations Athletic Association (GCAA) Chess Tournament	October 30, 2014	November 28, 2014	November 28, 2014	48,000	29
Rowena Pamatmat - To defray incidental cost in the Physical Inventory of lands acquired for Laiban Dam Project situated in five (5) barangays in the Municipality of Tanay and two (2) barangays in the City of Antipolo.	February 5-20, 2014	April 21, 2014	April 23, 2014	20,000	62
Marivic Miguel – to cover expenses for MWSS' participation in the JOB Fairs at the University of the Philippines – Diliman and Ateneo de Manila University in January 2014.	January 16-21, 2014	February 4, 2014	February 4, 2014	150,000	14
Marivic Miguel – to cover expenses for the Seminar-training course on RA 7718 and its IRR-A with GPPB Updates from June 5 to June 11, 2014	June 5 to June 11, 2014	July 10, 2014	July 10, 2014	45,308	29
Lilybeth Santos - To defray expenses for the 3-day seminar-workshop on Organization Development, March 26-28, 2014	March 26-28, 2014	April 11, 2014	April 10, 2014	135,893	14

**MWSS RO –**

Accountable Officer/Purpose of Cash Advance	Date/End of Activity	Date of Liquidation	Date of Refund of Unexpended Cash Advance	Amount	Delay in Liquidation (no of days)
Joel Dominguez Kick off celebration for RO's wellness/fitness program on August 8, 2014	August 8, 2014	October 2, 2014	November 26, 2014	18,945.00	75
Emelita Romero Activities for the Consumer Welfare Month of October	November 13, 2014	November 26, 2014	December 1, 2014	50,240.75	18

- c. Cash examination of accountable officers covering expenditures from CYs 2013-2014 disclosed that there were payments out of the petty cash fund/cash advances exceeding the P15,000.00 maximum allowable limit per transaction contrary to Section 4.3.2 of COA Circular No. 97-002 dated February 10, 1997 which states that *"...Payments out of the cash advance shall be allowed only for amounts not exceeding P15,000.00 for each transaction, except when a higher amount is allowed by law and/or specific authority by the Commission on Audit. Splitting of transactions to avoid exceeding the ceiling shall not be allowed."*
- d. The table below shows the various payments exceeding the P 15,000.00 maximum allowed amount per transaction paid from the petty cash fund/cash advance:

**MWSS CO - Special Purpose Cash Advance**

Date	Accountable Officer	Reference	Particulars	Amount
2/18/2014	Marivic Miguel	26888	Meals-136th MWSS Anniversary	30,600
3/17/2014	Orlando Bautista	000838	Meals-World Water Day	60,000
3/21/2014	Orlando Bautista	Attendance Sheet	Food Allowance-World Water Day	29,000
3/28/2014	Lilybeth Santos	8790	Meals-3 day Seminar Workshop	34,933
3/28/2014	Lilybeth Santos	RER	PF-Josefina Quintana	42,000
4/10/2014	Edna Garboso	000241	Meals-BAICS	20,000
6/4/2014	Orlando Bautista	001212	49th PIO's Meeting	45,000
6/11/2014	Marivic Miguel	2099	Meals-Training on RA 9184	17,080
12/12/2014	Orlando Bautista	RER	Annual Gift Giving-Purchase of Pig	28,800
12/19/2014	Orlando Bautista	29214	Food-Christmas Party	75,000

**MWSS CO - Petty Cash Fund**

Date	Accountable Officer	Reference	Particulars	Amount
9/23/2013	Orlando Bautista	7411	Meals-MWSS Retirees	22,983.00
9/24/2013	Orlando Bautista	7412	Meals-MWSS Retirees	21,503.00
9/26/2013	Orlando Bautista	7942	Meals-MWSS Retirees	19,831.00
12/11/2013	Johnny Emmanuel, Jr.	0316	Tarpaulin (Signages)	16,000.00

**MWSS RO – Special Disbursing Officers**

DATE	Accountable Officer	Reference	Particulars	Amount
08/29/14	T. Makiling	215160	Edsa Shangrila	16,992.80
09/08/14	-do-	220280	Makati Shangrila	157,360.00
11/19/14	-do-	216894	Edsa Shangrila	69,454.00
11/19/14	-do-	223093	Makati Shangrila	59,265.23
02/04/14	Kristin C. San Pedro	206093	Edsa Shangrila	98,560.00
02/18/14	-do-	206814	Edsa Shangrila	147,840.00
02/25/14	-do-	206845	Edsa Shangrila	98,560.00
03/05/14	-do-	207525	Edsa Shangrila	98,560.00
03/18/14	-do-	208014	Edsa Shangrila	147,840.00
04/29/14	-do-	209596	Edsa Shangrila	98,560.00
07/10/14	-do-	212281	Edsa Shangrila	49,280.00
	Total			1,042,272.03

2.4 Other observations included the following:

**2.4.1 MWSS CO –**

2.4.1.1 Review of the disbursements taken from the petty cash fund/cash advances disclosed that most of the transactions were for the purchase of supplies and materials on a piece meal basis. The supplies and materials should have been included as part of the stocks/ inventory procured from the Procurement Service and readily available for use by the different offices upon requisition. If the items requisitioned are not available in the Procurement Service, Section 52 of RA 9184 provides the alternative mode of procurement under the shopping method.

2.4.1.2 The bond of some accountable officers was inadequate.

2.4.1.2.1 Section 101 of PD 1445 provides that the accountable officer shall be properly bonded in accordance with law. Treasury Circular No. 02-2009 further provides that the amount of bond shall depend on the total accountability of the officer as fixed by the Head of the Agency.

2.4.1.2.2 We noted that there were accountable officers granted additional cash advance in excess of the maximum accountability of their approved bond with the Bureau of Treasury, to wit:

Accountable Officer	Amount of Bond	Allowable Maximum accountability	Highest amount cash advance granted	Should be amount of bond
Bautista, Orlando	75,000	100,000	310,000	225,000
Ponce, Imelda	16,750	20,000	68,000	60,000
Garboso, Edna	22,500	30,000	70,000	60,000

#### 2.4.2 ***MWSS RO –***

2.4.2.1 In the liquidation documents of Joel A. Dominguez, we found the purchase of 59 pieces of T-shirts in the amount of P23,600 unnecessary. Documents revealed that the requisition of T-shirts for the kick-off ceremony for the RO's physical and fitness activities on August 8, 2014 was made on September 11, 2014 or 34 days after the scheduled activity while the delivery was made on September 15, 2014 or 38 days after the activity.

2.4.2.2 Advance payments in the amount of P14,400 for the purchase of t-shirts are not among those allowed under Section 4.3 Annex D of the IRR RA 9184.

2.4.2.3 Most of the expenses were not supported with the certificate of emergency purchase and inspection and acceptance reports which are among the documentary requirements for common government transactions under COA Circular 2012-001 dated June 14, 2012.

2.5 ***We recommended and Management agreed to comply with COA Circular No. 97-002 on the grant, utilization and liquidation of the cash advance and Section 1.2 of COA Circular 2012 -001 on its liquidation.***

3. **As in previous years, MWSS had no approved GAD plan and budget for CY 2014 required under EO 273 and Joint Circular 2004-1 of DBM, NEDA and Philippine Commission on Women (PCW).**

3.1 By virtue of Executive Order (EO) No. 273, agencies are mandated to incorporate and reflect GAD concerns in their agency performance commitment contracts, annual budget proposals and work and financial plans. Joint Circular 2004-1 pertains to the allocation of budget for GAD by at least 5% of total agency budget.



- 3.2 As in the last three years, MWSS did not comply with the requirements of the abovementioned provisions of laws.
- 3.3 ***We reiterated our prior years' audit recommendation and Management agreed to comply with the provisions of Executive Order No. 273 and the guidelines of Joint Circular 2004-1 on the deadline for the submission of GAD plans and budget.***

#### **D. Value for Money (VFM) AUDIT – MWSS CO**

1. The structural integrity of the Bigte-La Mesa Aqueduct Right of Way (ROW) traversing from Quezon City to Angat, Bulacan and composed of lands located above the water pipes and tunnel of MWSS covering an estimated length of 17 kilometers and a width of about 60 meters and the potability of the water sourced from the reservoirs were found compromised as portions of the Aqueduct ROW including its vicinity were occupied by residential houses and various business establishments and some portions were fenced by private individuals and with immovable improvements, thus resulting in the following:
  - Increasing the risks of contamination of the soil surrounding the facilities, which in turn, raises the risk of contamination of the water therein;
  - increasing the risks of leaks/breakages;
  - hindering the application of remedial measures in case of accidents; and
  - hampering efficient maintenance of the aqueduct by the concessionaire
- 1.1. The Bigte-La Mesa Aqueduct ROW traversing from Quezon City to Angat, Bulacan is composed of lands located above the water pipes and tunnel of the System covering an estimated length of seventeen (17) kilometers and a width of about sixty ( $\pm$  60) meters. The leasing of its ROWs is one of the Agency's source of income pursuant to Memorandum Circular No 02-11 which authorized the leasing of its ROWs and idle properties. However, due to the objection of the Concessionaires in view of their developmental plans and programs over the ROWs, MWSS Management sees it fit not to renew the lease contracts.
- 1.2. We conducted an inspection on January 9, 2015 to verify the extent of Management's compliance in our prior year's audit recommendations. The inspection also aimed to check on the internal controls in place to safeguard the assets of MWSS particularly its ROWs, identify and assess risks significant to the custodianship of the properties of the System and their possible impact on its operations and to verify if rental fees due to the agency are properly accounted and collected.

1.3. We were assisted by personnel from the Property Management and Engineering Department in identifying the structures and other improvements crossing the MWSS property line.

1.4. The inspection revealed the following observations:

1.4.1 Portions of the ROW are being occupied by residential houses and various business establishments which include hardwares, junk shops, sash and furniture factories, auto supply stores and bus garages. Some portions of the ROW were also fenced by private individuals and improvements like barangay roads, flood control drainage, street lights and pedestrian overpass were constructed. The MWSS landmarks were either missing or broken.

1.4.1.1 A map of the site to be inspected was used as guide starting at the La Mesa Watershed area. Stop points along the ROW were identified to facilitate the inspection, to wit:

- Amparo Subdivision in Caloocan;
- Dela Costa;
- Road 10/Victoria Wave Special Economic Zone;
- Tungkong Mangga;
- Francisco Homes;
- Camella Homes;
- Star Mall-SJDM

1.4.1.2 The results of our inspection are illustrated in some of the pictures below:

- a. In Amparo Subdivision in Caloocan, Jewel's Party Venue constructed a concrete pavement (pathway/parking space) overlapping the MWSS property Line.



- b. Other observations in the area included broken MWSS landmark; residential house inside the MWSS property line; and portion of the ROW is being cultivated by residents adjacent to the property line as fruits and vegetable garden. We were also informed by the

residents in the area that some settlers started to clean a portion of the MWSS property in the lower slope.

- c. In St. Joseph Subdivision, Tala Estate, Caloocan, the MWSS property has been improved by the Barangay as evidenced by concrete road, flood control drainage and on-going installation of street lights. See pictures below:



- d. A warehouse (hardware) overlapping the MWSS property line;



- e. In Road 10/Victoria Wave, Brgy. 186, Caloocan, a barangay road was constructed inside the MWSS Property Line;



- f. At Tungkong Mangga [Along Quirino Highway], City of San Jose Del Monte, MWSS marker is found inside Pacific Waves Resort (about 1.2 meters distance of the marker from the concrete fence of the resort).



- g. The area is also used as garage for buses as shown below:



- h. Buses of Elena Liner parked inside MWSS property (Garage)





- i. There were various establishments inside the MWSS property line as shown below:

Surplus Store



Auto Supply



Sash factory



- j. In Camella Homes, City of San Jose Del Monte, portion of La Concepcion College and other concrete structures are inside the MWSS property line.



- k. Star Mall in City of San Jose Del Monte constructed a pedestrian overpass inside the MWSS property line just above the old water aqueducts used by the Concessionaires



- l. Operational public market inside the MWSS property line



1.4.2 ***The occupancy of the settlers was not covered by lease contracts, hence, collection cannot be enforced.***

- 1.4.2.1 The abovementioned structures and improvements inside the MWSS property line are not covered by lease contracts. PMD justified that the contracts of lease for MWSS ROW properties were not renewed because Management is considering the cessation of leasing of its ROW by reasons provided in Management's reply to AOM No. CO-13-17 dated March 26, 2014, which we quote:

*5.10.2.2. The rationale and proposed process on the non-renewal of lease contracts are as follows:*

- a. The Concession Agreement (CA), specifically the Guidelines/Procedures for the allocation of the MWSS fixed assets, under Paragraph A.1.1c reads as follows:*
- b. "Aqueduct right of ways transferred to the concessionaires may be leased by the MWSS to the public through public bidding after consultation with the concessionaires." (Underline supplied)*
- c. However, the concessionaries may choose to terminate the contract when they need to use the property. Occupants of MWSS land to include the removal thereof shall be the responsibility of the concessionaire concerned."*
- d. Consistent with the CA and MC 02-11 the following are required for the issuance or renewal of a lease contract covering Aqueduct right of ways, to wit:*
- e. A clearance or no-objection from the Concessionaires and/pr Engineering Department that the proposed lease contract or renewal to legalize the utilization of the aqueduct right of way shall not be prejudicial to the integrity of the underneath aqueducts therein, before a contract may be renewed or granted.*
- f. The proposal to use aqueduct right of way, by way of lease or renew contract will be technically evaluated taking into consideration the immediate needs of the area such as the implementation of developmental, maintenance or rehabilitation project, or if the intended use shall not pose any danger not only to the water facilities therein but to life and properties in general considering that most of the aqueduct being operated and maintained by the Concessionaires have reached or are already beyond their economic life."*

1.4.2.2 We find the justification valid only to ROW leases which have been previously covered by lease contracts **but this does not apply** to the aforementioned settlers which have never entered into a contract of lease with MWSS.

1.4.2.3 Despite the claim that the presence of the illegal structures lack consent or approval from MWSS, it is our view that Management is aware of the presence of these structures and improvements. The Management has neglected the significant risks brought by these structures on top of the aqueducts and their possible impact on the agency's operations. Moreover, Management have received several advices from the Concessionaires managing the ROW, affirming their strong objection to the leasing of these properties citing the following reasons:

- a. The additional loads on top of the aqueducts will drastically affect the integrity of the water facilities increasing the risks of leaks or breakages;
- b. The presence of any structure on top of the aqueducts will delay if not completely prevent their representatives from applying remedial measures in case of accident;
- c. The use of any portion of the right of way for any purposes other than operation of the water system therein will prevent the efficient maintenance thereof and any delay in the application of any remedial measure should a breakage or leak occur would affect the quality of service of the concessionaire provides its customers;
- d. The presence of any business within the vicinity of the aqueducts increases the risks of contamination of the soil surrounding the facilities, which in turn, raises the risk of contamination of the water therein; and
- e. Section 28 of R.A. 7279 otherwise known as the Urban and Housing Act of 1992 considered waterways as danger areas. Consequently, pipelines and aqueducts are considered as waterways that need to be protected and secured from conditions that amplify the probability of leaks, breakages or contamination.

1.4.2.4 Management also explained that *“most of the aqueduct being operated and maintained by the Concessionaires have reached or are already beyond their economic life”*. Hence, by tolerating



private individuals and entities to introduce structures and other improvements on top of the old aqueducts, it is apparent that the Property Management Department-Right of Way Unit neglected its duty as it failed to safeguard the ROW properties of the agency which adversely affects the efficient discharge of the System's mandate as provided for in the MWSS Charter which we quote:

*Section 1. Declaration of Policy. The proper operation and maintenance of waterworks system to insure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes and the **proper operation and maintenance of sewerage systems are essential public services because they are vital to public health and safety.** It is therefore declared a policy of the state that the establishment, operation and maintenance of such systems must be supervised and controlled by the state (emphasis supplied).*

**1.4.3 Selective demolition of unauthorized structures within MWSS properties was observed resulting to risks which are detrimental to MWSS' interest on its ROW properties and to its operations.**

- 1.4.3.1 Among the duties and responsibilities under Section VII.C.d.5 of the Terms of Reference of the contract for security services entered into by MWSS with Catalina Security Services, Inc. is to *"to conduct regular inspection of MWSS properties such as Right-of-Way (ROW) and to summary **demolish new structures within MWSS properties**"*
- 1.4.3.2 Review of the reports of the security agency furnished by the PMD showed that only report of demolition of structures made up of light, shanty and semi-concrete materials were reported on.
- 1.4.3.3 It is apparent that the security agency has become selective on the discharge of its duties as stipulated in the contract by reporting on the demolition of the small structures only.

**1.5. We recommended that Management:**

- a. ***Cause the immediate relocation of the illegal settlers along the aqueduct right of way;***
- b. ***Demolish the structures and unauthorized improvements constructed along the MWSS Right of Way at owner's expense;***
- c. ***Enforce collection of rental fees to serve as just compensation for the use of MWSS ROW by private entities or institute legal action for their use without prior consent or approval from the System;***

- d. ***Enforce compliance by the MWSS-hired security services with the contract provision on the safeguarding of property; and implement the provision of Section G of the Terms of Reference of the contract on the corresponding penalty or damages, if any; and***
  - e. ***Investigate possible irregularities on the management of ROW and furnish this Office on the result of the investigation.***
- 1.6. During the exit conference, the Administrator instructed the Manager, Property Management Department to submit a Battle/Strategic/Master Plan regarding the Right of Ways with emphasis on which ROWs are prioritized for demolition by the Concessionaires and which are still available to generate income in a span of 2 to 3 years.
- 1.7. The Manager, Property Management Department gave the following comments:
  - a. On October 16, 2014, the Common Purpose Facilities(CPF) started the BNAQ ROW fencing of priority segment from Norzagaray, Bulacan to La Mesa, Quezon City with an initial cost of P28 million. As of May 5, 2015, the CPF reported that the project is about 97% complete for the Bulacan segment. With the on-going fencing and clearing of the ROW, MWSS and CPF is currently addressing the issue of the structural integrity of the water aqueducts and the potability of the water source.
  - b. With the fencing of the MWSS ROW, the issues will be finally resolved due to the relocation survey conducted by MWSS and CPF preparatory to the fencing project.
  - c. The informal settlers subject of the COA findings are the remaining settlers not directly affected during the implementation of the BNAQ project in CY 2010.
  - d. As to allegations of selective demolitions by the security guards assigned in the area, it is informed that they are not authorized to conduct forced demolition of existing structures. It is the local government in coordination with the local inter agency committee to be created for said purposes that have authority to conduct forced demolition in accordance with RA 7729.
- 1.8. As our rejoinder, the Terms of Reference Section VII.C.d.5 of of the contract for security services entered into by MWSS with Catalina Security Services, Inc. stated that their duties and responsibilities is to ***“to conduct regular inspection of MWSS properties such as Right-of-Way (ROW) and to summary **demolish new structures within MWSS properties**”.***
- 1.9. **Moreover, pipelines and aqueducts are waterways which are considered danger areas, which need to be protected and secured from conditions that increase probability of leaks, breakages and contamination.**

2. **MWSS incurred revenue loss from raw water due to**

- a. **The failure of MWSS to perform its contractual obligation to repair/replace defective and missing water meters of the raw water customers;**
- b. **Allowing the use of defective water meters and tolerated some customers with no meters;**
- c. **Uncollected arrearages of P2.18 million since CY 2007; and**
- d. **Increase in the number of raw water consumers with defective water meters from three customers in CY 2010 to 12 customers in CY 2014**

**Also, billing and collection function for Raw Water accounts were concurrently handled by only one person, a weakness in internal control which poses the risk of misappropriation.**

2.1 The conveyance of raw water is one of the revenue-generating activities of MWSS. As of November 30, 2014, income from raw water amounts to P49.37 million.

2.2 Prior to CY 2003, the two concessionaires (MWSI and MWCI) are responsible for the approval of customer's application, installation of water meters, including the billing and collection thereof. However, since the Bigte-Novaliches Aqueduct is not covered by the service area of the concessionaires, MWSS assumed full responsibility over the conveyance, billing and collection activities for its customers tapped to the Aqueduct.

2.3 The policies governing these accounts are contained in the "Policies and Guidelines for Raw Water Accounts" drafted by the Bulacan Raw Water Ad-Hoc Committee. The committee was directed to prepare and implement systems and procedures to assume raw water collections in Bulacan, to reduce and eliminate pilferages, leakages and wastage and to carry out other functions as the Administrator may designate.

2.4 The year-end audit disclosed the following observations:

2.4.1 ***MWSS failed to perform its contractual obligation to repair/replace defective and missing water meters of the raw water customers.***

2.4.1.1 The contract for raw water service connection provides that MWSS has the obligation :

1.xxx

2. *To repair or replace the water meter free of charge except when the water meter is found to have been tampered, intentionally damaged or rendered non-functional due to the act of the Applicant/Concessionaire or by any known or unknown third person(s) in which case the Applicant/Concessionaire agrees to pay to the MWSS the*

*actual cost of the damage. The MWSS has the discretion whether to disconnect and/or prosecute the person who caused the damage;”*

- 2.4.1.2 Audit of the accounts revealed that out of the 22 registered raw water customers, two of them have no meters; ten have defective meters and only ten water meters are in good working condition.
- 2.4.1.3 In the review of compliance of MWSS to the said provision of the contract, the Ad-hoc Committee was directed to maintain a revolving fund of P50,000.00 subject to replenishment for the purpose of covering the costs of maintaining the water meters.
- 2.4.1.4 Based on the documents obtained from Management, the then MWSS Administrator signed an Office Order authorizing the Bulacan Raw Water Ad-Hoc Committee to draw a cash advance/revolving fund amounting to P100,000.00. However, upon confirmation from the then Co-Chairman of the Committee, such revolving fund did not materialize.
- 2.4.1.5 As a result, MWSS is charging the customers with no meters including those with defective meters, a monthly billing based on the average of 3-month consumption. As these customers have been charged on their average bills, it has the effect of charging them with fixed amount over time.
- 2.4.1.6 Section II.6 of the Service Contract executed between MWSS and its raw water customers states that:

*“In the event the water meter is stolen, destroyed, tampered or become non-functional due to customer fault, the latter agrees to pay the raw water bills regularly equivalent to the **average consumption for three (3) months normal consumption, or on the number of users and household fixtures whichever is greater until a working meter is installed**, computed immediately proceeding the date said meter becomes defective, stolen or become non-functional as foretasted” (emphasis supplied)*
- 2.4.1.7 While the contract provides for the 3-month averaging as an alternative billing scheme in case of customers without or with defective water meters, MWSS should have observed diligence in the performance of its obligation by purchasing and installing new meters for its customers.
- 2.4.1.8 The Engineering Department informed that the use of flow [water] meters is the only means available to monitor the water consumption of its customers.
- 2.4.1.9 However, since a large number of customers do not have or have defective water meters, monitoring the water consumption of these

accounts is impaired, hence, the risk of water pilferage and revenue loss to MWSS.

2.4.1.10 It was observed that billing to customers using the 3-month averaging has already been in practice for a considerably long period of time, showing laxity on the part of MWSS in the performance of its obligations as stipulated in the service contract. The lack of willful action to replace the missing meters or repair the defective meters renders the use of the averaging scheme questionable because these figures do not reflect the actual water consumption of the customers.

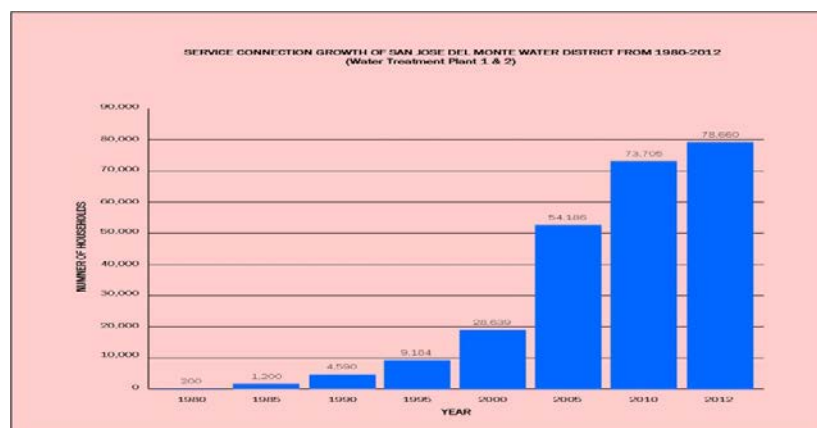
**2.4.2 MWSS allowed the use of defective water meters and tolerated some customers with no meters that may have resulted to low income from raw water customers.**

2.4.2.1 To date, MWSS has 22 registered raw water customers composed of residential, water districts and other business establishments.

2.4.2.2 San Jose Del Monte Water District (SJDMWD) is the largest among the raw water customers of MWSS and it maintains two water treatment plants. Water Treatment Plant 1 which has no water meter is billed on the average of 3 months consumption while Water Treatment Plant 2 is based on actual consumption until CY 2011. In CY 2012, the water meter became defective and the billing was based on the average 3 months consumption.

2.4.2.3 According to the CY 2012 Performance Report of the SJDMWD (as published in their website), their service connections numbered 78,660 households, which is equivalent to a population of 526,000 or 60% of the city's population. The service coverage area increased by 24,474 households from CY 2005 to 2012 and there are about 3,600 projected new water service connections for the year 2013. To date, SJDMWD services the whole City of San Jose Del Monte.

2.4.2.4 The table graph taken in the performance report showed that the service connection growth is almost twice as much as the customers in CY 2000, as shown below:



- 2.4.2.5 Based on the table graph, it can be concluded that the water consumption of the water district also increased. However, the MWSS accounting records showed that the amount of raw water income from SJDMWD Water Treatment Plant 1 from CY 2007 to 2014 showed no increase as shown below:

Year	Amount received (in million)
Water Treatment Plant 1 -	
2007	15.35
2008	15.35
2009	15.35
2010	15.35
2011	14.76
2012	15.35
2013	15.45
As of Nov 2014	14.07
Water Treatment Plant 2	
2007	27.70
2008	28.13
2009	29.30
2010	31.20
2011	33.93
2012	34.31
2013	34.31
As of Nov 2014	31.45

- 2.4.2.6 The increase in raw income from Water Treatment Plant 2 from CY 2007-2011 was due to the payment of the water district based on actual water consumption. As shown above, from CY 2012 to 2014 the raw water income remains constant as the payment was on the average 3-month consumption due to defective meter. Considering the increase in the number of customers of the water district as reported in the CY 2012 performance report of SJDMWD , the amount of raw water income collected should also increase proportionately.
- 2.4.2.7 This observation is corroborated by the MWSS Engineering Department's Report of Regular Monthly Reading of Raw Water Accounts dated July 9, 2014, and we quote:

“Please be informed that out of 22 raw water accounts, 12 accounts have no/defective water meters which resulted to average billings. These 12 accounts are considered big consumers particularly the two accounts of San Jose Del Monte Water District which covers 58 out of 59 barangays or 98% their service area. **The Water District Treatment Plant No. 1 had an average billing of 403,783 c.u.md while Treatment Plant No. 2**

**had 902,468 c.u.md or a total of 1,306,251 c.u.md, which we believe is quite small”(emphasis supplied)**

2.4.2.8 Furthermore, in a Memorandum of Agreement (MOA) dated January 28, 2014, MWSS granted the request of SJDMWD for an additional 30 million liters per day (mld) allocation of raw water due to growing water demand. The MOA provided that “xxx as part of the condition for the grant of the additional 30 MLD raw water allocation, the **WATER DISTRICT** agrees to repair/replace the defective flow meters of its WTP Nos. 1 & 2, in accordance with Article I, Section B.6 hereof;”

2.4.2.9 Article 1, Section B.6 requires SJDMWD to “implement continuous maintenance/replacement of the flow meter/s and its accessories at no cost to MWSS...”

2.4.2.10 To date, San Jose Del Monte Water District has been billed on the average three-month consumption. We have no information on the actions taken by MWSS to implement the above provisions of the MOA as well as the action taken on the report of MWSS Engineering Department dated July 9, 2014 (item 2.4.2.7 above).

**2.4.3 Increase in the number of raw water consumers with defective water meters from three customers in CY 2010 to 12 customers in CY 2014**

2.4.3.1 Aside from the San Jose Del Monte Water District, the other raw water consumers with defective/no meters included the Norzagaray Water District/Carlos Rayo and other private individuals with average monthly water consumption ranging from 100 to 10,000 cubic meters .

2.4.3.2 The number of defective water meters increased considerably from three in CY 2010 to 12 in CY 2014 or 55% of the total raw water consumers. This will underscore the laxity and inaction of MWSS to perform its obligation to provide/maintain the water meters of its raw water customers.

2.4.3.3 Allowing the above-mentioned large consumers to continue operations or use of raw water without water meters for several years now is an area of concern as this appears to be willful inaction which may constitute negligence on the part of MWSS.

**2.4.4 Billing and collection function for Raw Water accounts are concurrently performed by only one person, a weakness in the internal control which poses the risk of misappropriation and undue loss to the System.**

2.4.4.1 The audit also revealed that Billing and Collection functions for these accounts are concurrently performed by only one personnel from Finance Department. It was also noted that although the

personnel is authorized to collect and properly bonded with the Bureau of Treasury, he was not issued separate bundle of Official Receipts. Instead, the agency's regular collecting officer lends him Official Receipts hence; no separate report of accountability is prepared by the personnel collecting the raw water payments.

2.4.4.2 The lack of compensating controls in place causes undue loss to the agency as observed in the following instances:

- a. Arrearages in water consumption billings of some customers;
- b. Uncollected surcharges for late payments; and
- c. No aging of receivables is prepared

2.5 ***Considering the above findings, we recommended that Management:***

- a. ***Comply with the provisions of the contract for raw water service connection by purchasing and installing water meters to ensure that accurate water consumption are billed and collected;***
- b. ***Take action to repair all defective meters and henceforth, maintain them as provided in the Policies and Guidelines on Raw Water Accounts and the Service Contract;***
- c. ***Strictly monitor unusual fluctuations in water meter consumptions that may possibly suggest defect in the water meters to address such problems in a timely manner;***
- d. ***Explain and justify the lack of action to replace the water meters and take immediate action to enforce compliance of San Jose Del Monte Water District in the MOA by compelling them to repair/replace their defective water meters as part of the conditions attached to the grant of additional 30 MLD of raw water allocation;***
- e. ***Strictly monitor unpaid balances by requiring the personnel handling Accounts Receivables for raw water accounts to maintain aging of accounts receivable and impose interests and penalties to late payments of water bills; and***
- f. ***Institute controls to minimize the risk caused by incompatible duties being performed by only one personnel by designing and implementing compensating controls such as review of the work by higher authority and increase supervision on the Billing and Collection of the raw water accounts; Require the collecting officer to render a separate report of accountability.***

2.6 Management commented that the small water meters easily become defective because of sediments present in the raw water. The location of its tapping point is in the blow-off valve cover where debris are being flush out of the aqueducts. With regards to the defective and no meter treatment plant of SJDM Water District,



Management explained that they have taken every possible opportunity to have all the raw water accounts be metered by constantly coordinating with SJDMWD and the Common Property Facilities. They further informed that they will come up with policy/guidelines/procedures on the entire raw water system.

**3. Lapses in the lease of MWSS property resulted in lost opportunity for MWSS to increase rent income.**

3.1 The function of monitoring and controlling all MWSS properties is the responsibility of the Property Management Department (PMD).

3.2 Review of transactions pertaining to lease of property revealed the following:

**3.2.1 *The bidding for the lease of the lots for telecommunication towers was not initiated in CY 2014 despite Management commitment to undertake it in CY 2014. Thus, MWSS lost the opportunity to collect higher rental rate.***

3.2.1.1 In CY 2012 Annual Audit Report, we recommended that Management offer the lots, where the telecom towers were installed, for lease thru public bidding. In its letter dated April 11, 2014, Management informed that the Property Management Department would commence the bidding for the lease of the said space in the first quarter of CY 2014.

3.2.1.2 Verification showed that no bidding was conducted and that MWSS thru the Property Management Department continues to allow the use of the lots where the telecom towers were installed, namely in the following areas:

Company	Address/Location	Remarks	Collection during the year	Period
Globe Telecom	MWSS Balara Complex, Katipunan Road, Balara, Quezon City	Contract expired on July 31, 2008	1,167,671.37	January – June 2014
	MWSS Pasig Reservoir Compound, Dona Julia Vargas Avenue, Pasig City			
Smart Telecom	MWSS Balara Complex, Katipunan Road Balara, Quezon City	Contract expired on June 30, 2009	1,228,748.96	January – December 2014
Sun Cellular/Digitel Philippines	MWSS Balara Complex, Katipunan Road Balara, Quezon City	Contract to expire on May 31, 2016	514,461.36	January – December 2014
		TOTAL	2,910,881.69	

- 3.2.1.3 The reasonableness of the rental income collected for the use of the above-mentioned facilities was not determined due to the failure of Management to offer the lease of the lots thru public bidding. The lease rate may not be the prevailing lease rate in the area where the lots are located.
- 3.2.1.4 COA Circular 88-282A dated March 3, 1988 which prescribes the uniform standards/guidelines to determine the reasonableness of the terms and rental rates of lease contracts for private or government buildings/spaces stated that *“as a general rule, rental rates are considered reasonable when they represent or approximate the value of what the LESSEE gets in terms of accommodation, facility and convenience from the leased building/space, and the LESSOR gets equitable return of his capital or investment in the construction and maintenance of the building/space.”*
- 3.2.1.5 Further, MWSS allowed the use of the lots for the Globe and Smart telecommunication towers even without an existing contract. We noted that no payment was received from Globe telecom from July to December 2014.
- 3.2.2 ***MWSS lost the opportunity to increase by 10% annually, from P58.94 to P86.28, the rental rate per square meter, on the lease of the Balara Quarters by Manila Water Co. Inc. employees. Lease from October 2013 to December 2014 was not paid due to failure of MWSS to issue billing statement to MWCI.***

***Also, employees no longer connected with MWCI continued to occupy the quarters without paying the monthly rent.***

- 3.2.2.1 On October 27, 2006, MWSS and Manila Water Company, Inc. (MWCI) entered into a lease contract for the use of the thirty-two (32) MWSS living quarters situated at Balara Filters Compound, Pansol, Balara, Quezon City. The lease was entered into for MWCI to sub-lease the same to its employees involved in the actual operation and maintenance of the Balara Filtration Plant. MWCI deducted from the salaries of the employees the rental and remit to MWSS upon billing.
- 3.2.2.2 The term of the lease was for five years and commenced on October 27, 2006, subject to an annual increase of ten percent (10%) per annum. Confirmation with MWCI showed that of the original 32 living quarters, only 17 living quarters are left occupied by sub-lessees connected to MWCI. The remaining 15 are occupied by individuals no longer connected with MWCI.
- 3.2.2.3 Review of the transaction showed that the contract of lease was never renewed after the expiration on October 26, 2011 and that

the 17 MWCI employees still occupy the Balara living quarters. Last payments were made in September 2013 and we were informed that the non payment of the lease from October 2013 to December 2014 totalling P1,168,842.28 was due to the failure of MWSS to issue billing statement.

- 3.2.2.4 Moreover, the non-renewal of the contract in CY 2011 resulted in the rental rate remaining at P58.94 per square meter. The rate should have increased to P86.28 per square meter or 10% per annum as provided in Section II of the contract and, therefore, MWSS could have earned additional income of P4,237,343.89 based on the following computation:

Computation of the additional income from lease of Balara Quarters			
Period	Rate per sq.m	Monthly rent for the total area of 2,298.15 sq.m.	Annual Rent
November 2011 – October 2012	64.83	148,989.06	1,787,868.77
November 2012 – October 2013	71.31	163,881.08	1,966,572.92
November 2013 – October 2014	78.44	180,266.89	2,163,202.63
November 2014 – December 2014	86.28	198,284.38	396,568.76
TOTAL			6,314,213.09
Less: Income recorded in the books from November 2011 to December 2014			2,076,869.20
Additional Income earned by MWSS			4,237,343.89

- 3.2.2.5 Ocular inspection of the 15 quarters in Balara, Quezon City disclosed that nine were occupied by former MWCI employees, two were demolished, two were vacant houses, one was occupied by an MWSS employee and another one rented by a private contractor.
- 3.2.2.6 We noted that the PMD allowed them to occupy the houses notwithstanding their non payment of the monthly dues since October 2013 and the provision in the contract that the lease was only for MWCI employees involved in the actual operation and maintenance of the Balara Filtration Plant.
- 3.2.2.7 During the ocular inspection, we also found the presence of informal settlers in the Balara Compound who are occupying an area bigger than the one lease by MWCI for its employees.

3.3 ***We reiterated our previous years' audit recommendation that;***

- a. ***The two lots occupied by Globe Telecom Inc. in Balara, Quezon City and Julia Vargas, Pasig City, be offered for lease through public bidding; and***
- b. ***Similarly, the other lots leased to other telecom companies be also offered in public bidding to allow MWSS to be properly compensated for the use of its property.***

3.4 ***As regard the use of the Balara quarters, we recommended and Management agreed to:***

- a. ***Require the Property Management Department to execute a new contract with MWCI on its lease of the Balara Living Quarters, provided, that the Engineering and Project Management Department (EPMD) has determined that MWSS is in no immediate need of the area as provided in MC Circular No. 02-11 dated July 22, 2002;***
- b. ***Monitor the lessee's (MWCI) compliance with the provisions of the contract, specifically on the monitoring, reporting and eviction of the sub-lessees no longer connected with MWCI;***
- c. ***Immediately issue billing statements/statement of accounts and collect the amount due from the lessee;***
- d. ***Collect the unpaid lease from the occupants who are no longer employees of MWCI and decide on the appropriate action to be taken on these occupants; and***
- e. ***Secure the Balara Compound area to protect the said MWSS property and to avert the entry of additional illegal settlers; Take appropriate action on the illegal occupants in the Balara Compound.***

3.5 Management informed that notice of biddings for the bidding of the lease of the facilities was already published/posted in various places.

Also, Management explained that it is the responsibility of MWCI to evict or eject its sub-lessees because the contract is between MWSS and MWCI. The Property Management Department Manager informed that there is an on-going meeting with MWCI regarding the lease of the Balara Quarters.

## **E. Compliance with Tax Laws**

1. The Due to BIR account of the MWSS Corporate Office as of December 31, 2014 amounted to P7.103 million and remittance made in January 2015 totaled P3.330 million. The balance of P3.772 million pertained to adjustments to the account for transactions in previous periods which are for reconciliation/ verification and remittance to BIR.

2. In the CY 2013 AAR, we recommended that the Due to BIR account should be analyzed and supported with documents before necessary adjustments are recorded in the books and ensure that the Due to BIR account properly pertains to the amount of tax withheld from the contractors/ suppliers and employees that are to be remitted to BIR as of yearend. In the AAPSI submitted, Management reported that the analysis of the account is ongoing.

#### **F. Compliance with GSIS, PAG-IBIG Fund and Philhealth Deductions and Remittances on Premiums and on Loan Amortizations**

1. MWSS has remitted to GSIS, Pag-ibig and Philhealth the premium contributions and loan amortizations deducted in CY 2014.
2. However, as discussed in Finding B.2.2 the reported year-end balance of Inter-Agency Payables to GSIS, PAG-IBIG Fund and Philhealth of MWSS RO included abnormal debit balance of P358,486 and that a balance of P58,662 remained unremitted for more than two years that may result in the forfeiture of claims/ benefits due to the members/ employees of MWSS RO.
3. For MWSS CO, of the total amount due to the above agencies totaling P1,527,051.63 as of December 31, 2014, the amount remitted in January 2015 was P1,487,749.88 or a balance of P39,301.75 which upon verification pertains to prior years' balance subject to reconciliation due to error in posting payments made. Related observation on reconciliation of the above accounts is on Part II.B1.9.

#### **G. Unsettled Audit Disallowances, Charges and Suspensions**

1. A summary of the audit disallowances and suspensions issued as of December 31, 2014 is shown below:

<b>Particulars</b>	<b>MWSS – Corporate Audit Office</b>	<b>MWSS- Regulatory Office</b>
Audit Disallowances/Charges with Pending Appeal with the Cluster 3/Commission Proper or Without Appeal Received but Appeal Period has not yet Expired	251,623,558.07	129,928,546.90
Notice of Disallowances which are final and executory	900,000.00	0
Audit Disallowances for Prior Years transactions issued in CY 2015	830,129.00	0

2. Shown below are tables showing status of audit disallowances for transactions of the MWSS CO and RO:

<b>MWSS Corporate Office</b> <b>List of Audit Disallowances with Decisions Rendered / Pending Appeals with COA</b>				
ND NO.	Date	Nature of Disallowance	Amount	Pending Appeal with COA
10-001-05-(09)	July 16, 2010	Year-End Financial Assistance	6,565,910.90	Cluster B Decision No. 2011-007  Pending Appeal with the Commission Proper
10-002-05-(09)	July 16, 2010	Anniversary Bonus	5,417,999.39	-do-
10-003-05-(09)	July 16, 2010	Anniversary Bonus	5,688,443.56	-do-
10-004-05-(09)	July 16, 2010	Monetization of Leave credits	1,178,209.03	-do-
10-005-05-(09)	July 16, 2010	Traditional Anniversary Bonus	686,000.00	-do-
10-006-05-(09)	July 16, 2010	Mid-Year Financial Assistance	5,818,138.91	-do-
10-007-05-(09)	July 16, 2010	RATA for January 2009	104,000.00	-do-
10-008-05-(09)	July 16, 2010	RATA for February 2009	104,000.00	-do-
10-009-05-(09)	July 16, 2010	RATA for March 2009	104,000.00	-do-
10-010-05-(09)	July 16, 2010	Family Day Allowance (Regular)	1,800,000.00	-do-
10-011-05-(09)	July 16, 2010	Rate Rebasing Bonus (Regular)	5,764,746.31	-do-
10-012-05-(09)	July 16, 2010	Family Week Allowance (Regular)	6,454,899.70	-do-
10-013-05-(09)	July 16, 2010	Performance Enhancement Incentive	6,524,033.20	-do-
10-014-05-(09)	July 16, 2010	GOCC Incentive For CY 2008	5,471,382.77	-do-
10-015-05-(09)	July 16, 2010	Scholarship Allowance (1st Tranche)	3,985,333.71	-do-
10-016-05-(09)	July 16, 2010	Scholarship Allowance (2nd Tranche)	6,603,893.90	-do-
10-029-05-(09)	Aug. 16, 2010	Corporate Christmas Package for CY 2009	10,730,286.97	-do-
10-017-05-(09)	July 29, 2010	PX Mart Allowance (4th Quarter)	2,630,000.00	Cluster B Decision No. 2011-012 and COA CP Case No. 2011-371  Pending Appeal with the Commission Proper
10-018-05-(09)	July 29, 2010	Grocery Incentive Pay (1st Quarter)	2,048,273.83	-do-

ND NO.	Date	Nature of Disallowance	Amount	Pending Appeal with COA
10-019-05-(09)	July 29, 2010	Grocery Incentive Pay (2nd Quarter)	2,053,273.85	-do-
10-020-05-(09)	July 29, 2010	PX Mart Allowance (3rd Quarter)	2,635,000.00	-do-
10-021-05-(09)	July 29, 2010	Efficiency Incentive Benefit for CY 2009	5,929,843.97	-do-
10-022-05-(09)	July 29, 2010	Privatization Financial Assistance	5,679,037.49	-do-
10-023-05-(09)	July 29, 2010	Educational Assistance	5,741,017.42	-do-
10-024-05-(09)	July 20, 2010	Extraordinary Expenses	1,325,375.40	-do-
10-025-05-(09)	July 29, 2010	Extraordinary Expenses	2,111,192.85	-do-
10-030-05-(09)	Aug.18, 2010	Grocery Allowance (2nd Quarter - BOT)	77,628.50	-do-
10-031-05-(09)	Aug.18, 2011	Grocery Allowance (1st Quarter - BOT)	73,747.09	-do-
10-032-05-(09)	Aug.18, 2011	Grocery Allowance (3rd Quarter - BOT)	90,000.00	-do-
10-033-05-(09)	Aug.18, 2011	Grocery Allowance (4th Quarter - BOT)	120,000.00	-do-
Amended/Supplemental ND No. 2012-01-(05-08) dated March 15, 2012 (ND was issued by FAIO)		Various allowances and benefits for the period CY 2005 to 2008	60,483,592.40	ND issued by FAIO
13-001-05-(12)	June 13, 2013	Amelioration Allowance	3,680,227.14	CGS Cluster 3 Decision No. 2015-01 dated Jan. 14, 2015
13-002-05-(12)	June 14, 2013	COLA	14,720,328.21	-do-
13-003-05-(12)	July 1, 2013	RATA	6,001,992.84	-do-
13-004-05-(12)	July 1, 2013	RATA	2,704,617.28	-do-
13-005-05-(12)	July 1, 2013	Procurement of private health insurance	3,072,183.95	Pending Appeal with Cluster Director
13-006-05-(12)	July 1, 2013	-do-	857,205.00	-do-
13-007-05-(12)	July 1, 2013	-do-	2,985,516.00	-do-
13-009-05-(12)	Dec. 3, 2013	Hazard and Longevity Pay	1,269,627.39 5,017,297.07	-do-
14-001-05-(12)	Feb. 4, 2014	Janitorial Services	2,855,968.14	-do-
14-002-05-(12)	April 25, 2014	Rice Allowance	2,716,030.99	-do-

ND NO.	Date	Nature of Disallowance	Amount	Pending Appeal with COA
14-003-05-(12)	May 21, 2014	Welfare Fund – Government Share	11,848,750.23	-do-
14-004-05-(13)	May 26, 2014	Welfare Fund – Government Share	3,789,683.15	-do-
14-005-05-(12)	June 30, 2014	Meal Allowance	2,094,571.00	-do-
14-006-05-(12)	June 30, 2014	Meal Allowance	2,033,200.00	-do-
14-007-05-(13)	June 30, 2014	Meal Allowance	2,038,752.00	-do-
14-008-05-(13)	June 30, 2014	Meal Allowance	1,910,880.00	-do-
14-009-05-(13)	Oct. 1, 2014	Hazard and Longevity Pay	1,120,917.28 5,166,462.69	Within appeal period as of Dec. 31, 2014
14-010-05-(13)	Oct. 14, 2014	RATA	1,736,399.47	-do-
14-011-05-(13)	Oct. 3, 2014	RATA	3,649,328.00	-do-
14-012-05-(13)	Nov. 4, 2014	Rice Allowance	2,697,161.04	-do-
14-013-05-(13)	Nov. 24, 2014	Janitorial Services	3,657,198.05	-do-
<b>Total Disallowances for MWSS-Corporate Office</b>			<b>251,623,558.07</b>	

**MWSS Regulatory Office**  
**List of Audit Disallowances with Decisions Rendered / Pending Appeals**

ND NO.	Date	Nature of disallowance	Amount	Status
RO10-001-719-3(09)	7/16/2010	Anniversary Bonus (Traditional)	622,000.00	COA Decision No. 2015-04 dated January 30, 2015
RO10-002-719-3(09)	7/16/2010	Productivity Enhancement Pay (PEP)	622,000.00	-do-
RO10-003-510(09)	7/16/2010	Rate Rebasing Allowance	622,000.00	-do-
RO10-004-510(09)	7/16/2010	Rate Rebasing Incentive Pay (Premium)	622,000.00	-do-
RO10-005-510(09)	7/16/2010	Family Day & Educational Allowances	416,000.00	-do-
RO10-006-719-6(09)	7/16/2010	Traditional Christmas Bonus	793,400.00	-do-



ND NO.	Date	Nature of disallowance	Amount	Status
RO10-007-510(09)	7/16/2010	Productivity Incentive Bonus (PIB) 1	793,400.00	-do-
RO10-008-510(09)	7/16/2010	GOCC Incentive	793,400.00	-do-
RO10-009-510(09)	7/16/2010	Collective Negotiation Agreement (C N A) Incentive	793,400.00	-do-
RO10-010-510(09)	7/16/2010	Scholarship Allowance (2 <sup>nd</sup> Tranche)	793,400.00	-do-
RO10-011-510(09)	7/20/2010	Efficiency Incentive Bonus	447,400.00	-do-
RO10-012-510(09)	7/20/2010	Scholarship Allowance (1 <sup>st</sup> Tranche)	597,400.00	-do-
RO10-013-510(09)	7/20/2010	Family Week Allowance	793,400.00	-do-
RO10-014-510(09)	7/20/2010	Performance Enhancement Incentive	793,400.00	-do-
RO10-015-510(09)	7/20/2010	Calamity Economic Assistance 1	793,400.00	-do-
RO10-016-510(09)	7/20/2010	Calamity Economic Assistance 2	793,400.00	-do-
RO10-017-510(09)	7/20/2010	Corporate Christmas Package	1,033,400.00	-do-
RO10-018-717-1(09)	7/20/2010	Productivity Incentive Bonus 2	695,400.00	-do-
RO10-019-510(09)	7/20/2010	Additional Educational Allowance	311,000.00	-do-
RO10-020-883-3(09)	7/22/2010	Health & Wellness Allowance	150,000.00	-do-
RO10-021-717-1(09)	7/20/2010	Productivity Incentive Bonus 3	793,400.00	-do-
RO10-022-510(09)	7/22/2010	Rate Rebasing Additional	447,400.00	-do-
RO10-023-510(09)	7/22/2010	RATA Differential	756,000.00	-do-
RO10-024-719-3(09)	7/22/2010	Privatization Anniversary Bonus 1	597,400.00	-do-
RO10-025-719-3(09)	7/22/2010	Privatization Anniversary Bonus 2	597,400.00	-do-
RO10-026-510(09)	7/22/2010	Performance Bonus	695,400.00	-do-
RO10-027-717-1(09)	7/22/2010	Performance Enhancement	3,175,426.20	-do-

ND NO.	Date	Nature of disallowance	Amount	Status
		Incentive		
RO10-028-717-1(09)	7/22/2010	Productivity Incentive Benefit	5,943,527.44	-do-
RO10-029-717-1(09)	7/22/2010	Productivity Incentive Bonus	3,454,313.88	-do-
RO10-030-719-1(09)	7/22/2010	Collective Negotiation Agreement (C N A) Incentive	3,482,425.50	-do-
RO10-031-717-1(09)	7/22/2010	Performance Bonus	3,451,319.10	-do-
RO10-032-719-9(09)	7/22/2010	GOCC Incentive	3,482,425.50	-do-
RO10-033-721 dated (09)	7/22/2010	Hazard Duty Pay-Jan to June 2009	498,000.00	-do-
RO10-034-721 (09)	7/22/2010	Hazard Duty Pay-July to Dec 2009	493,800.00	-do-
RO10-035-719-1 (09)	7/22/2010	Anniversary Bonus	2,712,493.34	-do-
RO10-036-719-1 (09)	7/22/2010	Anniversary (Bigay Pala I)	2,737,201.58	-do-
RO10-037-510 (09)	7/22/2010	Rate Rebasing Incentive 1	9,358,872.69	-do-
RO10-038-883-4 (09)	7/22/2010	Grocery Incentive Pay 1 <sup>st</sup> Quarter	1,330,000.00	-do-
RO10-039-883-4 (09)	7/22/2010	Grocery Incentive Pay 2 <sup>nd</sup> Quarter	1,340,000.00	-do-
RO10-040-883-4 (09)	7/22/2010	Grocery Incentive Pay 3 <sup>rd</sup> Quarter	1,350,000.00	-do-
RO10-041-883-4 (09)	7/22/2010	Grocery Incentive Pay 4 <sup>th</sup> Quarter	1,375,000.00	-do-
RO10-042-510 (09)	7/22/2010	Educational Assistance 1	1,513,200.00	-do-
RO10-043-510 (09)	7/22/2010	Rate Rebasing Incentive 2	2,451,400.00	-do-
RO10-044-510 (09)	7/22/2010	Educational Assistance 2	1,519,000.00	-do-
RO10-045-510 (09)	10/21/2010	Productivity Enhancement Pay (PEP)	3,015,729.40	-do-
RO10-046-719-1 (09)	10/22/2010	Corporate Christmas Package	5,554,413.46	-do-
RO10-047-717-1(09)	10/8/2010	Scholarship Allowance	3,392,897.70	-do-

ND NO.	Date	Nature of disallowance	Amount	Status
RO10-048-719-1(09)	10/08/2010	Calamity Economic Assistance	3,444,769.20	-do-
13-001-RO-(12)	June 10, 2013	Amelioration Allowance	1,991,974.15	CGS Cluster 3 Decision No. 2015-02 dated Jan. 27, 2015
13-002-RO-(12)	June 10, 2013	COLA	7,910,835.98	
13-004-RO-(12) Amended	June 10, 2013	Productivity Incentive Bonus	3,924,797.50	
13-005-RO-(12)	June 10, 2013	Representation and transportation allowance	4,389,873.84	-do-
13-006-RO-(12)	June 10, 2013	Procurement of health insurance	1,551,528.00 1,389,177.00	-do-
13-007-RO-(12)	Dec. 3, 2013	Hazard Duty Pay	464,127.10	Pending Appeal with Cluster Director
13-008-RO-(12)	Dec. 3, 2013	Longevity Pay	1,816,335.48	-do-
14-001-RO-(12)	Feb. 5, 2014	Janitorial Services	686,587.61	-do-
14-002-RO-(12)	Feb. 11, 2014	Security Services	1,334,050.05	-do-
14-003-RO-(12)	April 25, 2014	Rice Allowance	1,371,805.56	-do-
14-004-RO-(12)	May 21, 2014	Welfare Fund – Government Share	7,121,527.82	-do-
14-005-RO-(13)	May 26, 2014	Welfare Fund – Government Share	1,231,430.82	-do-
14-006-RO-(12)	June 10, 2014	Extraordinary and Miscellaneous Expenses	628,272.99	-do-
14-007-RO-(13)	June 26, 2014	Extraordinary and Miscellaneous Expenses	443,217.87	-do-
14-008-RO-(13)	June 30, 2014	Private Health Insurance	32,438.13	-do-
14-009-RO-(12)	June 27, 2014	Meal Allowance	2,278,667.44	-do-

ND NO.	Date	Nature of disallowance	Amount	Status
14-010-RO-(13)	June 27, 2014	Hazard Duty Pay	406,545.17	-do-
14-011-RO-(13)	June 27, 2014	Meal Allowance	2,022,150.00	-do-
14-012-RO-(13)	Sept. 4, 2014	Janitorial Services	770,228.00	-do-
14-013-RO-(13)	Sept. 9, 2014	Longevity Pay	1,665,500.00	-do-
14-014-RO-(13)	Nov. 12, 2014	RATA	1,880,772.08	-do-
14-015-RO-(13)	Nov. 12, 2014	RATA	942,166.96	-do-
14-016-RO-(13)	Dec. 4, 2014	Security Services	1,432,122.36	-do-
<b>Total Disallowances for MWSS-Regulatory Office</b>			<b>129,928,546.90</b>	

**MWSS Corporate Office  
Audit Disallowances – Final and Executory**

ND NO.	Date	Nature of disallowance	Amount	Status
10-026-05-(09)	July 28, 2010	Cash Token- Jim G. Fondevilla	200,000.00	Notice of Finality of Decision and COA Order of Execution were issued  Jim Fondevilla appealed with the Cluster Director on July 23, 2014 that there was no proof that copies of the NDs were furnished either by the Commission on Audit or MWSS
10-027-05-(09)	July 28, 2010	Financial Assistance- Lorenzo S. Sulaik	250,000.00	Notice of Finality of Decision and COA Order of Execution were issued
10-028-05-(09)	July 28, 2010	Medical/Financial Assistance- Oscar Garcia	450,000.00	Notice of Finality of Decision and COA Order of Execution were issued  Jim Fondevilla appealed with the Cluster Director on July 23, 2014 that there was

				no proof that copies of the NDs were furnished either by the Commission on Audit or MWSS
<b>Disallowances which are final and executory – Corporate Office</b>			<b>900,000.00</b>	

**MWSS Corporate Office**  
**Audit Disallowances for Prior Years Transactions Issued in CY 2015**

<b>ND NO.</b>	<b>Date</b>	<b>Nature of disallowance</b>	<b>Amount</b>	<b>Status</b>
15-001-05-(13)	March 20, 2015	Purchase of Official Receipts (VAT)	8,000.00	Settled
15-002-05-(PY)	April 20, 2015	Validity of Appointment	822,129.00	Within Appeal Period
<b>Total Disallowances for MWSS CO</b>			<b>830,129.00</b>	