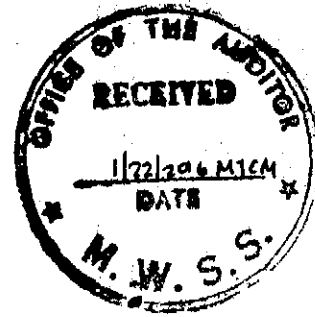


Receiving copy



Republika ng Pilipinas
PANGASIWAAN NG TUBIG AT ALKANTARILYA SA KALAKHANG MAYNILA
Metropolitan Waterworks and Sewerage System
REGULATORY OFFICE
Katipunan Road, Balara, Quezon City 1105, Philippines

21 January 2016



MS. EYREN M. YULDE
OIC-Supervising Auditor
Commission On Audit
Metropolitan Waterworks and Sewerage System

Subject: AGENCY ACTION PLAN and STATUS of IMPLEMENTATION (AAPSI)

Dear Auditor Yulde:

We are respectfully submitting the herein attached Regulatory Office's AAPSI on the various audit observations and recommendations contained in the Annual Audit Report of CY2014.

This submission is an update on the RO's actions taken/to be taken as of 31 December 2015.

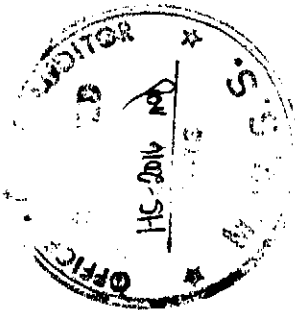
Should you have further inquiries or clarifications please coordinate with the Administration Department at telephone Nos. 435-88-98 or 435-88-99.

Thank you very much.

Very truly yours,


JOEL C. YU
Chief Regulator

Office of the Chief Regulator 435-8900
Administration and Legal Affairs 435-8902
Customer Service Regulation 435-8903
Financial Regulation 435-8901
Technical Regulation 435-8904



**AGENCY ACTION PLAN and
STATUS of IMPLEMENTATION**
Audit Observations and Recommendations
For Calendar Year 2014
As of: December 31, 2015

Submitted to:

Ref	Audit Observation	Audit Recommendation	Agency Action Plan				Reasons for Partial/Delay/Non-implementation, if applicable	Action Taken/Actions to be Taken	
			Action Plan	Person/Dept Responsible	Target Implementation Date				Status of Implementation ¹
					From	To			
B.2 CURRENT YEAR'S AUDIT OBSERVATIONS AND RECOMMENDATIONS									
MWSS - REGULATORY OFFICE									
B.2.1 (COA AAR CY 2014) p. 80-83	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	Recommended 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		RO			Partially implemented	a. In lieu of contracts, the RO submitted documents to prove engagement, including but not limited to BOT resolutions, statements of said witnesses, transcript of proceedings b. RO to comply in future engagements	
							Fully implemented		

¹ Note: Status of implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed

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	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.	<p>c. Henceforth, strictly abide with the pertinent provision under Annex B of the IRR of RA 9184</p> <p>As our rejoinder, the engagement of the additional experts may be categorized in either of these two scenarios:</p> <p>a. In case the engagement of the expert was covered by the original contract of the law Firm. The payment of honoraria and the 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 payments 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</p>			Fully implemented	<p>c. RO to comply in future engagements (Suggestion: include the phrase "As regards the rejoinder:")</p> <p>1.6 Management Commented that under the May 7, 2014 Legal Services Agreement (LSA) with Foloso Morallos 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 and 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</p>	

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		<p>have been approved also by the same approving authority as the original contract.</p> <p>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 the separate engagement of the lawyers as expert witnesses, then a new service contract agreement should have been appropriately approved by the 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.</p> <p>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.</p>					<p>help articulate its position on the technical issues involved.</p> <p>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 the Tribunal.</p> <p>1.8 Finally, Management commented that the expert lawyers are not witnesses and not consultants. As such, the provisions of RA9184 on the procurement of government services are inapplicable.</p>

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B.2.2 (COA AAR CY 2014) p. 84-85	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 P38,662 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.	of the Revised IRR of RA 9184. 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 b. Require the responsible officials/ employees to remit immediately the withheld funds to GSIS, Pagibig and Philhealth.	Inter-Agency Payable Accounts shall be analyzed to comply with the recommendations	RO FD		Fully implemented	Adjusting entries were posted into the books of the RO for the reversal of abnormal balances through JV-05-15-040. The accounts are analyzed and reconciled to ensure funds withheld for GSIS, Pag-ibig, Philhealth and BIR are remitted on time.
B.2.3 (COA AAR CY 2014) p. 86	The settlement of the outstanding balance of vehicle loan totaling P539,559 thru the Deed of Dacion en Pago was without legal basis considering that at the onset, the Motor Vehicle Loan Contract executed between MWSS and the concerned employee	Considering the foregoing, a Notice of Disallowance to the concerned MWSS officials/employees liable for the subject Loan Contract was issued on _____		RO -		Fully implemented	The vehicle subject of the Dacion en Pago is now registered in the name of the MWSS RO. Officials/employees with existing MPLP loans continue to pay monthly

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B.2.4 (COA AAR CY 2014) p. 86-87	pursuant to the Multi-Purpose Loan Program (MPLP) was considered void ab initio, in view of Section 4(2) of PD 1445 which states that, "[g]overnment funds or property shall be spent or used solely for public purposes."	Recommended that Management require the concerned officers and employees to refund the amount of filing fees paid.	We shall collect from the concern employees all the filing fees in the future.	RO		Fully implemented		amortizations. If and when an ND is issued on this subject, the necessary legal processes will be followed, e.g. file an appeal
C.2. REITERATION OF PRIOR YEAR'S AUDIT FINDINGS & RECOMMENDATIONS								
MWSS REGULATORY OFFICE								
C.2.1. (COA AAR CY 2014) p. 113-115	The validity of the reported balance of Accounts Payable at P87,649 million was found doubtful due to: a. Accrual of undocumented expenses totaling P45,825 million; b. Inclusion of obligation of legal expenses in the	Recommended and Management agreed to prepare the necessary adjusting entries to correct the obligation of payables already paid and recorded as Guaranty Deposits. Reiterated prior year's audit recommendations and Management agreed to...		RO		Fully implemented		Adjusting entries posted to reverse the set-up of guaranty deposit & accruals through JV-05-15-041; JV-04-15-023; JV-01-15-001.

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	<p>amount of P14,724 million which have been paid; and</p> <p>c. Inclusion of accounts with abnormal balance of P3,281 million.</p>	<p>a. Require the submission of receipts/billings/invoices to support the obligation of expenditures; and</p> <p>b. Analyze the Due to Officers & Employees Payroll account to determine the reason for the abnormal account balance and make the necessary adjustments.</p>	<p>Payable Accounts shall be analyzed to comply with the recommendations</p>				
C.2.2 (COA AAR CY 2014) p. 116-119	<p>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:</p> <p>a. The Physical Inventory Report was not reconciled with the accounting records, showing a variance of P125,928 million;</p> <p>b. Motor vehicles totaling P8,379 million not yet delivered were already recorded in the books;</p>	<p>Reiterated prior year's recommendation and Management agreed to:</p> <p>b. Reconcile the Physical Inventory Report with the accounting records;</p> <p>c. Record the acquisition of assets only upon deliveries of the items purchased;</p> <p>d. 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;</p>	<p>PPE accounts will be analyzed to comply with the recommendations</p>	RO		Partially implemented	<p>The RO is currently conducting the physical inventory and reconcile the PPE account taking into consideration all the necessary adjustments.</p>

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C.2.3. (COA AAR	<p>c. 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;</p> <p>d. Various unserviceable assets in the amount of P3,742 million remained recorded under the PPE account instead of Other Assets;</p> <p>e. Various items costing below P10,000 were included in the PPE account; thus, overstating it by P787,105; and</p> <p>f. Laptops and cameras totaling P618,598 were not recorded in the books.</p>	<p>e. Reclassify all unserviceable assets to Other Assets account;</p> <p>f. 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;</p> <p>g. Record the twelve (12) units laptop and six (6) units digital camera in the PPE account and in the Physical Inventory Report; and</p> <p>6. 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.</p>	<p>The issue shall be discussed in</p>	RO		Partially implemented		<p>Adjusting entries to reverse semi-expendable items posted in to the books of the RO through JV-05-15-039.</p>
	<p>As reported in the CY 2013 Annual Audit</p>	<p>Recommended that take</p>	<p>the issue shall be discussed in</p>					<p>On 18 February 2015, we sent a</p>

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CY 2014) p. 116-119	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	appropriate action to compel UP-NEC to submit the required financial statements to facilitate the liquidation of the outstanding balance.	RO EXECOM.				letter to the UP-NEC in compliance with the COA's recommendation. On 24 April 2015, a copy of the same letter was provided to COA. An update Report is was submitted to the MWSS BOT ARMC on 11 January 2016 which is hereto attached for your ready reference.	
C.3. REITERATION OF PRIOR YEAR'S AUDIT FINDINGS & RECOMMENDATIONS COMMON TO MWSS CO AND RO								
C.3.1. (COA AAR CY 2014) p. 120-122	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	Recommended to both MWSS CO and RO to: 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		RO		Partially Implemented	1.3a MWSS RO started deducting the monthly loan payments in March 2015 through salary deductions. An update Report	

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	<p>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</p>	<p>contract; and</p> <p>b. Initiate legal action to recover the unpaid receivables from officers and employees no longer connected with MWSS.</p> <p>For MWSS CO, 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.</p> <p>Also, reiterated prior year's recommendation that MWSS RO Management demand for the return by the MWSS Multi-Purpose Cooperative of the P25 million seed money.</p>				Fully Implemented		<p>submitted to the MWSS-BOT ARMC dated 11 January contained the following:</p> <p>1.3a The MWSS RO respectfully recommends that amortization payments be maintained at the present level since compliance with COA directive will result in a situation where some employees will have a take-home pay way below the government prescribed statutory limit of P4, 000.00. The morale of the employees will also be adversely affected. However, with the touted salary adjustment by</p>

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					From	To			
							<p>way of the Salary Standardization Law 4 or CPCS, the Management will revisit the scenario once the same will have been implemented. The Report on Loan Balances is attached for your reference.</p> <p>1.3b The MWSS RO employees signed Deed of Assignments to authorize the deduction from retirement benefits any balance of loans from MWSS.</p> <p>An update Report submitted to the MWSS-BOT ARMC dated 11 January contained the following: 1.3b The separated MWSS RO employees</p>		

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				From	To			
							<p>posted/submitted</p> <p>Post Dated Checks (PDCs) for their monthly amortizations. For incumbents, collections remain current at the reduced amounts monthly. Further, all loans are covered by mortgage in favor of MWSS RO. The Report on Loan Balances is attached for your reference.</p> <p>1.4 MWS-CO xx.</p> <p>1.5 The RO executed a Memorandum of Understanding with the MWSS RO Multi-Purpose Cooperative on the matter. The Transfer Certificate of Title of the said property is also in the possession/</p>	

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					From	To			
							<p>custody of the RO for additional security.</p> <p>Per EXECOM discussion, Demand letter will be sent to the COOP.</p> <p>An update Report submitted to the MWSS-BOT ARMC dated 11 January the following:</p> <p>1.5 The MWSS RO Management served a demand letter to the MWSS-RO Multi Purpose Cooperative (RO-COOP) as recommended by COA demanding for the return/refund of the amount of P25M, among others. Copy of the demand letter.</p>		

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			Action Plan	Person/Dept Responsible	Target Implementation Date				Status of Implementation ¹
					From	To			
							is hereto attached.		

Agency Sign-off:

Joe E. Yu
 JOE E. YU
 Chief Regulator
 MWSS Regulatory Office

AAFSI 2014

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