AUDIT OBSERVATIONS AND RECOMMENDATIONS

This Part consists of the following sections and subsections:

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

1. **The year-end balance of Appraisal Capital Stock and the carrying value of Property, Plant and Equipment (PPE) amounting P36.383 billion and P46.251 billion, respectively, comprising 62 percent and 79 percent of total assets, were found unreliable due to:**

   a. **Non-conduct of revaluation/appraisal of PPE in CY 2015 as required in PAS 16 and COA Resolution 89-16; as a result of which, necessary adjustments regarding several transactions recorded in the PPE and Appraisal Capital Stock (Revaluation Surplus) accounts which were not determined;**

   b. **Failure to effect realization (recognition) of revaluation surplus to Retained Earnings for disposed PPE and assets still in use after revaluation as required in PAS 16; and**

   c. **The net increase arising from change in fair value amounting to P450.484 million in CY 2014 for idle lands recorded as Other Assets which was accounted for as Appraisal Capital Stock (Revaluation Surplus) instead of recognizing the same as Retained Earnings.**

1.1 The carrying value of the Property Plant and Equipment (PPE) accounts which comprised 79 percent of the total assets of the System consisted of the following accounts:

Account Code	Account Name	Amount (P)
201	Land	19,909,916,651.78

Account Code	Account Name	Amount (P)
211	Office Building	196,661,162.18
215	Other Structures	25,909,561,176.10
221	Office Equipment	1,278,126.35
222	Furniture and Fixtures	2,434,367.68
223	IT Equipment and Software	24,993,499.82
224	Library Books	75,656.35
229	Communication Equipment	590,064.48
230	Construction & Heavy Equipment	46,936,662.11
233	Medical Dental & Laboratory Equipment	6,954,706.24
235	Sports Equipment	143,455.78
236	Technical & Scientific Equipment	20,497,213.09
240	Other Machinery & Equipment	13,205,132.11
241	Motor Vehicles	17,329,902.13
248	Other Transportation Equipment	100,759,633.19
Total		46,251,337,409.39

1.2 In the review of the transactions pertaining to PPE and the related Appraisal Capital Stock (Revaluation Surplus) accounts, we made the following observations:

1.2.1 ***On the non-conduct of appraisal/revaluation on PPE***

1.2.1.1 PAS 16 under paragraphs 31and 32 states that:

"31. After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, xxx. Revaluation shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

32. The fair value of land and buildings is usually determined from the market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. The fair value of items of plant and equipment is usually their market value determined by appraisal."

1.2.1.2 Furthermore, COA Resolution 89-17 dated March 17, 1989, which amends certain provisions of the State Accounting Standards pertaining to the revaluation of property, plant and equipment through appraisal, states that –

WHEREAS, the loan agreements entered into by some government corporations such as the Metropolitan Waterworks and Sewerage Systems (MWSS), and the National Power Corporation (NPC) with foreign lending institutions require these corporations to make a yearly revaluation of their fixed assets in operation;

"xxx, the revaluation shall be done by an independent appraiser or expert every five (5) years (on fixed assets existing as of the end of

the fifth year), or even before the five year period ends, whenever there is a currency devaluation or price increase which raises price levels (based on the Consumer Price Index) xxxx"

1.2.1.3 Pertinent provision of the loan agreements stated that except as the Bank may otherwise agree, the Borrower shall take all steps necessary to ensure that its operations generate revenue to achieve an annual rate of return on net revalued fixed assets in operation not less than eight percent. Net revalued fixed assets means those fixed assets of the Borrower actually employed in its operations, less the amount of accumulated depreciation, **valued at current prices**

1.2.1.4 Note 4 of the Notes to Financial Statement states that PPE, except those fully depreciated and those classified as administration equipment are stated at appraised value based on the Concessionaire's Asset Condition Report of CY 2010 of the Regulatory Office.

1.2.1.5 Since no appraisal was conducted in the last five years as required in COA Resolution 89-17 and paragraphs 31 and 32 of PAS 16, the carrying values of PPE in the aggregate amount of P46.251 billion was not stated at revalued amount. Moreover, necessary adjustments regarding several transactions recorded under PPE and Appraisal Capital Stock (Revaluation Surplus) accounts were not determined. The PPE accounts consisted of the following:

Asset Account	Carrying Amount (Net of Depreciation) (in Thousand ₱)
Building, Plant, Equipment & Transmission Lines	26,106,222
Land & Land Improvements	117,108
Office Furniture & Other Equipment	118,090
Transportation Equipment	19,909,917
Total	46,251,337

1.2.1.6 Paragraph 41 of PAS 16 provides that *"The revaluation surplus included in equity in respect of an item of property, plant and equipment may be transferred directly to retained earnings when the asset is derecognized."*

The Appraisal Capital Stock account is used to record changes in the carrying amount of items of PPE as a result of revaluation. As used in PAS 16, Appraisal Capital Stock is the same as Revaluation Surplus.

1.2.1.7 As of December 31, 2015, Revaluation Surplus showed a balance of P36.383 billion as shown below:

Account Code	Account Title	Balance as of Dec. 31, 2015
506-01	Land	P20,160,080,855.21
506-02	Structures and Improvements	292,485,820.08
506-03	Collecting and Impounding Reservoirs	1,111,404,829.76
506-04	Supply Mains	3,097,555,967.64
506-05	Distribution Reservoirs and Booster Station	2,432,331,003.83
506-06	Buildings and Improvements	485,838,405.52
506-07	Wells and Facilities	76,762,346.09
506-08	Water Treatment Equipment	103,483,461.33
506-09	Sewer Treatment Equipment	4,192,576.06
506-10	Water Treatment Plant	126,236,850.33
506-11	Transmission and Distribution Mains	7,730,461,900.55
506-12	Water Meters	98,315,761.86
506-13	Transmission and Discharge Mains	482,090,989.28
506-14	Public Faucets/Sanitary Facilities	15,954,953.27
506-15	Sewer Treatment Plant and Pumping Stations	82,942,887.94
506-16	Hydrants	9,799,180.72
506-17	Manholes and Accessories	13,968,231.40
506-18	House Water Connection	8,177,984.69
506-19	House Sewer Connection	38,709,102.51
506-20	Electrical Installation and Lighting System	12,096,251.11
Total		P36,382,889,359.18

1.2.2 ***On the failure to effect realization of revaluation surplus to Retained Earnings for disposed PPE and assets still in use after revaluation as required in PAS 16***

1.2.2.1 Audit disclosed that except for land, all other subsidiary ledger balances were non-moving and were all recorded as beginning balances when MWSS' accounts migrated to e-NGAS and no piecemeal realization of surplus was transferred to Retained Earnings for assets still in use after revaluation nor when MWSS revalued assets were disposed of.

1.2.2.2 PAS 16 provides that the revaluation surplus of an asset may be transferred directly to Retained Earnings when realized. The whole surplus arising from revaluation may be realized on the retirement or disposal of the revalued asset.

On the other hand, if the revalued asset is being depreciated after revaluation, portion of the surplus arising from such shall be realized as the asset is being used. The surplus shall be allocated or realized over the remaining useful life of the asset.

1.2.2.3 It was observed that no charges were made to the account Appraisal Capital Stock to record either whole or piecemeal realization of revaluation surplus considering that the agency had disposed of some of its unserviceable assets in previous years. Also, there were no records showing the specific assets where the revaluation surplus was recorded in the books.

1.2.3 ***Net increase arising from change in fair value amounting to P450.484 million for idle lands recorded as Other Assets was accounted for as Appraisal Capital Stock (Revaluation Surplus) instead of recognizing the same in Retained Earnings.***

1.2.3.1 In CY 2014, changes in fair value for various idle lands accounted as Other Assets were made under the following journal entry vouchers:

Reference	Amount
Credits	
JEV-2014-12-005335	4,406,074.00
JEV-2014-12-005343	589,611.37
JEV-2014-12-005346	7,512,971.68
JEV-2014-12-005348	24,203,816.26
JEV-2014-12-005341	434,363,510.08
	471,075,983.39
Debits	
JEV-2014-12-005345	6,772.20
JEV-2014-12-005347	490,930.29
JEV-2014-12-005336	428,759.69
JEV-2014-12-005342	19,665,100.44
	20,591,562.62
Net increase	450,484,420.77

1.2.3.2 Review of transactions showed that net increase arising from change in fair value amounting to P450.484 million was accounted for as Appraisal Capital Stock (Revaluation Surplus) instead of recognizing the same in Retained Earnings computed as follows:

Particulars	Amount
Increase in Fair Value per Valuation Report	P471,075,983.39
Decrease in Fair Value per Valuation Report	(20,591,562.62)
Net amount	P450,484,420.77

1.2.3.3 The Report on Valuation of Assets used in Operations by MWSS and its Concessionaires was coined from the CY 2010 Asset Condition Reports submitted by the Concessionaires and verified by the private consultant engaged by the MWSS Regulatory Office for the rate rebasing exercise in CY 2013.

1.2.3.4 Paragraphs 33 and 35 of PAS 40 state that after initial recognition, *"an entity that chooses the fair value model shall measure all of its investment property at fair value and that gain or loss arising from a change in the fair value of investment property shall be recognized in profit or loss for the period in which it arises*."

1.3 ***We recommended that Management:***

a. ***Require the Finance Department to review accounting records, and if warranted effect the transfer of the whole surplus to Retained Earnings for disposed assets stated at revalued amounts and record adjustments to Retained Earnings to recognize piecemeal realization over the remaining life of revalued assets; and***

b. ***Conduct appraisal/revaluation of all PPE accounts as required under COA Resolution 89-17 and PAS 16.***

1.4 No Management comment was received.

2. **Real Time Gross Settlement (RTGS) collections received through banks in the aggregate amount of P915.297 million were recorded as debits to Cash Collecting Officer in the Cash Receipts Register and included in the cashbook of the Cashier as part of her cash accountabilities although no actual cash was received by the Cashier. This practice was not in accordance with COA Circular 2004-008, requiring that the Cash Collecting Officer account be debited for actual collections received for deposit to authorized government depository banks.**

2.1 COA Circular 2004-008 dated September 20, 2004 provides that the Cash Collecting Officer account shall be debited only by the amount of collections with the Collecting Officer for remittance to the authorized government depository banks.

2.2 An RTGS system is a gross settlement system in which both processing and final settlement of funds transfer instructions can take place continuously (i.e., in real time). As it is a gross settlement system, transfers are settled individually, i.e., without netting debits against credits. An RTGS system can thus be characterized as a funds transfer system that is able to provide continuous intraday finality for individual transfers provided that a sending bank has sufficient covering balances or credit. (*Bangko Sentral Review*)

2.3 Maynilad Water Services Inc. (MWSI) paid concession fees, guarantee fees and debt service fees to MWSS through the RTGS system. In CY 2015, MWSS received a total amount of P915.297 million from MWSI.

2.4 The accounting entries to record RTGS collections in the Cash Receipt Register were as follows:

Accounts	Dr	Cr
Cash Collecting Officer *Accounts Receivable/Income* To record RTGS collections.	xxx	 xxx
Cash in bank *Cash Collecting Officer* To record deposit.	xxx	 xxx

2.5 We found the accounting entry erroneous since there was no actual cash received and deposited to the bank by the Cashier. Further, her cash accountabilities as Collecting Officer included those which have not been into her actual possession/custody. Also, these RTGS collections were known by the Cashier only at the end of the month upon receipt of the bank statement or when MWSI requested for an Official Receipt (OR) upon submission of a copy of the bank credit memo. Hence, gaps or delays in the issuance of ORs were noted, ranging from 2 to 21 days, with details shown in the table below.

Journal Entry Voucher			Amount	Official Receipt		Date Credited in the Bank	Gaps
Date		Number		Date	Number		
Jan	8	JEV-2015-01-000030	P245,319,005.21	01/08/15	185353	01/05/15	3
Feb	27	JEV-2015-02-001018	506,906.59	2/3/15	185399	01/30/15	4
	27	JEV-2015-02-001020	150.00	2/5/15	185404	02/04/15	1
	27	JEV-2015-03-001279	772,968.35	3/4/15	185441	02/27/15	5
Mar	31	JEV-2015-03-001281	13,564,432.77	3/4/15	185442	02/27/15	5
	31	JEV-2015-03-001283	300.00	3/5/15	185444	03/04/15	1
	31	JEV-2015-03-001301	2,376,079.90	3/31/15	185528	03/25/15	6
Apr	30	JEV-2015-04-001361	150.00	4/6/15	185531	04/01/15	5
	30	JEV-2015-04-001367	20,603,269.88	4/15/15	185546	04/10/15	5
	30	JEV-2015-04-001369	244,378,184.49	4/15/15	185547	04/10/15	5
May	29	JEV-2015-05-001970	129,081.96	5/6/15	185601	04/29/15	7
	29	JEV-2015-05-001973	150.00	5/6/15	185602	05/05/15	1
	29	JEV-2015-05-001987	5,881,558.82	5/18/15	185623	05/13/15	5
	29	JEV-2015-05-001992	617,828.28	5/18/15	185624	05/07/15	11
	29	JEV-2015-05-001996	300.00	5/18/15	185625	05/14/15	4
June	30	JEV-2015-06-002475	10,140,589.98	6/26/15	185695	06/22/15	4
	30	JEV-2015-06-002480	3,929,819.21	6/26/15	185696	06/22/15	4
	30	JEV-2015-06-002483	300.00	6/26/15	185697	06/29/15	-3
	30	JEV-2015-06-002485	38,423,397.85	6/30/15	185756	06/26/15	4
	30	JEV-2015-06-002489	150.00	6/30/15	185757	06/30/15	0
July	31	JEV-2015-07-002834	143,877,562.53	7/20/15	185772	07/10/15	10
	31	JEV-2015-07-002843	126,112,395.92	7/22/15	185775	07/16/15	6
	31	JEV-2015-07-002845	150.00	7/22/15	185776	07/20/15	2
	31	JEV-2015-07-002857	498,425.11	7/31/15	185782	07/28/15	3
	31	JEV-2015-07-002859	150.00	7/31/15	185783	07/31/15	0
Aug	28	JEV-2015-08-003217	2,596,440.85	8/11/15	185791	08/04/15	7
	28	JEV-2015-08-003220	150.00	8/11/15	185792	08/06/15	5
Sept	30	JEV-2015-09-003676	11,199,302.81	9/3/15	185812	08/28/15	6
	30	JEV-2015-09-003679	150.00	9/3/15	185813	09/01/15	2
	30	JEV-2015-09-003701	4,123,077.84	9/30/15	2362	09/09/15	21
Oct	30	JEV-2015-10-003984	150.00	10/29/15	185910	10/15/15	14
	30	JEV-2015-10-003968	2,602,008.47	10/1/15	185841	09/24/15	7
	30	JEV-2015-10-003972	150.00	10/5/15	185845	10/01/15	4
	30	JEV-2015-10-003979	83,993.94	10/19/15	185904	10/15/15	4
	30	JEV-2015-10-003974	22,375,415.94	10/19/15	185903	10/12/15	7
	30	JEV-2015-10-003982	150.00	10/26/15	185908	10/21/15	5
Nov	27	JEV-2015-11-004431	602,465.62	11/16/2015	185928	11/09/15	7
	27	JEV-2015-11-004437	6,147,831.52	11/16/2015	185929	11/11/15	5
	27	JEV-2015-11-004440	300.00	11/16/2015	185930	11/12/15	4
	27	JEV-2015-11-004427	8,431,892.91	11/16/2015	185927	11/13/15	3
			150.00			11/16/15	
Total			**P915,296,936.75**				

2.6 We also noted that the ORs issued for these transactions were not identified as RTGS collections in the Report of Accountability for Accountable Forms (RAAF).

2.7 ***We recommended and Management agreed to:***

a. ***Require the Accounting Office to record the RTGS collections by directly debiting the Cash in Bank account instead of the Cash Collecting Officer account and crediting the appropriate AR/Income account;***

b. ***Monitor the online transactions of the bank account where RTGS collections are deposited to avoid delay in the issuance of ORs; and***

c. ***Instruct the Cashier to record the RTGS collections in another cash register and not in her cashbook for regular collections; and identify also in the RAAF the ORs issued for RTGS.***

3. **MWSS, as withholding agent under Section 251 of the National Internal Revenue Code (NIRC), paid a penalty equivalent to the basic tax assessed in CY 2009 amounting to P77.492 million due to the failure of the concerned MWSS officials and employees to withhold tax from employees' additional allowances and benefits and to remit the same to the BIR.**

3.1 In CY 2015, following the receipt of Preliminary Collection Letter and Preliminary Assessment Notice for the failure to withhold taxes due in CY 2009 amounting to P192,491,268.91, several MWSS savings accounts were served warrants of garnishment as summary remedy of the BIR to enforce collection of taxes from erring taxpayers/withholding agents.

3.2 MWSS applied and was able to avail abatement or cancellation of tax, penalties and interests per BIR Revenue Regulations 13-2001, thus it only paid a penalty amounting to P77,491,573.88 on July 30, 2015 for failure to withhold and remit taxes as required by Section 251 of the NIRC which is equivalent to the basic tax assessed in CY 2009. Consequently, the BIR lifted on November 13, 2015 the warrants of garnishment on the subject MWSS assets upon payment of its tax deficiency.

3.3 Also in CY 2015, MWSS received Assessment/Demand Letter requiring the agency to settle tax deficiency for CY 2010 amounting to P30,772,011.57. MWSS has been currently exhausting all available legal remedies with the BIR on the subject tax assessments.

3.4 We invited the attention of Management to the following BIR regulations:

a. Revenue Memorandum Order 16-2013 dated February 8, 2013 which urges all Government offices including its agencies, political subdivisions or instrumentalities, or government-owned or controlled corporations (GOCCs) to serve as *"Role Model" to the taxpaying public in matters of tax compliance";*

b. Section 5 of the same Memorandum Order which provides that *"in cases of violation and/or failure to comply with the provisions of the NIRC, as amended and its implementing rules and regulations, particularly on the Withholding Tax provisions, all Heads, Executives, Directors and Officers of these Government offices or GOCCs responsible thereof shall be civil and criminally charged in accordance with the provisions of the NIRC, as amended and other applicable laws.";*

c. Section VI of BIR Revenue Memorandum Order No. 23- 2014 which provides:

> *"The following officials are duty bound to deduct, withhold and remit taxes:*
>
> e. *For NGAs, GOCCs and other Government Offices, the Chief Accountant and the Head of Office or the Official holding the highest position (such as the President, Chief Executive Officer, Governor, General Manager)."*

d. The penal provisions of the same Memorandum Order to which Section VII.C which provides:

> *"C. Violation of Withholding Tax Provisions (Section 272, NIRC)*
>
> *"Every officer or employee of the Government of the Republic of the Philippines or any of its agencies and instrumentalities, its political subdivisions, as well as government-owned or controlled corporations, including the Bangko Sentral ng Pilipinas (BSP), who is charged with the duty to deduct and withhold any internal revenue tax and to remit the same is guilty of any offense herein below specified shall, upon conviction for each act or omission be punished by a fine of not less than Five thousand pesos (P5,000) but not more than Fifty thousand pesos (P50,000) or suffer imprisonment of not less than six (6) months and one (1) day but not more than two (2) years, or both:*
>
> 1. *Failing or causing the failure to deduct and withhold any internal revenue tax under any of the withholding tax laws and implementing rules and regulations; or*
> 2. *Failing or causing the failure to remit taxes deducted and withheld within the time prescribed by law, and implementing rules and regulations; or*
> 3. *Failing or causing the failure to file return or statement within the time prescribed, or rendering or furnishing a false or fraudulent return or statement required under the withholding tax laws and rules and regulations."*

3.5 The penalties imposed on failure to abide with the Withholding Tax provisions of the NIRC deprived MWSS of funds that could have been made available in the discharge of its functions.

3.6 ***We recommended that Management endorse to the BIR the filing of appropriate legal action against those persons responsible and duty-bound to deduct, withhold and remit taxes in accordance with the penalty provisions of Section VII C of BIR Revenue Memorandum Order No. 23- 2014, furnishing this Office with copy of the endorsement letter to BIR.***

3.7 Management informed that they requested the Chairman, COA, for assistance in determining the persons liable for the failure to deduct, withhold and remit taxes to BIR in CY 2009. They will write to BIR for the filing of appropriate charges against those persons found liable.

3.8 It is informed that the Fraud Audit Office through the Cluster Director forwarded to this Audit Group on April 6, 2016 the above-cited request of MWSS, with the information that the determination of persons liable can only be done by the MWSS Resident Audit Team. In this regard, we have been acting on the request with the determination of the persons liable and we have formally requested in our letter dated May 4, 2016 addressed to the Assistant Commissioner, Legal Services, BIR, for assistance in view of the absence/lack of details of the amount of tax assessed for CY 2009. The BIR's preliminary collection letter did not specify the benefits/allowances received by the MWSS officers and employees subjected to tax assessment. In our verbal follow-up, we were informed that the request was forwarded to the Regional District Office (RDO) No. 7 in Quezon City who handled the tax assessment. In this regard, we have been currently in coordination with RDO No. 7 on the matter.

4. **Land Improvements were recorded as Other Structures, resulting in the misstatement of the accounts, *Land, Other Structures and Retained Earnings* by P73.430 million, P7.701 million and P65.730 million, respectively.**

4.1 The Conceptual Framework for Financial Reporting provides that Financial Statements should be faithfully represented and free from material error. Free from material error means there are no errors or omissions that are individually or collectively material in the description of the phenomenon, and the process used to produce the reported information has been applied as described.

4.2 The account "Other Structures" is defined in the Philippine Government Chart of Accounts under the New Government Accounting System as *the cost or appraised value of other structures acquired or constructed.*

4.3 On the other hand, accounting books define Land Improvements as basically enhancements made on parcels of land which are more or less permanent or capital in nature. The accounting treatment of land improvements depends on whether the improvements are subject to depreciation or not. If the land improvements have useful life, they should be depreciated. Costs incurred for the preparation of the land to its intended purpose, e.g. clearing and leveling the land, are added to the cost of the land and are not depreciated. If the purpose is to add functionality to the land and the expenditure has a useful life, the amount should be recorded as Land Improvements subject to depreciation.

4.4 Audit disclosed that there were several items of land improvements not subject to depreciation that were charged to the Other Structures account, to wit:

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Access Road to Laiban Dam site and MWSS Housing Compound-Tanay, Rizal	54,397,500.00	48,753,758.99	5,643,741.01
Access Road to Laiban Dam Site, Tanay, Rizal	2,500.00	2,375.00	125.00
Access Road to Laiban Dam Site, Tanay, Rizal	8,705,000.00	7,684,882.55	1,020,117.45
3.9KM Acces Road at San Ysidro San Jose, Antipolo, Rizal	8,147,272.99	7,344,153.26	803,119.73
3.9KM Acces Road at San Ysidro San Jose, Antipolo, Rizal (Additional Capitalization)	1,085,230.71	958,055.16	127,175.55
Improvement of existing road & access road ext. at San Ysidro, Antipolo	1,026,704.69	926,780.41	99,924.28
Access Road to Kaliwa intake works and Tunnel #1 Tanay, Rizal	66,000.00	59,527.90	6,472.10
Total	**P73,430,208.39**	**P65,729,533.27**	**P7,700,675.12**

4.5 It should be noted that the above assets are not tangible structures but refer to expenditures spent in clearing and leveling of land to serve as access roads to MWSS projects and properties, hence not subject to depreciation.

4.6 The misclassification resulted in the following:

a. Understatement of the Land account by P73,430,208.39;

b. Understatement of Retained Earnings amounting to P65,729,533.27 due to the provision of depreciation charges in previous years; and

c. Overstatement of the account, *Other Structures,* by P7,700,675.12, the carrying amount of the assets erroneously charged to this account.

4.7 ***We recommended that Management review and analyze its accounting records on the proper classification of the subject assets in accordance with accounting rules and regulations and thereafter, effect the necessary accounting adjustments.***

4.8 Management informed that they will be hiring a Contract of Service personnel who will do the review and analysis of the accounting records.

5. **Disallowances with issued Notice of Finality of Decision (NFD) and COA Order of Execution (COE) totaling P8.762 million were not recorded as Receivables, contrary to Section 22.6 of COA Circular 2009-006. Moreover, Management had not taken any action to enforce settlement of the COE from the persons liable.**

5.1 Section 22.6 of COA Circular 2009-006 dated September 15, 2009, which prescribes the use of the Rules and Regulations on the Settlement of Accounts, states that *"The Chief Accountant shall, on the basis of the NFD, record in the books of accounts, the disallowance and/or charge as a receivable."*

5.2 The Commission Secretary, this Commission, issued NFDs and COEs covering the following Notices of Disallowance and were duly receipted by Management on various dates.

ND No.	Amount	NFD Date	Date received by Management	COE No.	COE Date	Date received by Management
2001-025-05 (00)	P2,128,780.40	3/24/2011	On various dates	2015-174	8/6/2015	On various dates
2001-006-05 (00)	601,919.70	3/24/2011		2015-174	8/6/2015	
2001-024-05 (00)	1,929,610.60	3/24/2011		2015-174	8/6/2015	
2001-022-05 (00)	735,243.34	3/24/2011		2015-174	8/6/2015	
2001-021-05 (00)	742,573.90	3/24/2011		2015-174	8/6/2015	
2001-023-05 (00)	2,157,932.65	3/24/2011		2015-174	8/6/2015	
2001-019-05 (00)	287,500.00	3/24/2011		2015-174	8/6/2015	
2001-018-05 (00)	179,387.72	3/24/2011		2015-174	8/6/2015	
Total	P8,762,948.31					

5.3 However, we noted that the above disallowances were not recorded as Receivables in the MWSS books of accounts as required under COA Circular 2009-006. Moreover, Management had not taken any action on the COE to enforce the collection or settlement of the liabilities from the persons liable.

5.4 MWSS filed with the Supreme Court an Urgent Ex Parte Application for a Writ of Preliminary Injunction and/or Temporary Restraining Order to prevent COA from carrying out its COE 2015-174.

5.5 However, in COA Decision 2014-168 dated August 15, 2015, the power of COA vested in Section 37 of PD 1445, e.g., the power to retain money in satisfaction of indebtedness to the government, can be applied when a Notice of Finality of Decision has been issued pursuant to a Decision which has become final and executory.

5.6 ***We recommended and Management agreed to:***

a. ***Require the Finance Department to record as receivables in the books of accounts the NFDs received pursuant to Section 22.6 of COA Circular 2009-006; and***

b. ***Enforce settlement of the COE from the persons liable.***

6. **Loss on foreign exchange was overstated by P7.933 million due to: (a) the failure to recognize FOREX gain/ (loss) totalling P7.625 million arising from the payment of loan payable on each settlement date; and (b) the overstatement of loss on foreign exchange arising from the loan revaluation based on closing rate at the end of the reporting period in the amount of P15.558 million.**

6.1 For herein audit observations, we were guided by the following:

a. Section 20 of IAS 21 which defines foreign currency transaction as a transaction that is denominated or requires settlement in a foreign currency, including transactions arising when an entity:

(a) xxx;
(b) Borrows or lends funds when the amounts payable or receivable are denominated in a foreign currency; or
(c) Otherwise acquires or disposes of assets, or incurs or settles liabilities, denominated in a foreign currency.

b. Section 23 which states that, *"At the end of each reporting period: (a) foreign currency monetary items shall be translated using the* ***closing rate***; xxx"

c. Section 8 which defines closing rate as the ***spot exchange rate at the end of the reporting period.***

d. Section 29 which provides that:

"When monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results. xxx. However, ***when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period."*** (emphasis ours)

6.2 For the year ended, Loss on Foreign Exchange (FOREX) reported a total amount of P503.798 million, as summarized below:

Account	Balance
Land Bank of the Philippines (LBP)	P69,919.76
Bangko Sentral ng Pilipinas (BSP)	751.26
Philippine National Bank (PNB)	10,382.18
Loan Revaluation	(503,878,994.73)
Total	P(503,797,941.53)

6.3 Audit of the transactions affecting Loans Payable for domestic and foreign borrowings revealed FOREX loss totalling P7.625 million arising from the payment of loans when there was a change in exchange rates during each period/quarter up to the date of settlement, as shown in the table below.

Foreign-Currency Denominated Loans	FOREX Gain/ (Loss) from settlement
Foreign Loans:	
IBRD 4019-PH	P(1,293,853.00)
ADB 1150-PHI	(1,119,610.50)
ADB 1379-PHI	(2,822,664.20)
French Protocol	(456,080.12)
China Eximbank AWUAIP II	(1,993,454.85)
Domestic Loans:	
SPIAL	60,109.57
Total	P(7,625,553.11)

6.4 Cumulative FOREX loss recognized in quarters ending March 31, June 30, September 30 and December 31 was overstated by P15.558 million when compared with the FOREX loss computed on the revalued amount of the loans using the exchange rate at the reporting date, with details below.

Foreign-Currency Denominated Loans	Cumulative FOREX G/ (L) each Quarter	At year-end	Difference Over/(Under)
Foreign Loans:			
IBRD 4019-PH	P(10,497,265.25)	P(4,431,029.25)	P6,066,236.00
B 1150-PHI	(5,064,453.39)	(2,625,644.97)	2,438,808.42
ADB 1379-PHI	(102,574,485.07)	(98,879,222.37)	3,695,262.70
JBIC (OECF)	(73,637,879.14)	(73,637,879.16)	(0.02)
French Protocol	1,067,067.22	537,942.17	(529,125.05)
China Eximbank AWUAIP II	(287,791,312.36)	(284,177,630.55)	3,613,681.81
Domestic Loans:			
SPIAL	(10,440,431.43)	(10,166,857.10)	273,574.33
IBRD 1272/1282	(3,681,335.27)	(3,681,335.26)	0.01
ADB 1746-PHI	(11,258,900.04)	(11,258,900.04)	(0.00)
Total	P(503,878,994.7)	P(488,320,556.53)	P15,558,438.20

6.5 The accumulated effect of the above-mentioned variances resulted in a net overstatement in the reported FOREX loss by P7.932 million, as summarized below:

Foreign-Currency Denominated Loans	(a) Overstatement in FOREX loss	(b) Understatement in FOREX gain/ (loss)	Net Overstatement in FOREX loss
Foreign Loans:			
IBRD 4019-PH	P6,066,236.00	P(1,293,853.00)	P4,772,383.00
ADB 1150-PHI	2,438,808.42	(1,119,610.50)	1,319,197.92
ADB 1379-PHI	3,695,262.70	(2,822,664.20)	872,598.50
JBIC (OECF)	(0.02)		(0.02)
French Protocol	(529,125.05)	(456,080.12)	(985,205.17)
China Eximbank AWUAIP II	3,613,681.81	(1,993,454.85)	1,620,226.96
Domestic Loans:			
SPIAL	273,574.33	60,109.57	333,683.90
IBRD 1272/1282	0.01		0.01
ADB 1746-PHI	(0.00)		(0.00)
Total	P15,558,438.20	P(7,625,553.11)	P7,932,885.09

6.6 ***We recommended and Management agreed to:***

a. ***Immediately reconcile the amount of FOREX gain/ (loss) recognized in the books for CY 2015; and***

b. ***Ensure that exchange differences arising in each period up to the date of settlement are properly measured and recognized.***

7. **Noted in the grant and liquidation of cash advances for travel were deficiencies, to wit: a) liquidation of cash advances was beyond the prescribed liquidation period, b) computation of travel expenses of P527,244 was not in accordance with the travel rates prescribed under Section 4 of EO 298, and c) actual claims on hotel accommodation/lodging were not supported with certification from the Head of the Agency as required under COA Circular 2012-001.**

7.1 Our audit was anchored on the following:

a. Section 14 of EO 298 which states that *"Within sixty (60) days after his return to the Philippines, in the case of official travel abroad, or within thirty (30) days of his return to his permanent official station in the case of official local travel, every official or employee shall render an account of the cash advance received by him in accordance with existing applicable rules and regulations and/or such rules and regulations as may be promulgated by the Commission on Audit for the purpose. xxx.*"

b. Section 4 of EO 298 which states "*The travel expenses of government personnel regardless of rank and destination shall be in the amount of*

Eight Hundred Pesos (P800.00) per day which shall be apportioned as follows:

a) Fifty percent (50%) for hotel/lodging
b) Thirty percent (30%) for meals and
c) Twenty percent (20%) for incidental expenses

Xxx

Entitlement to travel expenses shall start only upon arrival at the place of destination and shall cease upon departure there from at the following percentage:

Particulars	***Percentage***	***To Cover***
Arrival not later than 12:00 noon	*100%*	*Hotel/lodging (50%); meals (30%) and incidental expenses (20%)*
Arrival after 12:00 noon	*80%*	*Hotel/lodging (50%); dinner (10%) and incidental expenses (20%)*
Departure before 12:00 noon	*30%*	*Breakfast (10%) and incidental expenses (20%)*
Departure at 12:00 noon and later	*40%*	*Breakfast (10%), lunch (10%) and incidental expenses (20%)*

c. Section 1.1.4.1 of COA Circular 2012-001 (Revised Documentary Requirements for Common Government Transactions) which enumerates the following requirements:

- Office order/travel order
- Duly approved itinerary of travel
- Certification from the accountant that the previous cash advance has been liquidated and accounted for in the books.

d. Section 1.2.4 of the same COA Circular which provides for the documentary requirements in the liquidation of cash advances.

7.2 Audit of the liquidation of cash advances for travel during seminars and conferences totaling P1.039 million disclosed that the rules and regulations on the liquidation of travel expenses under EO 298 were not complied with, to wit:

7.2.1 Cash advances totaling P232,500 were liquidated beyond the 30-day period after return to permanent official station contrary to the provision under Section 14 of EO 298, with delay ranging from 3 to 91 days, as shown below:

JEV Liquidation No.	**Purpose of Cash Advance**	**Amount**	**Date of Liquidation/Date of JEV**	**Should Be date of Liquidation**	**No of days delayed**
07-003059 07-002692 07-002651 07-003057	15th National Convention of Lawyers from Mar 20-22, 2015	116,800.00	07/16/15	04/21/15	86

JEV Liquidation No.	Purpose of Cash Advance	Amount	Date of Liquidation/Date of JEV	Should Be date of Liquidation	No of days delayed
09-003665	Attendance to Personnel Officers Association of the Philippines, Inc. from Jun 23-26,2015	23,400.00	9/11/15	7/28/15	45
09-003918	Attendance to Certified Security Professional Review Program from Jun 22-26, 2015	10,500.00	9/30/15	7/28/15	64
10-003907	Training on Assertive Oral and Written communication Skills from Jun 23-26,2015	23,400.00	10/09/15	7/28/15	73
10-003904		23,400.00	10/23/15	7/28/15	87
10-003916	Attendance to Security Professionals (CSP) Review Program from Jun 22-26, 2015	10,500.00	10/27/15	7/28/15	91
11-004234	Attendance in the AGIA 2015 Annual National Convention from Oct 7-9,2015	24,500.00	11/13/15	11/10/15	3
Total		P232,500.00			

The delay may be attributed to the error in the computation of the 30-day period to liquidate. We noted that in the aging of cash advances, the Accounting Office did not include the holidays and weekends in the determination of the 30-day period to liquidate. This was not in accordance with paragraph 3 of Article 13 of the new Civil Code which states that, in computing a period, the first day shall be excluded and the last day included thus, it is understood that the 30 days given to liquidate cash advances for local travels mean 30 calendar days.

7.2.2 Travel expenses of P527,243.88 incurred were not in accordance with the travel rates prescribed under Section 4 of EO 298, as the percentage of entitlement depending on the time of arrival in the place of destination was not considered in the computation of travel allowance. Instead, employees made claims on any of the following:

a. Per Diem-Travel Time” of P800.00 on the first day of travel and P400.00 for the meals and incidental expenses on the following days plus actual hotel/accommodation;

b. A daily travel allowance of P1,600 per day consisting of P1,200 for hotel accommodation/lodging instead of the allowable P400 rate provided in Section 4 of EO 298 and P400 per diem;

c. Actual claim on hotel accommodation/ lodging and P400 per diem

Actual claims on hotel accommodation/lodging were not supported with certification from the Head of the Agency as to the absolute necessity of the expenses in the performance of the assignment as required under Section 1.2.4.1 of COA Circular 2012-001.

7.2.3 In addition, expenses for the payment of travel insurance premium in the amount of P1,200 and rebooking fees of P1,500 were considered *personal in nature and therefore not allowed in audit.*

7.3 ***We recommended that Management require the Finance Department to strictly comply with the provisions of EO 298 on the prescribed travel allowance and on the prescribed period within which to liquidate cash advances; and with COA Circular 2012-001 on the documentary requirement in the grant and liquidation of cash advances for travel.***

7.4 The Acting Manager, Finance Department, informed that a Memorandum Circular will be issued relative to the guidelines on local travel.

8. **MWSS paid cost of water consumed totalling P107,014 for CY 2015 for the two MWSS guest houses much higher when compared to the reported usage. Moreover, rental income collected did not conform to the current daily rental rates provided by the Property Management Department.**

8.1 MWSS owns two guest houses, La Mesa and Quirino, that are rented out to private individuals and/or organizations. They also serve as alternative centers for social activities and formal/informal meeting places of MWSS officials, its concessionaires, organizations involved in the La Mesa Dam Development Program and other institutions. They can also function as a “live-in seminar site” for small groups of five to 10 people.

8.2 Analysis of expenses pertaining to the use of the guest houses showed that MWSS paid high water bills when compared with the reported usage of the facilities as shown in the following instances:

8.2.1 ***For the use of the Quirino guesthouse*** -

8.2.1.1. Water bills for the periods December 17, 2014 to February 16, 2015 and June 17 to July 16, 2015 which was occupied for only

two days per billing period was **higher** than the amount billed for the period April 17 to May 16, 2015 when it was used for only **four** days, as shown below.

Billing Period	No. of days used	Cu. meter	Amount paid	Billing Period	No. of days used	Cu. meter	Amount paid
Dec 17, 2014 to Jan 16	2	55	4,588.30	Apr 17 to May 16	4	48	4,031.96
Jan 17 to Feb 16	2	54	4,534.48				
Jun 17 to Jul 16	2	53	4,712.74				

8.2.1.2. For the billing periods from June 17 to July 16 and July 17 to August 16, the amount of water billed of **P4,712.74 and 1,688.51** respectively, greatly differed, considering that it was occupied for **two days** on both dates, as shown below:

Billing Period	No. of days used	Cu. Meter	Amount paid	Billing Period	No. of days used	Cu. Meter	Amount paid
Jun 17 to Jul 16	2	53	4,712.74	Jul 17 to Aug 16	2	19	1,688.51

8.2.1.3. The amount paid from June 17 to July 16 which was occupied for only **two** days was P4,712.74 which is **highe**r than that from April 17 to May 16 of P 4,031,96 which was occupied for only f**our** days, as shown below;

Period				Comparison			
Billing Period	No. of days used	Cu. Meter	Amount paid	Billing Period	No. of days used	Cu. meter	Amount paid
Jun 17 to Jul 16	2	53	4,712.74	Apr 17 to May 16	4	48	4,031.96

8.2.1.4. For the period June 17 to July 16, the water bill for Quirino guesthouse amounting to P4,712.74 which was used for **two** days was **four** times the amount paid for La Mesa guesthouse in the amount of P977.74 which was used for **three** days for the same period. In the same manner, the water bill of Quirino guesthouse for the period April 17 to May 16, of P4,031.96 which was used for **fou**r days was **twice** the billed amount for the La Mesa guesthouse of P2,016.48, which was used for **five** days.

Quirino				La Mesa			
Billing Period	No. of days used	Cu. Meter	Amount paid	Billing Period	No. of days used	Cu. Meter	Amount paid
Jun 17 to Jul 16	2	53	4,712.74	Jun 17 to Jul 16	3	11	977.74
Apr 17 to May 16	4	48	4,031.96	Apr 17 to May 16	5	24	2,016.48

8.2.1.5. For the billing period March 17 to April 16, the monthly water bill of P2,266.54 with **zero** occupancy, was **twice** the amount of the average monthly billing of P888.94 for the periods August 17 - September 16, September 17 to October 16, 2015 and October 17 to November 16, 2015, all having **zero** occupancy.

Billing Period	No. of days used	Cu. meter	Amount paid	Billing Period	No. of days used	Cu. meter	Amount paid
Mar 17 to Apr 16	0	27	2,266.54	Aug 17 to Sept 16	0	1	887.45
				Sept 17 to Oct 16	0	0	889.13
				Oct 17 to Nov 16	0	0	890.25
				Average	0	0.33	888.94

8.2.2 *For the use of the La Mesa guesthouse*

8.2.2.1 The water bill for the period December 17, 2014 to January 16, 2015 of P47,235.83 was 16-times **higher** than the amount for the billing periods February 17 to March 16, 2015 and April 17 to May 16, 2015 considering that for all the billing periods mentioned, we noted uniform five-day usage. Also, such amount was significantly higher than the amount paid from January 17 to February 16, 2015 with 12 days of use.

Billing Period	No. of days used	Cu. Meter	Amount paid	Billing Period	No. of days used	Cu. meter	Amount paid
Dec 17, 2014 to Jan 16	5	562	47,235.83	Feb 17 to Mar 16	5	35	2,938.87
				Apr 17 to May 16	5	24	2,016.48
				Jan 17 to Feb 16	12	165	13,875.98

8.2.2.2 For billing period from September 17 to October 16, there were no reported guests in both guesthouses; however, the amount of water paid for the La Mesa guesthouse of P1,960.91 was **twice** the amount of **P889.13** for the Quirino guesthouse.

La Mesa				Quirino			
Billing Period	No. of days used	Cu. meter	Amount paid	Billing Period	No. of days used	Cu. meter	Amount paid
Sept 17 to Oct 16	0	22	1,960.91	Sept 17 to Oct 16	0	0	889.13

8.3 Also, our audit revealed that some rental income collected for the use of guesthouses for CY 2015 were not in conformity with the current daily rental rates (VAT inclusive) given by the Property Management Department personnel of P2,240 for La Mesa and P1,120 for Quirino guesthouses. Details are shown as follows:

Payor	Date of use	OR Number	Amount collected	Should be amount	Variance
La Mesa GH:					
COMBI	Jul 17 to 19, 2015	2284	1,500.00	6,720.00	5,220.00
Hazel Villamayor	Apr 11, 2015	0185382	2,000.00	2,240.00	240.00
Marlon Palmere	May 9, 2015	0185591	1,500.00	2,240.00	740.00
Quirino GH:					
COMBI	Apr 24-26, 2015	0185558	1,500.00	3,360.00	1,860.00
Ludivina Ocampo	Feb 13-14, 2015	0185414	1,500.00	2,240.00	740.00

8.4 ***We recommended and Management agreed to:***

a. ***Provide explanation for the payments of water bill for various months which are not proportionate to the reported usage and thereafter, adopt cost-cutting schemes on water consumption of the guesthouses;***

b. ***Submit approved policy on the use of guesthouse, charging rate for the use and billing procedures which serve as a guide for efficient and effective usage of the facilities; and***

c. ***Ensure that rental income collected for the use of facilities is correct and conforms to the current daily rental rate.***

A.2 Current Year's Audit Observations and Recommendations – MWSS Regulatory Office (RO)

1. **Cash amounting to P317.410 million remained idle in the regular current account earning minimal interest of P1.080 million per annum rather than having it invested in high yielding investment in government securities as authorized under Section 2 of Administrative Order No. 173 and Section 17 of DOF Department Order No. 141-95, as amended.**

1.1 Our audit was guided by the following:

a. Section 2 of Administrative Order No. 173, dated June 18, 1990, which states that "***All government-owned or controlled corporations***, government financial institutions, and local government units ***are hereby directed to invest their idle funds in excess of normal operating requirements in medium-term and long-term government securities or in special short-term government securities.***"

b. Section 17 of DOF Department Order No. 141-95, as amended, dated August 11, 2004 which provides that "Idle funds in excess of normal operating requirements, as hereinafter defined, of GOCCs and LGUs shall be invested in medium-term and long-term government securities, special short term government securities and/or fixed term deposits with the Bureau of the Treasury. *The phrase "idle funds in excess of normal operating requirements" shall generally mean the level of funds which an entity can freely invest in government securities and/or fixed term deposits after considering provisions for coverage of such (1) regular and recurring operating expenses such as salaries and wages, repairs and maintenance, inventories and supplies, debt servicing, etc. within the context of the entity's cash operating cycle.*"

c. Section 3.2.1 of DOF Circular No. 1-06, dated October 30, 2006, which states, "*All Government-owned and/or Controlled Corporation (GOCCs) including those who are likewise treated as Tax Exempt Institutions and Local Government Units (LGUs) may invest their idle funds in excess of normal operating requirements in medium-term and long-term government securities or special short-term government securities and other debt instruments with the Bureau of the Treasury's OTC window.*" (emphasis ours)

1.2 The Cash and cash equivalent account reported a balance of P317,410,154.06 as of December 31, 2015, with monthly balances including interest earned presented below:

Month	Month-end Balance	Interest earned
January	P231,391,148.91	0
February	260,580,614.53	0
March	371,288,822.30	P264,386.78
April	352,761,721.04	0

Month	Month-end Balance	Interest earned
May	344,521,876.07	0
June	337,019,545.11	353,687.65
July	346,459,310.56	0
August	338,093,695.82	0
September	334,550,728.47	340,866.19
October	326,826,807.93	0
November	321,014,785.87	0
December	317,410,154.06	120,837.63
Total		**P1,079,778.25**

1.3 During the year, the cash in bank accounts earned only minimal interest rate of between 0.125 percent to 1.25 percent per annum or a total interest income of P1,079,778.25 (which includes PNB accounts closed during the year).

1.4 The Statement of Financial Position of the MWSS RO as of year-end showed that the cash in bank increased by P81,787,420.93 million or 35 percent as compared with CY 2014. It was primarily sourced from the share of the Regulatory Office in the concession fees paid by the two Concessionaires. The operating expenses averaging P4,934,645.88 per month (computed for 11 months and excluding December because of various accruals) totalled to P84,633,328.49 only, as shown below:

	Personnel Services	MOOE	Loan Payments	Total
January	P2,818,888.44	P434,662.76	0	**P3,253,551.20**
February	2,504,663.82	620,123.61	3,754,689.60	**6,879,477.03**
March	2,512,803.14	1,468,479.67	0	**3,981,282.81**
April	3,522,806.66	1,145,666.11	0	**4,668,472.77**
May	4,907,634.20	1,169,122.37	0	**6,076,756.57**
June	4,420,464.25	1,673,156.12	0	**6,093,620.37**
July	2,356,815.27	1,067,248.73	0	**3,424,064.00**
August	2,430,997.46	1,302,725.36	3,925,137.60	**7,658,860.42**
September	2,653,258.27	1,557,414.83	0	**4,210,673.10**
October	2,587,579.87	1,359,870.27	41,043.20	**3,988,493.34**
November	2,480,507.80	1,565,345.34	0	**4,045,853.14**
December	3,504,977.26	26,847,246.48	0	**30,352,223.74**
Total	**P36,701,396.44**	**P40,211,061.65**	**P7,720,870.40**	**P84,633,328.49**

1.5 Further analysis of the available cash showed a very high liquidity status having an acid test ratio of 4.9:1 which is way above the normal ratio of 1:1, thereby indicating capability to pay the current liabilities on due dates while demonstrating existence of idle cash in banks.

1.6 The idle cash balance represents excess cash after deducting the annual personal services, MOOE, capital outlay and loan payments. Inquiry disclosed that prior to the transfer of funds from PNB to LBP, funds were placed in time deposits. However, there was delay in the placement because of the need to comply with the various documentary requirements of the banks.

1.7 ***We recommended and Management agreed to consider investing its excess or idle cash balance in government issued securities offering high yielding interest rate pursuant to Section 2 of Administrative Order No. 173, Section 17 of DOF Department Order No. 141-95, as amended and Section 3.2.1 of DOF Circular No. 1-06.***

1.8 Management presented its current investment portfolio as of February 2016 wherein the cash are invested in high yielding and special savings time deposits.

2. **MWSS RO maintained bank accounts with the Philippine National Bank, a non-government depository bank, contrary to DOF Department Circular No. 001-2015, as amended.**

2.1 Section 5.2 of DOF Department Circular No. 001-2015, dated June 1, 2015, as amended requires all NGAs, GOCCs, and LGUs specifically allowed by law, rules and regulations to retain income and/or for operations and/or working balances *to deposit and maintain accounts with GFIs with a universal bank license and CAMELS rating of at least "3"* as part of the Government's effort to strengthen its overall fiscal position.

2.2 As of December 31, 2015, MWSS RO maintained bank accounts with PNB with the following balances, to wit:

Account No.	Amount
Regular	P25,178,591.18
MVFP	2,338,211.15
Total	P27,516,802.33

2.3 Management was reminded on several occasions to comply with relevant DOF regulations on the maintenance of accounts with government depository banks. In a letter dated August 7, 2015, MWSS RO Management committed to comply with the aforementioned Circular, subject to a proposed bank migration program or timeline for a 'phased out –phased in' method of transferring funds.

However, Management failed to fully comply with the commitment they made particularly in the closing of the PNB accounts and opening of a similar account with LBP or DBP ***within 30 days*** from August 7, 2015, or date of the letter.

2.4 They explained that they needed the 30 days to close the account to ensure that no issued checks will be dishonoured for having been issued against a closed PNB account and to enable them to reconcile the PNB checks issued against checks already encashed. This explanation may no longer apply considering that the bank reconciliation statement for PNB Regular Account as of December 31, 2015 showed that there were no more outstanding checks and no reconciling items between the checks issued by the RO and the checks encashed by the payees.

2.5 For PNB MVFP Account, Management intended to close the PNB account after the reconciling items totalling P884,021.53 between the book balance and the bank balance have been adjusted.

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

a. ***Transfer all government funds from PNB to authorized government banks strictly within the transitory period allowed under DOF Department Circular No. 002-2015; and***

b. ***Analyze and resolve immediately the reconciling item "Unaccounted Differences from 2000 to 2008" for PNB MVFP Account before transfer of the fund to other government depository bank.***

3. **Payment of Collective Negotiation Agreement (CNA) Incentive for FY 2015 was erroneously recorded to the Retained Earnings account instead of "*Collective Negotiation Agreement Incentive Civilian" or "Other Benefits," as provided under* Section 4.4.4 of DBM Budget Circular No. 2015-2.**

3.1 Section 4.4.4 of DBM Budget Circular No. 2015-2, dated November 23, 2015, provides that "The amount paid as CNA Incentive shall be recorded in the agency books under the account code "Collective Negotiation Agreement Incentive Civilian", Other Benefits," and Collective Negotiation Agreement Incentive for NGAs, LGUs, and GOCCs/GFIs, respectively"**.**

3.2 Audit of the payment of the CNA Incentive totalling P482,500 revealed that it was erroneously debited to the Retained Earnings account instead of the account provided for in the DBM Circular. It was gathered from the Chief Corporate Accountant that they misinterpreted savings referred to in the DBM Circular as net income which was already closed to Retained Earnings.

3.3 ***We recommended and Management agreed to ensure that henceforth, Accounting Office record CNA payments to the account specified in the specific DBM Circular authorizing the grant of CNA.***

4. **Relevant provisions of the Revised Implementing Rules and Regulation (RIRR) of RA 9184 were not complied with in the procurement of goods, to wit: (1) the issuance of a written invitation to three observers in various stages of the bidding process; (2) the posting of the Notice of Award (NOA) and Notice to Proceed (NTP) in the agency website; and (3) the submission of certification by the BAC Secretariat on the posting of the NOA at a conspicuous place.**

4.1 Our audit was guided by the following provisions of the RIRR of RA 9184:

a. Section 13.1 which provides that "*to enhance the transparency of the process, the BAC shall, in all stages of the procurement process, invite, in addition to the representative of the COA, at least two (2) observers, who shall not have the right to vote, to sit in its proceedings…x x x*";

b. Section 13.1 (1) which requires the following as observers *"1. x x x…b) For goods, a specific relevant chamber-member of the Philippine Chamber of*

Commerce and Industry; x x x.. and 2. The other observer shall come from a non-government organization (NGO)."

c. Section 37.1.6 which requires that "*the BAC, through the Secretariat, shall post, within three (3) calendar days from its issuance, the Notice of Award in the PhilGEPS, the website of the procuring entity, if any, and any conspicuous place in the premises of the procuring entity*";

d. Section 37.4.2 which requires that "*the procuring entity, through the BAC Secretariat, shall post a copy of the Notice to Proceed and the approved contract in the PhilGEPS and the website of the procuring entity, if any, within fifteen (15) calendar days from the issuance of the Notice to Proceed*."

4.2 Audit of the contract documents pertaining to the procurement of the Analytical Services for Water Supply Check Monitoring Program; Analytical Services for Wastewater Quality Monitoring Program; and the contract for the Supply, Delivery, Development and Training for an Enterprise Geographical Information System (GPIS) for the MWSS in the amount of P1,643,700.00, P2,016,000.00 and P9,974,140.00, respectively, disclosed non-compliance with prescribed procurement processes, as follows:

a. No invitation was issued to observers representing a Non-Government Organization (NGO) and duly recognized private sector representative to witness the various stages in procurement procedures. The observers invited were from the MWSS Corporate Office and from the Office of the Government Corporate Counsel, contrary to the provision of Section 13.1 of the RIRR.

b. The NOA and NTP were not posted in the agency website as required under Sections 37.1.6 and 37.4.2 of the RIRR. Also there was no certification by the BAC Secretariat on the posting of the NOA at conspicuous places, to prove compliance with the requirement under Section 37.1.6 that the NOA shall be posted in any conspicuous places in the premises of the MWSS.

4.3 We also noted that the NOAs and NTPs for the procurement of two analytical services contracts were all undated which is important in the monitoring of procurement timelines.

4.4 ***We recommended and Management agreed to henceforth:***

a. ***Invite as observers representatives from the Non-Government Organization (NGO) and duly recognized private sector representative to witness the various stages in procurement procedures, in addition to COA in compliance with Section 13.1 of the IRR of RA 9184;***

b. ***Post in the MWSS RO website and in conspicuous places the NOA and NTP as required under Sections 37.1.6 and 37.4.2 of the RIRR; and***

c. ***Henceforth, include in the contract documents submitted to COA the certification from the BAC Secretariat that the NOA was posted in conspicuous places in MWSS premises.***

A.3 Current Year's Audit Observations and Recommendations – Common to MWSS CO and RO

1. **Documentation requirements for disbursements for janitorial and security services provided under COA Circular No. 2012-001 were not complied with, to wit: Accomplishment Report and Proof of remittance to concerned government agency and/or GOCCs (BIR/Social Security System (SSS/ Pag-Ibig), before any payment for Janitorial and Security Services totalling P4.069 million and P25.984 million, respectively.**

1.1 Item 9.1.3.2 of COA Circular No. 2012-001 enumerates, among others, the documentary requirements for disbursements pertaining to General Services, which include among others, the *"Accomplishment Report and Proof of remittance to concerned government agency and/or GOCCs (BIR/Social Security System (SSS/PAG-Ibig)."*

1.2 Payments for janitorial and security services in CY 2015 aggregated P3,275,775.22 and P25,021,265.42, respectively, which were supported only with the following documents:

a. MWSS Corporate Office
   - Record of Attendance / Daily Attendance Sheet;
   - List of detailed scheduled of duty;
   - Request for payment or Billing Statements; and
   - Affidavit to Operate/Claim

b. MWSS Regulatory Office
   - Request for payment or Billing Statements;
   - Record of Attendance/Service (Daily Time Report or Summary Time Sheet);
   - Affidavit of owner/manager stating among others that they have complied with the relevant Labor laws (For janitorial services only).

1.3 Clearly, the disbursements for Janitorial and Security Services lacked the Accomplishment Report and Proof of remittance to concerned government agency and/or GOCCs (BIR/Social Security System (SSS/ Pag-Ibig), which are necessary to validate the payments made by MWSS.

1.4 As regards the affidavit to operate/claim, the payments by MWSS CO for services rendered by security guards assigned at Ipo, Wawa and Laiban Dam for the period January to March 2015 lacked the said document.

1.5 ***We recommended and MWSS CO and RO Management agreed to:***

a. ***Immediately require the submission by the janitorial and security service providers of the Accomplishment Reports, the Report and Proof of remittance to the concerned government agency and/or GOCCs (BIR/Social Security System (SSS/Pag-Ibig) for the payments made and the affidavit to operate/claim for the period January to March 2015, and submit the same to this Office for audit; otherwise, a Notice of Suspension shall be issued; and***

b. ***Henceforth, ensure that the disbursements for janitorial and security services are supported with complete documents required under COA Circular 2012-001.***

2. **Posting errors to the employees' leave cards, erroneous computation of earned leave balances per leave cards, non-compliance with the provision under Section 22 of the Omnibus Rules on Leave requiring five days minimum VL balance prior to the monetization were the deficiencies noted in the monetization of leave balances.**

2.1 Our audit was anchored on the following rules and regulations:

a. Section 22 of the Omnibus Rules on Leave (CSC Resolution No. 98-3142 dated December 14, 1998) which provides that monetization of vacation leave (VL) credits can only be made once a year and only if an employee has accumulated 15 days of vacation leave credits prior to monetization, with 10 days as the minimum allowed and up to 30 days in a given year, provided five days is retained;

b. Section 23 of the same Omnibus rules which states that monetization of 50% or more of the accumulated leave credits may be allowed, *as an extraordinary measure*, and only for valid and justifiable reasons, with favorable recommendation of the agency head and subject to availability of funds; and

c. CSC Resolution No. 000034 dated January 5, 2000 which provides that monetization of sick leave (SL) credits can only be made after exhausting first the vacation leave credits.

2.2 In the review of relevant supporting documents in the monetization of leave credits for CY 2015 totaling P5,075,717.94, we observed the following:

2.2.1 For MWSS CO, the monetization of less than 10 days of VL credits of employees with less than 15 days accumulated VL balance was allowed contrary to Section 22 of the Omnibus Rules on Leave (CSC Resolution No. 98-3142), namely:

Name of Employee	Cut off month	*VL Bal*	VL monetized
Am-is, William M.	Mar 31, 2015	9.75	10.00
Avanceña, Virgilito B.	May 31, 2015	12.55	1.00
Caser, Conrad Nixon P.	Dec 31, 2014	11.55	10.00
Codamon, Emelda B.	Feb 28, 2015	13.25	15.00
	June 15, 2015	10.75	10.00
Cruz, Stella A.	June 30, 2015	12.42	10.00
Dela Cruz, Narciso I.	Mar 31, 2015	10.25	10.00
Domagsang, Florencia C.	Feb 28, 2015	10.694	10.00
	July 31, 2015	11.25	10.00
	Oct 31, 2015	10.00	10.00
Durante, Julito A.	Apr 30, 2015	10.00	1.00
Mendoza, Iris C.	Dec 31, 2014	11.00	10.00
	Aug 31, 2015	12.00	10.00
Ordoña, Cenon D.	Dec 31, 2014	9.33	10.00
	July 31, 2015	13.08	10.00
Rondario, Lilia N.	Dec 31, 2014	9.00	14.00
Talastas, Feliciano B.	Feb 28, 2015	10.15	20.00
Zapiter, Rene C.	Feb 28, 2015	10.75	15.00

2.2.2 For MWSS CO, there were errors in the posting of the number of monetized leave to the leave card. Leave credits monetized and actually paid to employees were not correctly deducted from the earned leave balance reflected in the leave cards, as shown below.

Name	JEV Number	No. of Leave Credits Monetized	No of leave credits deducted from the leave cards	Discre pancy
Cruz, Edgar C.	2015-01-000280	30	25	5
Cuevas, Salome	2014-05-001878	1	0	1
Escoto, Jose Alfredo Jr. B	2015-04-001354	15	0	15
Naz, Ma. Lourdes R.	2014-06-002221	5	0	5
	2014-08-003312	30	0	30
Total				56

The above discrepancies resulted in the overstatement of the earned leaves of the above-mentioned employees as of the end CY 2015.

2.2.3 There were errors in the computation of leave balances, as shown below.

MWSS CO

Particulars	Leave Balance			Should be total	Differ-ence	Remarks
	SL	VL	Total			
Edgar C. Cruz CY 2015 December Forced Leave Balance after FL	 36.50 1.25	 15.80 *(3.75)*	 52.30 (3.75)	 52.30 (5.00)		Of the 5 days forced leave applied in December 2015, only 3.75 were

Particulars	Leave Balance			Should be total	Differ-ence	Remarks
	SL	VL	Total			
	37.75	12.05	49.80	47.30	2.5	deducted from the leave balance or a difference of 1.25. Further, another 1.25 was added to the leave balance. Thus, a difference of 2.5 days
Erlinda J. Isip December 2014 January 2015	80.75 99.53	11.95 17.78	92.70 117.31	92.70 95.20	 22.11	Considering that an employee earned only 2.5 days leave per month, the earned leave balance as of December 2014 of 92.70 should have increased to 95.2 instead of 117.31 or the increase of 22.11 days for the month of January 2015.

MWSS RO

Name	Should be balance after monetization (May)		Per Employee Leave Card (May)		Difference Over (Under)	
	VL	SL	VL	SL	VL	SL
Coloso, Roberto U.	7.73	33.75	7.73	32.50	-	**(1.25)**

MWSS RO

Name	Should be balance after monetization (Oct & Dec)		Per Employee Leave Card (Oct & Dec)		Difference Over (Under)	
	VL	SL	VL	SL	VL	SL
Coloso, Roberto U.	8.72	10.75	12.72	10.75	**4.00**	**0**
Makiling, Maria Theresa V.	11.79	37.50	16.79	37.50	**5.00**	**0**
Parras, Mylene Joy S.	6.87	6.50	13.87	6.50	**7.00**	**0**
Medina, Lorna C. *	14.92	11.45	23.43	21.45	**8.51**	**10.00**

**monetized in December 2015*

2.2.4 The '*should-be balance*' was computed by deducting the VLs, SLs and under- times incurred by the employees as reflected in the Employee Leave Card for the month the monetization was availed of.

2.2.5 Accumulation of vacation and sick leave credits has an equivalent monetary value, which is ultimately paid to the employee after end of service. Thus, a thorough review of the work of the personnel assigned in recording/updating the leave cards is required to ensure correctness of leave balances.

Moreover, with the approval of the Early Retirement Program for MWSS CO, there is an urgent need for the Internal Audit to review the leave cards of all the employees.

2.2.6 Two employees from MWSS RO were allowed to monetize in May 2015 more than 50 percent of their accumulated leave credits even without approved request or favorable recommendation from the Chief Regulator contrary to Section 23 Omnibus Rules on Leave. They are the following:

Name	Total Before Monetization VL + SL	Total Monetized VL + SL	% Monetized
Bagaporo, Isabel V.	23.65	14	59
Valdez, Rosalinda T.	25.93	14	54

2.2.7 Several employees in MWSS RO monetized their sick leave in the May monetization even if there was available vacation leave balance contrary to CSC Resolution No. 000034:

Name	Cut off month	Balance before monetization (April)		VL Monetized	
		VL	SL	VL	SL
Alegre, Rosendo O.	April	30.54	130.17	10.00	10.00
Leido, Steve P.		48.64	62.25	10.00	10.00
Villarba, Ma. Victoria M.		39.60	277.40	0	15.00
Yambao, Vincent Pepito F. Jr		38.50	89.00	10.00	15.00
Abaloyan, Leo James B.	September	20.91	17.75	5.00	10.00
Alegre, Rosendo O.		26.79	118.42	3.00	12.00

As shown above, an employee, Ma. Victoria M. Villarba, was allowed to monetize 15 days SL even if she has 39.60 days of VL credits as of April 30, 2015.

In the examination of selected Time Cards of employees who availed of the October monetization, the October balance of the Employee Leave Card did not include deductions of incurred vacation leave, sick leave, lates (tardiness) and undertimes (UT) for the month as shown below:

Name	Incurred in October 2015		
	VL or SL	Late	UT
Abaloyan, Leo James B.	√		
Chuegan, Alan D.	√	√	√
Chuegan, Christopher D.		√	√
Coloso, Roberto U.		√	√
Parras, Mylene Joy S.	√	√	√

2.3 ***We recommended and MWSS CO and RO Management agreed to:***

a. ***Immediately re-compute and reflect the correct leave credit balances of employees who availed of the monetization for CY 2015, and if necessary, retroactively, of all other employees who availed of the previous year's monetization;***

b. ***Ensure that deduction of leave credits from monetization, addition from leave credits earned and the accumulated leave balances are accurately reflected in the individual leave cards of the employees;***

c. ***Institute periodic audit of all employee's accumulated leave prior to approval and payment of their respective monetized leave credits and terminal leave benefits; and***

d. ***Require their respective Administrative Department to, henceforth, strictly observe to the provisions of Section 22 of the Omnibus Rules on Leave (CSC Resolution No. 98-3142) and CSC Resolution No. 000034 on the granting and approval of monetization of leave credits.***

2.4 In the exit conference, MWSS CO Management informed that there was an on-going audit of leave balances by the Internal Audit Department.

B.1 Reiteration of Audit Observations and Recommendations - MWSS CO

Some audit recommendations on several audit observations in the CY 2014 Annual Audit Report pertaining to the MWSS CO were not acted upon/addressed in CY 2015; hence the reiteration as presented below.

1. **Per COA Legal Opinion No. 2016-006 issued on January 12, 2016, MWSS may not validly use Proclamation No. 1336 as basis for the legality of the sale of certain portion of the La Mesa Dam Watershed to its officers and employees, as mere reliance on the said proclamation, without showing other compelling evidence to show that the subject lots may be alienated was not sufficient to support their claim.**

1.1 Section II, Article XII of the 1987 Constitution of the Philippines provides that:

> *All lands of the public domain, waters, minerals, coal, petroleum and other mineral oils, all forces of potential energy, fisheries, forests, or timber, wildlife, flora and fauna, and other natural resources are owned by the State. With the exception of agricultural lands, all other natural resources shall not be alienated. The exploration, development, and utilization of natural resources shall be under the full control and supervision of the State.*

1.2 Below is a backgrounder on the issue raised herein.

Date	Event
November 25, 1989	The concept of the La Mesa Housing Project was approved by the MWSS Board of Trustees through Board Resolution No. 234-99. DENR-NCR granted Environmental Compliance Certificate (No. NCR 99-11-160244-212 / 9906-125-QC-212) for the MWSS Employees Housing Project located at Barangay Greater Lagro, Novaliches, Quezon City for the development of the 33,796 square meters of land into a residential subdivision composed of housing units and amenities/facilities.
March 21, 2002	MWSS Board through Board Resolution No. 97-2002 approved and confirmed the utilization of the said property as the site of the MWSS Housing Project for the present officials and employees of the MWSS Corporate Office.
October 25, 2002	MWSS Board through Board Resolution No. 296-2002 approved the sale of the said property allocated for the housing project to all beneficiaries at P500/square meter with the MWSS Corporate Office Multi-Purpose Cooperative (MCMC) handling the Housing Project.
June 29, 2004	MWSS and MCMC entered into a Deed of Absolute Sale for the transfer, assignment and conveyance unto MCMC a parcel of land consisting of 141 lots with a total land area of approximately 26,925.45 square meters for and in consideration of P13,462,725.

1.3 In CYs 2007 and 2012, the Auditors required the submission of the approval from the Office of the President for the abovementioned sale. However, the MWSS Management submitted Proclamation No. 1336.

1.4 On January 12, 2016, COA Legal Opinion No. 2016-006 was issued, with the following statements:

"MWSS may not validly use Proclamation No. 1336 as basis for the legality of the sale certain portion of the La Mesa Dam Watershed to its officers and employees. Mere reliance on the said proclamation, without showing other compelling evidence to show that the MWSS Management may alienate the subject lots, is not enough to validate their claim.

Proclamation No. 1336 issued by then President Gloria Macapagal Arroyo on July 25, 2007 is nothing than a declaration of the La Mesa as permanent watershed reserves and the need to rehabilitate and restore the same as source of water for domestic use and other related purposes. Xxx.

xxx MWSS Management may not convert the La Mesa Dam Watershed into a housing project for the benefit of its officers and employees. Such property is generally open to the public at large subject only to reasonable regulations and can be used by the public *only in accordance with their nature or purpose. The use of this property is not confined to privileged individuals, but is open to the indefinite public.*

The La Mesa Watershed is the main source of drinking water for residents of Metro Manila and nearby areas. As such, it is mandatory upon the State to protect and preserve the reservoir for the benefit of the public in general. Apparently, to allow the MWSS housing project within the La Mesa Watershed is a great threat to the La Mesa reservoir because sooner or later it would definitely pollute the area.

xxx Finally, the application for land registration must prove that the DENR Secretary had approved the land classification and released the land of the public domain as alienable and disposable, and that the land subject of the application for registration falls within the approved area per verification through survey by the PENRO or CENRO. These facts must be established to prove that the land is alienable and disposable. Xxx.

Since the MWSS Management failed to show compelling evidence that the subject lots given to its officers and employees were already classified as alienable and disposable lands, the same remain part of the inalienable public domain and could not be the subject of commerce of man or registration. It must be noted that lands that are not clearly under private ownership are also presumed to belong to the State and therefore, may not be alienated or disposed. (Heirs of Mario Malbanan v. Republic, G.R. No. 179987, September 3, 2013)."

1.5 On February 5, 2016, the aforecited COA Legal Opinion was transmitted to MWSS Administrator for information and appropriate action.

1.6 In its memorandum-reply received on April 27, 2016, the Property Management Department informed that:

a. The lands sold are covered by TCTs as evidence of ownership of the land by MWSS.

b. The area sold by MWSS to MWSS Corporate Office Multi-Purpose Cooperative (MCMC) for the housing project of MWSS officers and employees, is alienable or disposable land previously covered by Transfer Certificate of Title 17971(141924) derived from the consolidation of TCT Nos. 141701-141706 and that the land is originally intended/allotted as the housing project of the then NAWASA employees until the Letter of Instruction No. 440 dated July 29, 1976 of former President Marcos directed MWSS to use that parcel of land as the site of the water treatment plant.

c. The subject area sold to MCMC was the remaining portion of the parcel of land after the construction of the two water treatment plants therein after it was established that there would be no more water treatment plants to be constructed therein considering the transfer of the operational assets to the Concessionaires under the Concession Agreement, hence, it is already an idle/retained asset.

d. TCT 17971 was cancelled by virtue of the sale of the 26,925.45 square meters of portion of the land to MCMC and in lieu TCT Nos. 265685 and N-

265686 issued by the Registry of Deeds of Quezon City in the name of the MCMC and Metropolitan Water District respectively.

1.7 We transmitted the above memorandum-reply of the Property Management Department to the Legal Services Sector, this Commission, through the Cluster Director, for their evaluation as to the legality of the sale of the land. We will provide the Management of the results of the evaluation by the COA Legal Services Sector immediately after receipt thereof.

2. **The balance of the Land recorded under PPE and Other Asset accounts as of December 31, 2015 amounting to P20.504 billion was not certain of accuracy due to selective revaluation and reporting of amounts in the financial statements that was a mixture of costs and values as at different dates, contrary to PAS 16.**

The validity of dropping from the books of accounts and the adjustment to record the difference in the cost of the sale of various Land totalling P267.207 million was not established due to inadequate documentation.

The disclosure requirements in the Notes to Financial Statements on the items of PPE stated at revalued amount in the financial statements were not fully complied with as required under PAS 16.

2.1 The Land (201) account of MWSS as of December 31, 2015 registered an ending balance of P19,909,916,651.78 net of unreconciled account balances.

2.2 We made observations on the selective revaluation and reporting of amounts in the financial statements, on the validity of dropping from the books of accounts and the adjustment to record the difference in the cost of the sale of various Land and on the disclosure requirement of PAS 16 in the Notes to Financial Statements on revalued assets discussed below.

2.2.1 ***On selective revaluation and reporting of amounts in the financial statements -***

2.2.1.1 In CY 2014 and 2015, adjustments were made to record appraisal increments and decrements on various subsidiary ledgers of the Land account based on the Report on Valuation of Assets Used in Operations by MWSS and its Concessionaires (Valuation Report) which was coined from the 2010 Asset Condition Reports submitted by the concessionaires as verified thru private consultants engaged by the MWSS Regulatory Office in 2013 retrospective as of December 31, 2010.

2.2.1.2 Audit disclosed that there had been selective recording of revaluation which was found non-complying with Paragraph 38 of PAS 16 which provides that *"The items within a class of property, plant and equipment are revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial* *statements (FS) that are a mixture of costs and values as at different dates. (Emphasis ours)*

2.2.1.3 From CYs 2014 to 2015, the Finance Department made a total net cumulative adjustment amounting to P7.955 billion to record revaluation of Land account, computed as follows:

Particulars	Amount
Total adjustments to record revaluation increments and other adjustments	P13,356,409,875.19
Total adjustments to record revaluation decrements and other adjustments	(5,401,424,306.28)
Net revaluation recorded in the books as from CY 2014-2015 based on Valuation Report	P7,954,985,568.91

2.2.1.4 The total revaluation increments of P13,356,409,875.19 was exclusive of the beginning balance of P2,205,095,286.30 which was beyond the ambit of the subject 2013 Valuation Report.

2.2.1.5 The Valuation Report, which was used as basis for the recording of revaluation, reported that the Land account had a market value of P20.837 billion. However, audit disclosed that the Land account in MWSS' books showed an ending balance of P19.910 billion or a discrepancy of P0.927 billion computed as follows:

Market Value of Land, per Valuation Report		
Retained to MWSS	P10,055,849,963.00	
Turned-over to MWSI	7,308,488,928.00	
Turned-over to MWCI	3,472,511,020.00	P20,836,849,911.00
Cost of Land per MWSS books recorded as: PPE Other Assets		 19,909,916,651.78 548,706,416.48
Total Cost of Land per books		20,503,623,068.26
Difference		P333,226,842.74

2.2.1.6 The difference can be attributed to the selective or partial recording of revaluation caused by the failure to reconcile the Finance Department records against Property Department's records on the total area of MWSS lands which have been subject of prior year's audit findings.

2.2.1.7 Paragraph 38 of PAS 16 further states that "*However, a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date."*

2.2.2 ***On the validity of dropping from the books of accounts and the adjustment to record the difference in the cost of the sale of various Land totalling P267.207 million -***

2.2.2.1 We found that previous year's audit findings and recommendations involving adjustments made to the Land account in CYs 2013 and 2014 have not been acted upon by Management.

2.2.2.2 The validity of adjustment amounting to P228,175,760.26 to record the material difference between the cost of the land against its selling price was not verified due to lack of pertinent supporting documents that would prove appraisal thereof.

2.2.2.3 The dropping of land amounting to P39,031,614.49 to record adjustment of land area without valid proof was unacceptable in audit.

2.2.2.4 Failure to reconcile the records challenges the reliability of financial reporting, hence the usefulness of financial information to the readers of the FS is diminished.

2.2.3 ***On the disclosure requirement of PAS 16 in the Notes to Financial Statements on revalued assets -***

2.2.3.1 Audit showed that disclosure requirements in the Notes to Financial Statements under PAS 16 on revalued assets were not complied with. Paragraph 77 of PAS 16 provides:

> *"If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:*
>
> *(a) the effective date of the revaluation;*
>
> *(b) whether an independent valuer was involved;*
>
> *(c) the methods and significant assumptions applied in estimating the items' fair values;*
>
> *(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;*
>
> *(e) for each revalued class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model; and*
>
> *(f) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders.*

2.3 ***We reiterated our prior year's audit recommendations that Management:***

a. ***Conduct an independent survey of all land and land rights to determine actual land area and conduct a thorough review and reconciliation of records and observe consistency in financial reporting by recording revaluation for the entire items in the Land account to comply with PAS 16;***

b. ***On the adjustments made to the land account totaling P267.207 in CY 2013 and CY 2014 -***

i. ***For adjustment amounting to P228.18 million, submit proof that there was an appraisal on the land in previous period;***

ii. ***For adjustment amounting to 39.03 million -***

(1) ***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; and***

(2) ***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; and***

c. ***Comply with the disclosure requirements under PAS 16 on items of PPE stated at revalued amounts***

2.4 No Management comment was received.

3. **Other Receivables with year-end balance of P5.959 billion was found unreliable due to the inclusion of:**

a. **Costs of borrowings in the amount of P4.334 billion dormant for more than 10 years and its collection remained uncertain due to the pendency of the legal proceedings initiated by MWSS against its Concessionaire;**

b. **Penalty on delayed remittance of Concession fees totalling P1.118 billion;**

c. **Guarantee Deposits recorded as Other Receivables amounting to P120.480 million which were not considered valid claims due to the transfer of customer accounts to the Concessionaires; and**

d. **Other Receivables in the amount of P181.075 million not confirmed by the Concessionaires.**

3.1 The account, Other Receivables showed an outstanding balance of P5.959 billion as of December 31, 2015 with details as follows:

Account	Amount
Maynilad Water Services Inc.(MWSI)	P5,754,036,421.21
Manila Water Company, Inc. (MWCI)	189,150,500.60
Due from Welfare Fund	11,357,250.00
Others-Various	4,590,318.37
Total	P5,959,134,490.18

3.2 Analysis of accounts disclosed the following:

3.2.1 ***Item 1 - On Disputed Claims by MWSI amounting to P4.334 billion***

3.2.1.1 As of December 31, 2015, MWSS reported claims which were being disputed by MWSI totalling P5,451,964,464.10 computed as follows:

Particulars	Amount
Cost of Borrowing	
MWSI-Borrowing Cost-BNP PARIBAS-US$150M-Interest	P3,776,336,730.46
MWSI-Borrowing Cost-BNP PARIBAS-US$150M-Withholding Tax	176,328,836.38
MWSI-Borrowing Cost-BNP PARIBAS-US$150M-Others	167,860.76
Interest/Penalty on Unpaid Borrowing Cost	95,246,566.31
DBP/LBP	285,569,196.43
Total cost of borrowing	4,333,649,190.34
MWSI-Penalty on Delayed Remittance of Con Fee- Debt Service	1,118,315,273.76
Total	P5,451,964,464.10

3.2.1.2 Note 7 of the Notes to the Financial Statements describes the costs of borrowing which included the principal, interest and finance charges such as bank conversion, documentary stamps, cable charges and penalties. It was further stated that *"MWSS is still pursuing the disputed claims on cost of borrowings from MWSI relative to the BNP Paribas loan. Should MWSS be able to collect additional cost of borrowings, the said amount will be used to pay the loan with LBP/DBP Bonds Facility."*

3.2.1.3 In the Agency Action Plan and Status of Implementation (AAPSI) for Annual Audit Report CY 2014, Management informed that it will submit a report on the status of the arbitration case being prepared by the Office of the Government Corporate Counsel given MWSI's refusal to pay the amount demanded. However, to date we have no information on the status of the arbitration to settle this issue.

3.2.1.4 The recognition and reporting of the foregoing claims which probability of collection was uncertain was found non-complying with PAS 37 (paragraph 31) on Contingent Assets which provides that **an entity shall not recognize a contingent asset.**

A contingent asset is defined by the Standard as "*a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity.* ***An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain."****(Emphasis ours).*

Paragraph 33 further provides that *"Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. However, when the realization of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate."*

3.2.1.5 Given the dormancy of the accounts and the pendency of the legal actions taken by MWSS, the recognition of the same as Other Receivables in the books of accounts was found unwarranted and off the tenets of PAS 37.

3.2.1.6 However, as provided also by the Standard, **a contingent asset is disclosed where an inflow of economic benefits is probable** and an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in PAS 37.

Categorically, **if a contingent asset is only possible or remote, no disclosure is required.**

Paragraph 35 of PAS 37 also mentions that *"contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset."*

3.2.2 ***Item 2 - On the MWSI-Penalty on Delayed Remittance of Con Fee- Debt Service of 1.118 billion***

3.2.2.1 The total receivables also includes penalty imposed to MWSI on delayed remittance of Concession fee which is also disputed by MWSI. Note 7 of the Notes to Financial Statements disclosed that *"On December 19, 2007, the Rehabilitation Court issued an order, Special Proceeding No. Q-03-071 disallowing the penalty and the Order was confirmed on February 6, 2008. In a letter dated February 13, 2012, MWSS has requested the Commission on Audit's approval for the dropping out of the subject account from the books based on the order of the rehabilitation court."*

Our inquiry with the Commission Secretary, this Commission, the request for write-off of the subject accounts is still under review.

3.2.3 ***Item 3 - On the Guarantee Deposits totaling P120.480 million***

3.2.3.1 As discussed in *Note 7 of the Notes to Financial Statements for CY 2015,* guarantee deposits are customer deposits prior to the privatization of MWSS. The amounts were withheld by the two concessionaires from collections of accounts receivable from water and sewer services of MWSS on the onset of privatization where the two concessionaires were authorized to collect. Management and the two concessionaires went into reconciliation to arrive at the amount of guarantee deposit to be refunded to MWSS, where MWCI paid the amount of P6,626,987 in CY 2011 out of the billed amount of P9,901,983.00 representing the guarantee deposits overly deducted by MWCI plus interest. The amount paid has been contested by MWSS.

3.2.3.2 On the other hand, the amount to be refunded by MWSI was already established, however to date, it has not remitted the amount due of P30,197,647.94 representing the guarantee deposits that must be recovered from MWSI based on the latter's MWSI computation.

3.2.3.3 The accounting entries made to record the receipt of cash from the concessionaires, representing collections of MWSS' accounts receivables, net of guarantee deposit deductions are shown below:

a. To record receipt of cash remitted by the concessionaires from the collected accounts receivables of MWSS:		
Cash	xxx	
Accounts Receivable		Xxx
b. To record the guarantee deposits of MWSS deducted by the concessionaires from their collections		
Other Receivables-MWSI & MWCI	xxx	
Guarantee Deposits Payable-For Recon		Xxx

3.2.3.4 Emphasis was given to journal entry (b) which recorded guarantee deposits payable only in CY 2008. We are concerned on how the guarantee deposits paid by the customers were accounted prior to privatization of its operations. Recording a ***Guarantee Deposits Payable*** account could have duplicated the entries to record the payment made by the customers when they applied for water service accounts/connections with MWSS.

3.2.3.5 Accounting records showed the following balances on the concessionaires' subsidiary ledgers for the subject accounts:

Account	Balance
Other Receivables-Guarantee Deposits	
MWSI	P94,996,518.27
MWCI	65,583,129.78
Total	P160,579,648.05

3.2.3.6 Granting the correctness of the computations and assessment of MWSS, and the concessionaires agreed and refunded the same, the balance now refers to the guarantee deposits [which are in the custody of MWSI & MWCI] of the active consumers prior to privatization assumed by the concessionaires, computed as follows:

Account	Balance	MWSS' claim for refund	Balance after refund
Other Receivables			
MWSI-Guarantee Deposits	P94,996,518.27	P(30,197,647.94)	P64,798,870.33
MWCI-Guarantee Deposits	65,583,129.78	(9,901,983.00)	55,681,146.78
Total	P160,579,648.05	P(40,099,630.94)	P120,480,017.11

3.2.3.7 The balance of P120,480,017.11 should not be recognized as receivables from concessionaires, at the same time as payable (as discussed above) to customers due to the following reasons:

a. Generally accepted accounting principles define receivable as rights or claims from a certain entity for services rendered and payable pertained to obligations;

b. The amount of P120,480,017.11 pertained to active customers that had already transferred to the concessionaires. Since the customers' accounts are now with the concessionaires, the responsibility to make the refund lies with the concessionaires themselves, hence these shall cease to be accounted as guarantee deposits payable by MWSS and should also not be treated as receivables or claims from the concessionaires;

c. If found valid, the amount P40,099,630.94 should only be the amount to be retained in the accounting records representing the inactive customers, unaccounted deposits and or those not within the service area of the two concessionaires from which guarantee deposits were overly deducted by MWCI and MWSI. Review of accounting records showed that only P98,252.00 remained, net of unreconciled balance of P170,533,388.90.

3.2.4 ***Item 4 - On the Other Receivables in the amount of P181.075 million not confirmed by MWSI***

3.2.4.1 Other receivables from MWSI disclosed the following balances at year-end for which various items were negatively confirmed amounting to P81,064,420.62 by MWSI:

Receivable Accounts	Confirmed	Not Confirmed	Total
Inventory Held In-trust LMG (Chemphil) Mabuhay Vinyl	P97,261,018.22	P70,839,350.57	P168,100,368.79
Financial Assistance (AWUAIP, BNAQ-6 Phase-2)	2,750,000.00		
AWSOP Telemetry		781,914.72	781,914.72
Financial Plan Fee for field based investigation (Sumag River/Laiban Dam)		56,739.62	56,739.62
MWSI-Electricity		932,331.78	932,331.78
MWSI-Telephone		(102,370.90)	(102,370.90)
Bldg. Rental Deposit (Tandang Sora Branch)		427,300.00	427,300.00
MWSI Rehabilitation-Related Expenses		97,065.00	97,065.00
Bidding Expenses		532,089.83	532,089.83
Phil. Information Agency (PIA) Mass Media		7,500,000.00	7,500,000.00
Total	**P100,011,018.22**	**P81,064,420.62**	**P181,075,438.84**

a. MWSI confirmed P100,011,018.22 out of P181,075,438.84 or only about 55 percent of the total receivables which include the following:

Account	Amount Confirmed by MWSI
Inventory Held In-trust, Mabuhay Vinyl and LMG Chemphil	P97,261,018.22
Financial Assistance (AWUAIP, BNAQ-6 Phase-2)	2,750,000.00
Total	P100,011,018.22

b. In previous year, MWSI negatively confirmed various accounts due to the following reasons:

i. *Bldg. Rental Deposit-Tandang Sora Branch* - concessionaire commented that this should have been charged to Manila Water;

ii. *The expenses related to MWSI Rehab and Bidding Expenses*- MWSI denied the claims and commented that these should have been charged to MWSS;

iii. *Financial Plan Fee for field based investigation* – MWSI contended that this cost should have been charged to the consultant for Laiban study;

iv. *AWSOP Telemetry* – a shared cost with MWCI if proven legitimate;

v. *The PIA receivable account of 7.5 Million* – MWSI contests that no Memorandum of Agreement was executed with MWSS; and

vi. *MERALCO/Telephone/Rental* – MWSI commented that these are brought by timing differences.

3.3 ***Considering the foregoing, we recommended that Management*:**

a. ***Look into the possibility of reclassifying the costs of borrowing of P4.334 billion to the appropriate expense accounts considering the pendency of the local arbitration proceedings for which the realization or collection of the subject claims is virtually uncertain;***

b. ***Submit an updated report on the arbitration of the disputed claims with MWSI as reported in the AAPSI; and***

c. ***Review and reconcile accounting records to:***

i. Account for and make necessary adjustments for Other Receivables representing the active customers for which guarantee deposits have been already transferred to the Concessionaires;

ii. ***Explain the discrepancies noted between the balance of Guarantee Deposits Payable against the amount of P40.100 million being claimed by MWSS representing residual accounts erroneously withheld by the Concessionaires and provide justification on the recording of Guarantee Deposits Payable only during the MWSS privatization; and***

iii. ***Review and reconcile discrepancies with the Concessionaires for negatively confirmed accounts and initiate collection of valid receivables.***

3.4 No Management comment was received.

4. **Management continuously failed to reconcile the material variances between the P3.674 billion balance of long-term liabilities account, and the confirmed balances from Bureau of the Treasury (BTr), National Housing Authority (NHA) and other foreign lending institutions of P5.536 billion on the domestic and foreign loans, resulting in the increase of negative variance of P1.862 billion as at year-end.**

4.1 In the AAR for CY 2014, we reported that domestic and foreign loans under the Long Term liabilities account showed a negative net variance of P91.645 million between the MWSS books of accounts and the BTr's books. On the other hand, a foreign loan from IBRD with Loan No. 2676 in the amount of P361.368 million appeared in the BTr but the MWSS records reflected a zero balance.

We then recommended and Management agreed to (a) examine and analyze the outstanding balances confirmed and effect the corresponding adjustments for the differences noted, (b) provide the BTr with the amortization schedule and necessary documents to prove full payment of IBRD 2676, and (c) Request for the verification of its accounts for the Special Project Implementation Assistance Loan (SPIAL), IBRD 1272 and NATIXIS.

4.2 Verification showed that despite Management's commitment to implement the above-mentioned recommendations, there was no action taken therein. Confirmation replies from the BTr for the Long Term Liabilities revealed that the material variances noted in the AAR for CY 2014 remained unreconciled and increased to negative P1.862 billion as shown below.

Loan Account	Amounts		Difference
	per Books	per Confirmation	
Domestic Loans			
NHA	P98,795,399.07	P5,630,350.23	P 93,165,048.84
ADB 779/780	188,124,747.82	369,202,744.89	(181,077,997.07)
IBRD 1272	68,118,422.47	71,996,304.00	(3,877,881.53)
IBRD 2676	0.00	380,594,364.33	(380,594,364.33)
Subtotal	355,038,569.36	827,423,763.45	(472,385,194.09)

Loan Account	Amounts		Difference
	per Books	per Confirmation	
Foreign Loans			
JBIC/OECF PH-110	P1,348,880,777.08	P2,672,280,369.74	P(1,323,399,592.66)
IBRD 4019	81,990,555.29	72,997,325.39	8,993,229.90
ADB 1150	48,095,926.48	48,136,540.97	(40,614.49)
ADB 1379	1,829,634,131.92	1,896,491,662.75	(66,857,530.83)
NATIXIS	10,713,930.23	18,527,436.01	(7,813,505.78)
Sub total	3,319,315,321.00	4,708,433,334.86	(1,389,118,013.86)
Total	P3,674,353,890.36	P5,535,857,098.31	P(P1,861,503,207.95)

Acronyms

NHA – National Housing Authority
ADB – Asian Development Bank
IBRD – International Bank for Research and Development
OECF/JBIC- Overseas Economic Cooperation Fund/Japan Bank for International Cooperation

4.3 Furthermore, based on the letter dated February 26, 2016 of the BTr, MWSS had an existing loan payable of P380,594,364.33 from IBRD under Loan No. 2676, while the books of MWSS reflected a zero balance.

4.4 ***We strongly reiterated our previous years' recommendations that Management:***

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 P380.594 million; and***

c. ***Request for the verification of its accounts for JBIC/OECF, SPIAL, IBRD Nos. 1272 and 4019, ADB Loan Nos. 1150 and 1379, and Natixis Loan for the differences noted.***

4.5 In the exit conference, the Acting Manager, Finance Department informed that they continue to communicate with BTr requesting for the reconciliation of the loan accounts. However, BTr has not responded to their request for schedule of the reconciliation.

5. **Cash and cash equivalents in the amount of P2.685 billion remained insufficient to cover the unpaid foreign loans already billed by the Bureau of the Treasury and all recognized Trust Accounts, aggregating P2.798 billion, although the variance significantly decreased from P243 million in CY 2014 to P113 million at year-end. Cash and cash equivalents already included amount of P1.701 billion representing collections from the Concessionaires for the payment of said foreign loans which were not treated as restricted collections.**

5.1 Analysis of the account balances of the Cash and cash equivalents in the books of MWSS CO as of December 31, 2015 showed that the amount of P2.685 billion was not sufficient to cover the Loans Payable to lending institutions and all recognized Trust Accounts in the total amount of **P2.798** billion at the end of the year, although the variance significantly decreased from P243 million in CY 2014 to P113 million at year end. Details are shown below:

Analysis of Cash & Cash Equivalents vs. Trust Accounts As of December 31, 2015	
Cash	Amount
Cash & Cash Equivalents	**2,685,459,230.70**
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(BTr) as of December 31, 2015:	
JBIC Phi 110	1,613,536,906.67
Guarantee fees	87,348,613.76
Sub total	1,700,885,520.43
Advance payment for COB CY 2016 received in CY 2015	248,276,475.18
Due to the Regulatory Office – share in Concession Fee	142,008,664.45
Other Liabilities (trust liabilities)	616,562,772.23
Other Payables – lawyer's fees deducted from claims of former employees and amounts deducted due to retirement	84,872,187.71
Due to Other Government agencies	5,297,077.25
Total Trust Liabilities/receipts for payment of loans	**2,797,902,697.25**

5.2 As can be gleaned from the foregoing information, the cash and cash equivalents were not sufficient to pay the loans and various trust accounts of MWSS Corporate Office. Management failed to keep the collections/trust receipts intact to be able to meet its obligations when the loans become due to the BTr and to creditors/lending institutions, the remittances to the government agencies of statutory obligations and possible payment of other funds received for the performance of a specific purpose.

5.3 The JBIC and guarantee fees totalling P1.701 billion were not paid to the BTr due to the unresolved issue between MWSS and the BTr on whether the amounts collected were to be treated as equity of the National Government or loans of MWSS.

5.4 Further, we noted that the collections for the payment of foreign loans have not been restricted as the amounts collected from the Concessionaires were co-mingled with the MWSS Corporate operating bank accounts. Likewise, no separate trust account was set up in the books for the subject collections.

5.5 ***We reiterated our prior years' audit recommendations and Management agreed to:***

a. ***Efficiently monitor its cash flows to ensure that funds are disbursed solely for the intended purposes;***

b. ***Finally settle with the BTr the issue on JBIC loan;***

c. ***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; and***

d. ***Maintain separate bank account for cash collected from the Concessionaires for the payment of loans which have not been paid due to unresolved issues with the Bureau of the Treasury.***

6. **The year-end balance of account *Deferred Credits* amounting to P1.827 billion was found not valid obligations as defined under PAS/ IAS 37 due to the (1) inclusion of amounts totalling P1.729 billion for which no cash was received or expense incurred; and (2) erroneous credits for income already earned totalling P97.095 million.**

6.1 Paragraph 10 of PAS 37 provides that ***a liability is a present obligation of the entity arising from past events*** the settlement of which is expected to result in an outflow from the entity of the resources embodying economic benefits. Paragraph 14 of PAS 37 further provides that a provision ***shall be recognized when:***

a) ***An entity has a present obligation (legal or constructive) as a result of a past event;***

b) It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

c) A reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognized.

6.2 In the Annual Audit Report (AAR) for CY 2014, we have recommended and Management agreed that the Finance Department 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 yet to be rendered are included in the Other Deferred Credits at the end of each accounting period; and thereafter, prepare the necessary adjusting entries.

6.3 However in CY 2015, we noted that the Other Deferred Credits amounting to P797.084 million was recognized despite the non-receipt or non-collection of the Concession Fees.

6.4 The ***Other Deferred Credits*** account as of December 31, 2015 reported an aggregate total of P1.826 billion. Of this balance, the amount of P1.729 billion or 94.68 percent was 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.

Subsidiary ledger account- Other deferred credits	***Amount***
Credits with no collections received	
a. Deferred Credits to Income	P516,153,382.25
b. Deferred credits to Income – Penalty on delayed payment –Concession Fee – MWSI	1,118,315,273.77
c. Deferred credits to Income – Penalty on delayed payment –Borrowing Cost – MWSI	95,246,576.31
Sub-Total	1,729,715,232.33
Credits with collections already earned income	
d. Other Deferred credits to Income- Miscellaneous-Others	50,821,287.15
e. Other Deferred credits to Income – Disposal Public Auction	31,419,663.44
f. Other Deferred credits to Income – cost of lot for housing	13,019,097.58
g. Miscellaneous	1,752,678.95
h. Cash Bond and others	42,100.00
i. Amount withheld for liquidated damages	25,705.26
j. Deferred VAT payable	14,518.71
Sub-total	97,095,051.09
Total	1,826,810,283.42

6.4.1 ***Item 1 - Credits with no collections received* amounting *to P1.729 billion***

6.4.1.1 As reported in the AAR for CY 2014, it is an accounting practice to recognize the Concession Fees/Penalties expected to be collected from the Concessionaires as "Other Deferred Credits":

Pro Forma Entry:

Dr. Accounts Receivables	xxx	
Cr. Other Deferred Credits		xxx

6.4.1.2 As a result, an asset was debited and a liability account was recognized. This practice is a departure from the definitions and recognition criteria for assets and liabilities.

6.4.1.3 According to the Conceptual Framework of IAS (2010), an asset is a resource controlled by the entity ***as a result of past events*** and from which future economic benefits are expected to flow to the entity and a liability is a ***present obligation of the entity arising from past events,*** the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

6.4.1.4 Items that were charged to this account are the following:

Account Code	Account Name	Amount per Books
455-01	Deferred Credits to Income (DCTI)	P516,153,382.25
455-01-02-02-02	DCTI Penalty/Interest on Delayed Payment/Concession Fees DS MWSI	1,118,315,273.77
455-01-02-02-04	DCTI Penalty/Interest on Delayed Payment/Borrowing Cost MWSI	95,246,576.31
Total		P1,729,715,232.33

a. *Deferred Credits to Income (DCTI) amounting to P516.153 million* - This pertains to the Concession Fees recognized as deferred credits which the Company expects to collect from the Concessionaires.

b. *Deferred Credits to Income Penalty/Interest on Delayed Payment of Concession Fees by MWSI amounting to P1.118 billion* - This was recognized in CY 2007 for penalties on delayed remittance of concession fees by MWSI from March 12, 2001 to July 20, 2005. 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 said amount from its books of accounts.

c. *Other deferred credits to Income – Penalty on delayed payment – Borrowing Cost – MWSI amounting to P95.246 million* - The deferred credit was recognized in CY 2007 pertaining to income from MWSI that have not been collected.

6.4.2 ***Item 2 - Credits with collections already earned income***

a. *Other Deferred Credits to Income-Others amounting to P50.821 million -*

This account pertains to the Grant received from the International Bank for Reconstruction and Development (IBRD) in CY 2004 as assistance to MWSS in the preparation for the Manila Third Sewerage Project (Fund 91). The amount was already spent since the subsidiary ledger for the Fund 91 showed a debit to a Construction in Progress account. Therefore, it is no longer a proper credit to the deferred credit account.

b. *Other Deferred credits to Income – Disposal Public Auction of P31.420 million -*

Section 2.2 (a) of the Memorandum of Agreement (MOA) between MWSS and the Department of Finance dated September 16, 1997 provides that 35 percent of proceeds from sales of non-operating assets retained by MWSS shall be deposited in a special account with the Bureau of the Treasury (BTr).

This account pertains to the proceeds from the disposal/public auction of unserviceable assets and the accounting records showed that the accumulated balance of proceeds from sale of unserviceable assets started from CY 2007.The account was temporarily used to record the amount received before the corresponding PPE account and its accumulated depreciation are requested for dropping from the accounting books as provided in Section 2.2 (a) of the MOA.

Apparently, the proceeds from the sale of unserviceable assets pursuant to the MOA were not recorded in the books of accounts.

c. *Other Deferred credits to Income – cost of lot for housing of P13,019,097.58* -

This account pertains to the undistributed collections for the cost of lot – La Mesa Housing Project and showed that the proceeds from the sale of the lot was not properly allocated in accordance with Section 2.2 (a) of the MOA dated September 16, 1997 as stated above.

The above collections should be charged to deposits/deduction of Loans Receivable instead of other deferred credits.

d. *Other Deferred credits to Income amounting to P1.752 million -*

The account Miscellaneous- Others amounting to P1.752 million has been dormant since CY 2007. The credit to the account was not proper as 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.

6.5 ***We reiterated our previous year's audit recommendations that Management instruct 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 accounting adjustments.***

6.6 No Management comment was received.

7. **MWSS did not remit to the Bureau of the Treasury the amount of P1.614 billion already collected from the Concessionaires for the payment of the JBIC/OECF loan despite the demand for payment by the latter.**

7.1 On February 9, 1990, the Republic of the Philippines (RoP) and the Overseas Economic Corporation Fund (OECF) of Japan Government entered into a Loan Agreement (PH-110) for the Angat Water Supply Optimization Project (AWSOP) of MWSS (Executing Agency of the Agreement).

7.2 The National Government paid the OECF for the abovementioned Official Development Assistance Project. Under the Concession Agreement, the Concessionaires should remit to MWSS the payment for the debt service of JBIC/OECF loan. Upon receipt of the fund from the Concessionaires, it is the obligation of MWSS as Trustee of the debt service to remit the fund to the National Government.

7.3 However, we noted that there were no remittances made by MWSS to the BTr for the subject loan despite the receipt of MWSS of debt service from Concessionaires. The collections are treated as concession income – debt service in the books.

7.4 The BTr, in a letter dated February 3, 2016 to the MWSS Administrator (copy furnished the Auditor), requested that MWSS settle its OECF Loans and make the necessary arrangements and/or facilitate other mode of settlement for these payables which per BTr records totalled P2,672,280,369.74.

7.5 Previously, the BTr already reminded MWSS, in its letter dated April 14, 2014 addressed to the MWSS Acting Finance Manager, to settle its obligation immediately considering the need of the National Government to finance its various projects.

7.6 Despite the above demands from the BTr, the MWSS has not yet settled its financial obligations to the National Government. Management opted not to remit to the BTr believing that the fund from the Concessionaires for the OECF loan is a grant or equity of MWSS. The BTr in its letter to MWSS dated April 14, 2014, informed that only P106.072 million represents equity of the government.

7.7 ***We reiterated our prior years' recommendation that Management immediately remit to the Bureau of the Treasury the amount collected from the Concessionaires as payment for the JBIC/OECF loan.***

7.8 No Management comment was received.

8. **The validity and accuracy of the *Other Assets* account with aggregate amount of P1.434 billion was doubtful due to the inclusion of:**

   a. **Garnished and dormant accounts of P725.247 million;**

   b. **Idle lands held for currently undetermined future use amounting to P593.706 million as *Other Assets* instead of Investment Property per Philippine Accounting Standard (PAS) 40;**

   c. **Unreconciled amounts totaling P477.362 million;**

   d. **Unserviceable assets of P121.450 million; and**

   e. **Discrepancies existing between the numbers of idle lands per Inventory Report against lands transferred to Other Assets.**

   Also, inadequate safekeeping of accounting and other records was observed contrary to Section 111 of P D 1445.

8.1 Our audit was anchored on the Conceptual Framework for Financial Reporting (The Framework), PAS 40 and the State Audit Code of the Philippines (P.D. 1445), as stated below.

   a. Financial Reporting, as defined in the Conceptual Framework refers to the provision of information about an entity's financial position, performance and changes in financial position that is useful to a wide range of users in making economic decisions.

   b. Financial statements also show the results of the stewardship of management, or the accountability of management for the resources entrusted to it. For this reason, financial information, specifically the elements of financial statements or the quantitative information contained therein should be relevant and faithfully represented to become useful as basis for making decisions.

   c. The Framework provides that an "asset" is recognized when these two conditions are present:

      i. It is probable that future economic benefits will flow to the entity; and
      ii. The cost or value of the asset can be measured reliably

   It is noteworthy to mention that the criteria provide the probability of future economic benefits and the reliability of measurement for an item in the Statement of Financial Position be considered an asset. Hence, the failure to provide a sufficient basis for the recognition, measurement, presentation and disclosure, may challenge the reliability of the agency's financial accounting and reporting.

d. PAS 40 defines Investment Property as a "*property*" *which may either be a land, building---or a part of a building---or both held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use in the production or supply of goods or services or for administrative purposes; or sale in the ordinary course of business*."

e. The Standard further provides that land held for long-term capital rather than for short-term sale in the ordinary course of business and land held for a currently undetermined future use qualify as investment property.

f. Section 111 of PD 1445 provides for the proper keeping of accounts "*in such detail as is necessary to meet the needs of the agency and at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.*"

8.2 Audit of the account *Other Assets* disclosed that various items in the financial statements lacked a reliable basis for their recognition, measurement, presentation and disclosure in the books of accounts as discussed.

8.2.1 ***Item 1 - Various garnished and dormant accounts***

8.2.1.1 These accounts were recorded and retained under Other Assets amounting to P725.247 million, details as follows:

Account Code	Account Description	Account Balance
Garnished Accounts		
290-04-99	For Reconciliation (Beg Balance as of Dec. 1997)	**P**847,774.80
290-04-01	Isabelo Ong Const. Co. Inc/CIAC No. 04-96 Civil Case No. 91-148(Wholesale Commodity and Exch. Inc)	328,373.13
290-04-04	Philippine Infrastructures Inc. c/o Sheriff Emmanuel Santos	1,062,650.58
290-04-06	A.M. Oreta & Co. Inc. c/o Sheriff Mercedes S. Gatmaytan Vs. MWSS/CIAC Case MP/06-97	6,949,023.49
290-04-07	Isabelo Ong Const. Co. Inc, Vs. MWSS /CIAC No.16-97	2,273,464.79
Dormant Accounts		
290-05-01	Deposits for the exercise of an option to buy/lease	1,092,093.00
290-05-02	Performance Deposits	306,102.07
290-05-03	Restoration Works	29,054,312.65
290-05-04	Customers Account for Write-off	525,703,918.74
290-05-05	Others (various old accounts)	10,857,814.70
290-05-06	Due from National Government	3,575,826.62
290-05-07	Due from Local Government	4,272,542.89
290-05-08	Expropriation	258,987.62
290-05-10	Accounts Receivable Under Government Litigation	85,519,514.71
Total		**P672,102,399.79**

8.2.1.2 The Finance Department was not able to provide information on the subject accounts. Review of the list of pending cases as of

December 31, 2015 submitted by the Legal Department showed no records of the subject accounts.

8.2.1.3 Also included in the subsidiary ledger were cash accountabilities prior to privatization of operations in CY 2007 with outstanding balances as follows:

Account Code	Account Description	Account Balance
290-05-09	Unaccounted/Unliquidated Cash Advance	P875,350.67
290-05-11	Claims from Accountable Officers for Cash Shortage	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	**P53,144,842.50**

8.2.1.4 Audit observations on these accounts were communicated to Management in CY 2014 but sufficient and relevant documents were not provided to support their existence. Rather, it committed to look into the audit report rendered by a private auditing firm engaged during the privatization of MWSS' operations.

8.2.2 ***Item 2 - Idle lands held for currently undetermined future use amounting to P593.706 million recorded as Other Assets instead of Investment Property per PAS 40***

8.2.2.1 The Unoperational Assets-Land subsidiary ledgers of the Other Assets account showed the following balances as of December 31, 2015:

Particulars	Amount
Laiban Site at Tanay, Rizal	484,292.00
Unoperational Assets – Land – Angono Rizal	44,046,000.00
Unoperational Assets – Land – Antipolo	5,693,480.00
Unoperational Assets – Land – Laiban, Tinuc an Sta, Ines, Mamuyaw, Tanay, Rizal	12,273,564.48
Unoperational Assets – Land – Matictic, Norzagaray, Bulacan	15,657,510.00
Unoperational Assets – Land – Quezon City	510,450,000.00
Unoperational Assets – Land –Rodriguez/Montalban	883,880.00
Unoperational Assets – Land –San Juan City	4,217,690.00
Total	**593,706,416.48**

8.2.2.2 The foregoing parcels of land are held by MWSS for currently undetermined future use, hence remained idle. For the reason being, these are classified under Other Assets account of MWSS.

8.2.2.3 PAS 40 states that *“if an entity has not determined that it will use the land either as an owner-occupied property or for short term sale in the ordinary course of business, the land is considered to be held for capital appreciation”* and therefore, investment property.

8.2.2.4 The failure to reclassify the foregoing accounts as Investment Property precluded the recognition of the changes in fair value to profit and loss for CY 2014.

8.2.2.5 Moreover, audit of accounts also showed discrepancy on the number of lots transferred to Other Assets against the number of Not-In-Service lands per Inventory Report of the Property Department computed as follows:

Particulars	No. of Lots
Per PMD Inventory Report of Not-In-Service Lands (NIS)	35
Per Lands transferred to Other Assets	65
Difference	(30)

8.2.3 ***Item 3 - Unreconciled accounts totalling P477.362 million include account balances prior to the privatization of MWSS operations and remained as such due to lack of documents, other financial records and sufficient manpower to do the task.***

8.2.3.1 Unallocated cost of consultancy and other services amounting to **P157.267 million** spent in MWSS projects in prior years were transferred to Other Assets.

Account Code	Account Description	Account Balance
Consultancy and Others		
290-03-01-01-01	Salary & Int'l. Fare Of Mr. Kaare Hoeg, For His Consultancy Services As Dam Expert From Nov. 14-20, 2002 (1,700us$/Day For 7days & Nok31,547 Airfare 1	P877,660.92
290-03-01-01-02	Hotel Accomodation & Other Expenses Of Mr. Kaare Hoeg, Dam Expert From Nov. 15-19, 2002 (Charged From His Citibank)	13,152.00
290-03-01-01-03	Reimbursement Of Other Expenses For Mr. Kaare Hoeg, Dam Expert From Nov. 15-19, 2002 (Charged From His Citibank)	4,416.00
290-03-01-01-04	Salary & Int'l Fare Of Dr. Kaare Hoeg, Dam Expert For The Initial Safety Assessment Of Angat Dam Per Ba# 278-2002, 267-2002, & 238-2002 For November	183,600.00
290-03-01-01-05	Payment Of Salary & Airfare For Dr. Kaare Hoeg, Dam Expert For The Initial Safety Assessment Of Angat Dam & Carbon Dating Of	317,935.55

Account Code	Account Description	Account Balance
	Soil & Rock Samples Along	
290-03-01-01-06	Under Take-Up Adjusment Of Salary & Airfare Of Dr. Kaare Hoeg, Dam Expert For The Initial Safety Assessment Of Angat Dam & Carbon Dating Of Soil & Roc	0.61
300 MLD		
290-03-02-01	Technical Assistance	4,445,570.25
290-03-02-99	For Reconciliation	20,866,444.39
Consultancy and Others		
290-03-03-01-01	Review of Loan Documents	20,000.00
290-03-03-01-99	For Reconciliation	5,735,088.66
Investigation and Survey		
290-03-04-02-99	Unreconciled	124,453,409.88
290-03-04-04-01	Evaluation/Review of Laiban Dam Project	349,720.05
Total		**P157,266,998.31**

The lack of substantiation and adequate records hindered the facilitation of proper financial accounting and reporting.

8.2.3.2 Unreconciled amounts booked under Other Assets totaling **P222.630 million** challenged the faithful representation of the financial statements:

Account Code	Account Description	Account Balance
290-99-01-01	Office Supplies	P274,244.42
290-99-01-02	Construction Materials	126,255,269.06
290-99-01-03	Water Meters	82,362,028.10
290-99-01-04	Fire Hydrants	5,084.15
290-99-02-01	Main	699,374.10
290-99-02-02	El Nino	312,356.90
290-99-03-01	Main	644,295.16
290-99-03-02	El Nino	521,420.00
290-99-04	PLDT - Bill Deposit	49,210.00
290-99-05	MWCI - Water Meter Deposit	2,040.00
290-99-06	Printed Forms	11,127,047.46
290-99-07	Land Acquisition (MWSP II)	378,309.89
Total		**P222,630,679.24**

8.2.3.3 Other Assets-Construction Materials and Hardware and Water Meters with total amount of **P97.465 million**. The account also included the following unreconciled items of material amounts:

Account Code	Account Description	Account Balance
Construction Materials and Hardware		
290-02-01-99	For Reconciliation	P96,861,591.76
Water Meters		
290-02-02-99	For Reconciliation	603,172.76
Total		**P97,464,764.52**

The non-reconciliation of the abovementioned sub-accounts made it difficult to ascertain the validity, reliability and even physical existence which may cause undue loss to MWSS.

8.2.4 *Item 4 - Unserviceable assets of P121.450 million*

8.2.4.1 Unserviceable Assets-Pipes amounting to **P101.585 million** existed in the books, to wit:

Account Code	Account Description	Account Balance
290-01-01-01-01	Unoperational Assets - Tapping and Laying of 150mm Service Pipe	P583,000.00
290-01-01-01-02	Unoperational Assets - Feeder Main Asbestos	24,597,000.00
290-01-01-01-03	Unoperational Assets - Feeder Main 12" 16"24"	20,955,000.00
290-01-01-01-04	Unoperational Assets - Feeder Main 20" 24"30"	28,971,000.00
290-01-01-01-05	Unoperational Assets - Unoperational Assets - 3"CI Pipe	72,000.00
290-01-01-01-06	Unoperational Assets - Unoperational Assets - 4"CI Pipe	2,558,589.20
290-01-01-01-07	Unoperational Assets - Unoperational Assets - 5"CI Pipe	147,000.00
290-01-01-01-08	Unoperational Assets - Unoperational Assets - 6"CI Pipe	2,489,000.00
290-01-01-01-09	Unoperational Assets - Unoperational Assets - 7"CI Pipe	13,000.00
290-01-01-01-10	Unoperational Assets - 8"CI Pipe	1,502,000.00
290-01-01-01-11	Unoperational Assets - 9"CI Pipe	10,000.00
290-01-01-01-12	Unoperational Assets - 10"CI Pipe	963,000.00
290-01-01-01-13	Unoperational Assets - 12"CI Pipe	1,823,000.00
290-01-01-01-14	Unoperational Assets - 14"CI Pipe	138,000.00
290-01-01-01-15	Unoperational Assets - 16"CI Pipe	887,000.00
290-01-01-01-16	Unoperational Assets - 18"CI Pipe	24,000.00
290-01-01-01-17	Unoperational Assets - 20"CI Pipe	411,000.00
290-01-01-01-18	Unoperational Assets - 22"CI Pipe	79,000.00
290-01-01-01-19	Unoperational Assets - 24"CI Pipe	334,000.00
290-01-01-01-20	Unoperational Assets - 26"CI Pipe	214,000.00
290-01-01-01-21	Unoperational Assets - 30"CI Pipe	449,000.00
290-01-01-01-22	Unoperational Assets - 36"CI Pipe	518,000.00
290-01-01-01-23	Unoperational Assets - 42"CI Pipe	314,000.00
290-01-01-01-24	Unoperational Assets - 48"CI Pipe	312,000.00
290-01-01-01-25	Unoperational Assets - 54"CI Pipe	242,000.00
290-01-01-01-26	Unoperational Assets - 61"CI Pipe	18,000.00
290-01-01-01-27	Unoperational Assets - 4"ACP	1,158,000.00
290-01-01-01-28	Unoperational Assets - 6"ACP	2,048,000.00
290-01-01-01-29	Unoperational Assets - 6"ACP2	622,000.00
290-01-01-01-30	Unoperational Assets - 8"ACP	2,651,000.00
290-01-01-01-31	Unoperational Assets - 10"ACP	90,000.00
290-01-01-01-32	Unoperational Assets - 12"ACP	540,000.00
290-01-01-01-33	Unoperational Assets - 16"ACP	251,000.00
290-01-01-01-34	Unoperational Assets - 20"ACP	490,000.00
290-01-01-01-35	Unoperational Assets - 24"ACP	261,000.00
290-01-01-01-36	Unoperational Assets - 4" Steel Pipe	6,000.00
290-01-01-01-37	Unoperational Assets - 6" Steel Pipe	21,000.00
290-01-01-01-38	Unoperational Assets - 30" Steel Pipe	159,000.00
290-01-01-01-39	Unoperational Assets - 42" Steel Pipe	73,000.00
290-01-01-01-40	Unoperational Assets - 42"Steel Pipe2	1,079,000.00

Account Code	Account Description	Account Balance
290-01-01-01-41	Unoperational Assets - 12" Reinforced Concrete Pipe	18,000.00
290-01-01-01-42	Unoperational Assets - 48" Concrete Pipe	76,000.00
290-01-01-01-43	Unoperational Assets - 54" Concrete Pipe	149,000.00
290-01-01-01-44	Unoperational Assets - Upgrading of WSC & Meter Assy.	150,913.70
290-01-01-01-45	Unoperational Assets - Upgrading of WSC & Meter Assy2	1,534,238.13
290-01-01-01-46	Unoperational Assets - Tapping of Elect. Feeder Line	1,584,313.50
Total		**P101,585,054.53**

a. Examination of accounting records revealed that the latest transaction involving subject accounts were the sale of unserviceable pipes to several MWSS employees. It can be drawn from these transactions that the accounts included pipes previously classified as ***inventories***. In addition, verbal information from the Finance Department disclosed various uninstalled pipes before the privatization of MWSS' operations that were not accepted by the concessionaires, hence retained by MWSS.

b. There was no information on how much of the total amount of P101,585,054.53 was previously classified as inventories and how much was classified as part of the PPE account (if any).

c. It is important that the proper classification of these items be established so that appropriate accounting and reporting standards can be applied on the preparation of financial statements.

d. PAS 2 prescribes accounting for Inventories while PAS 16 deals with accounting standard on PPE. The misclassification of these accounts to Other Assets precluded the same from being assessed and reviewed by the agency whether they are to be written down to their net realizable values [for Inventories] or presented at carrying amount, subject to provision of impairment losses [for PPE].

8.2.4.2 Unoperational Assets-Structures and Improvements and Water Distribution Facilities with aggregate amount of **P19.865 million.** The audit showed the following balances:

Account Code	Account Description	Account Balance
Structures and Improvements		
290-01-01-03-01	Unoperational Assets - Consolidation of Cavite to Manila & Suburbs	P144,866.40
290-01-02-01-01	Unoperational Assets - Sludge Drying Beds	1,160,000.00
Distribution, Reservoir and Standpipes		

Account Code	Account Description	Account Balance
290-01-01-04-01	Unoperational Assets - Consolidation of Cavite to Manila & Suburbs	146,067.50
Buildings and Improvements		
290-01-01-05-01	Unoperational Assets - Balara Compound-Bodega	129,000.00
290-01-01-05-02	Unoperational Assets - Balara Compound-Fabricated Shop	151,000.00
290-01-01-05-03	Unoperational Assets - Building IX – Canteen	2,364,000.00
290-01-01-05-04	Unoperational Assets - Building XI – Warehouse	1,120,000.00
290-01-01-05-05	Unoperational Assets - Building XII - Over Seer's Quarters(Formerly Census Bldg./Office Quarter- South Side)	1,827,000.00
290-01-01-05-06	Unoperational Assets - Building XIII - Meter Replacement Building(Formerly Census Bldg./Office Quarter- South Side)	889,000.00
290-01-01-05-07	Unoperational Assets - Building XIV - Property Bodega & Gas Storage(Formerly Census Bldg./Office Quarter- South Side)	1,823,000.00
290-01-01-05-08	Unoperational Assets - Building XV - Waterworks and Bodega Building(Formerly Bodega for Pipes & Fittings)	368,000.00
290-01-01-05-09	Unoperational Assets - Building XVI - Repair & Maintenance Building(Formerly Bodega for Unserviceable Properties)	224,000.00
290-01-01-05-10	Unoperational Assets - Building XXI - Warehouse(Formerly Bodega for Unserviceable Properties)	176,000.00
290-01-01-05-11	Unoperational Assets - Shop Building / Foundry / Carpentry(Formerly Bodega for Unserviceable Properties)	132,670.07
290-01-01-05-12	Unoperational Assets - Building IV - Service Center Warehouse(Burned down by Fire)	4,145,000.00
290-01-01-05-13	Unoperational Assets - Consolidation of Cavite to Manila & Suburbs (Formerly Provincial Waterworks Bldg.)	903,400.21
Wells and Facilities		
290-01-01-06-01	Unoperational Assets - Isla Valenzuela	605,340.00
290-01-01-06-02	Unoperational Assets - Bagong Lipunan Health Center, Valenzuela	562,061.28
290-01-01-06-03	Unoperational Assets - Balance Per Status Report (Cavite)	368,375.37
290-01-01-06-04	Unoperational Assets - Katarungan, Bagong Barrio, Caloocan	1,125,000.00
290-01-01-06-05	Unoperational Assets - Barangay Panghulo, Malabon	1,074,000.00
Sewer Treatment and Equipment		
290-01-02-02-01	Unoperational Assets - Robot blower #2-Sutorilt 115mm displacement	55,200.00
290-01-02-02-02	Unoperational Assets - Robot blower #2-dresser root blower & vacuum pump	241,000.00

Account Code	Account Description	Account Balance
290-01-02-02-03	Unoperational Assets - Electric generating set-Reiner model JR 60211	131,000.00
Total		**P19,864,980.83**

a. It must be noted that subject accounts were transferred to Other Assets only in 2007 when the agency started to implement the e-NGAS. Their transfer to Other Assets precluded their inclusion in the conduct of physical inventory taking, hence, existence cannot be ascertained.

b. In addition, granting that these items actually exist, no provision for impairment losses has been recorded in the books considering that they already exhibited indications of impairment.

c. Philippine Accounting Standards (PAS) 36 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.

d. PAS 36 also 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**.

e. The failure of Management to assess the realistic value of these items, measured at their recoverable amount, renders misstatements in the financial statements.

8.2.5 ***Item 5 - Discrepancy on the number of lots***

Audit of accounts showed discrepancy on the number of lots transferred to Other Assets against the number of Not-In-Service lands per Inventory Report of the Property Department computed as shown in the table below.

Particulars	No. of Lots
Per PMD Inventory Report of Not-In-Service Lands (NIS)	35
Per Lands transferred to Other Assets	65
Difference	(30)

8.2.6 ***Item 6 - Inadequate safekeeping of accounting and other records***

We are concerned on the materiality of the foregoing items which form part of the reported assets of MWSS. The failure of Management to provide sufficient substantiation or documentation to prove the valuation, accuracy, completeness and existence of the foregoing items posed a challenge to the faithful representation and reliability of the financial information contained in the agency's financial statements, thus its usefulness to the users is diminished.

8.3 ***We recommended that Management require the Finance Department to:***

a. ***Substantiate the validity of the dormant accounts by providing sufficient and relevant supporting documents/information; thereafter, request for write off from the Commission on Audit;***

b. ***Provide time-bound action plan for the analysis and verification of unreconciled accounts and exert utmost effort to locate the documents needed in the analysis;***

c. ***Coordinate with the Property Management Department to determine the previous account classification of the unserviceable assets prior to the privatization of the operation of MWSS; if determined as PPE, recognize appropriate impairment losses and if Inventories, adjust the account to the net realizable value;***

d. ***Reassess the utility of the parcels of land transferred to Other Assets account and comply with the accounting and reporting requirements of PAS 40; thereafter, reclassify the Not-In-Service lands to Investment;***

e. ***Reconcile the discrepancies noted on the number of Not-In-Service lands per PMD Inventory Report against the records of the Finance Department and effect adjustments, if necessary; and***

f. ***Observe proper and adequate safekeeping of financial and other records to comply with Section 111 of PD 1445.***

8.4 ***We also reiterated our prior year's audit recommendations on the cash accountabilities transferred to Other Assets account that Management:***

a. Require the Finance Department to justify the recording of the balances to the Other Assets account;

b. Substantiate the validity of these accounts by providing sufficient and relevant supporting documents/information; and

c. ***Immediately identify and take legal action to run against erring accountable officers and MWSS creditors responsible for the outstanding cash accountabilities.***

8.5 No Management comment was received.

9. **The Investment in Special Reserve Fund totaling P379.538 million was not accurately stated due to the non-accrual of interest income earned from the Investment with the Bureau of the Treasury for the 3rd and 4th quarters of CY 2015. Also, a difference of P17.186 million was noted between the book balance of the Fund, and the amount confirmed by the Bureau of the Treasury.**

9.1 Paragraph 22 of the Framework provides that "xxx, financial statements are prepared on the accrual basis of accounting. Under this basis, the effects of transactions and other events are recognized when they occur (and not as cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the financial statements of the periods to which they relate."

9.2 Audit of the investment in special reserve fund totalling P379.538 million at year-end did not include the interest income earned in its Investment in BTr for the last two quarters of CY 2015. The Accounting personnel informed that they did not record the interest income earned for the reason that they did not receive the Quarterly Status of the Special Reserve Fund from BTr for the period. The status report from BTr showed the amount of interest income earned in a quarter.

9.3 Further, confirmation from the BTr showed a difference of P17.186 million between the book balance as at year-end and the amount confirmed which casts doubt on the accuracy of the account balance, computed as follows:

Balance per Confirmation, December 31, 2015	P362,352,833.19
Balance per Books, December 31, 2015	379,538,835.19
Difference	P17,186,002.00

9.4 In the CY 2014 Annual Audit Report, we recommended and Management agreed to reconcile the fund balance with the BTr and effect the necessary adjustments resulting from the reconciliation. Apparently, there was no reconciliation done as shown by the difference in the fund balances.

9.5 ***We strongly reiterated that Management:***

a. ***Require the Finance Department to record the accrued interest income in its Investment in Special Reserve Fund to reflect the correct balance at year-end; and***

b. ***Immediately reconcile the fund balance recorded in its books as against the balance of investment with the BTr and effect the corresponding adjustment for the difference noted amounting to P17.186 million.***

9.6 In the exit conference, the Acting Manager, Finance Department informed that they requested BTr for reconciliation; however, no reply was received from the latter.

10. **Interest expense amounting to P285.569 million paid by MWSS for the loan secured from LBP and DBP Club Deal Arrangement (Floating Bonds) was recorded as Other Receivables from Maynilad Water Services Inc. (MWSI), contrary to the Framework for the Preparation and Presentation of the Financial Statements. Moreover, its collectibility was doubtful as the amount was disputed by MWSI and MWSS has yet to file dispute claim for local arbitration.**

10.1 Our audit was guided by the Framework for the Preparation and Presentation of the Financial Statements, specifically the following paragraphs:

a. Paragraph 35 which provides that "if information is to represent faithfully the transactions and other events that it purports to represent, it is necessary that they are accounted for and presented in accordance with their substance and economic reality and not merely their legal form".

b. Paragraph 89 which states that "an asset is recognized in the balance sheet when it is probable that the future economic benefits will flow to the entity xxx".

10.2 MWSS availed of the P2.25B LBP- DBP Club Deal Arrangement (Floating Bonds) for the reason that MWSS had to shoulder the Cost of Borrowings of the BNP Paribas loan up to its maturity in March 2011. The non-recovery of the BNP Paribas loan from MWSI resulted in the shortage in the total amount needed to fully pay the maturity of BNP Paribas in 2011.

The bond issuance was guaranteed by the National Government (NG) and was drawn in full on March 30, 2011. It is payable in seven years with a pre-termination option. Interest rate was based on the higher of the BSP Reverse Repurchase (RRP) Facility or BSP Overnight Borrowing Rate.

10.3 From CYs 2011 to 2015, the total amount charged to the Other Receivables - MWSI pertaining to the DBP/LBP Bond Interests and Taxes amounted to P285.569 million, with details as follows:

Year	Amount
2011	P 69,685,952.97
2012	74,656,559.38
2013	59,262,398.36
2014	45,000,000.00
2015	36,784,285.72
Total	P285,569,196.43

10.4 Audit showed that the account Other Receivables - MWSI was debited for the corresponding payment of Bond Interest Expense, Gross Receipts Taxes and Expanded Withholding Taxes, as shown in the entry below:

Dr.	*Other Receivables*	*xx*	
	Bonds Payable (DBP/LBP)	*xx*	
Cr.	*Cash in bank*		*xx*
	Due to BIR		*xx*

Management believed that the interest expense should be paid by the Concessionaire (MWSI); thus, it was recorded as Other Receivables.

10.5 The MWSS should recognize in their books the corresponding interest expense as the Bond Issuer in the LBP - DBP Club Deal Arrangement. As provided for in paragraph 35 of the Framework, it is necessary that the interest expense be recognized in the books to faithfully represent the fact that there was a loan payable to LBP-DBP recorded in the books of accounts.

10.6 Management informed that it endorsed on February 12, 2014 to the Office of the Government Corporate Counsel (OGCC) the dispute on the Other Receivables – MWSI. Considering MWSI's refusal to pay the amount demanded, local arbitration proceedings per Concession Agreement was expected to start within CY 2014. The OGCC has requested MWSS for the submission of several documents needed before the arbitration process can start.

10.7 In the CY 2014 Annual Audit Report, we required that Management submit a report on the updates on the arbitration on the disputed claims with MWSI. However, in the Agency Action Plan and Status of Implementation, Management informed that the report was not yet available as the same has yet to be completed by the OGCC.

10.8 Verbal inquiry disclosed that the arbitration proceedings which should have started in the latter part of CY 2014 have not begun and that the dispute claim is yet to be filed. In such case, the collectibility of the amount was doubtful and therefore recording it as a receivable is a deviation from the requirement of paragraph 89 of the Framework.

10.9 ***We recommended and Management agreed to:***

a. ***Require the Finance Department to reclassify the outstanding Other Receivable with Sub Account Code No. 149-03-02-12-10 amounting to P285.569 million to interest expense in accordance with paragraphs 35 and 89 of the Framework to reflect the true and fair account balances; and***

b. ***Follow up with the OGCC the report on the updates on the arbitration and submit the same to this Office for audit purposes.***

11. **The Property, Plant and Equipment (PPE) - General Administrative Equipment (GAE) accounts with carrying amount of P211.064 million remained not fairly valued due to inaction of Management to implement prior year's audit recommendations on the following noted exceptions:**

   a. **Unaccounted unserviceable GAE amounting to P33.995 million arising from the variance noted on the amount of disposed assets per Property against Finance Department's records;**

   b. **Unserviceable assets costing P213.623 million not properly classified to Other Assets account; and**

   c. **Non-recognition of impairment loss on obsolete and unserviceable assets per PAS 36, negating the agency's accounting policy for Impairment of Assets.**

Moreover, timely disposal of unserviceable assets was not observed, as required under NBC 425 and Manual on Disposal of Government Property, resulting in further deterioration and decline in their value totalling P213.623 million.

The reasonableness of the negotiated price in the sale of the unserviceable vehicle in the amount of P2.420 million was not ascertained due to the non-submission of the justification on the further reduction to lower than 80% of the appraised value of the negotiated price, in violation of the Manual on Disposal of Government Property.

11.1 The GAE accounts which include various items of PPE showed a carrying amount of P211.064 million as of December 31, 2015, with details as follows:

GAE Account	Cost	Accumulated Depreciation	Carrying Amount
Office Equipment	P8,613,590.28	P7,695,579.31	P918,010.97
Furniture and Fixtures	6,895,503.63	5,341,267.98	1,554,235.65
IT Equipment & Software	116,787,467.94	104,552,801.72	12,234,666.22
Library Books	167,507.50	141,296.25	26,211.25
Communication Equipment	2,487,292.84	1,933,377.53	553,915.31
Construction and Heavy Equipment	268,368,849.55	221,432,187.44	46,936,662.11
Medical, Dental and Laboratory Equipment	50,085,415.36	43,130,709.12	6,954,706.24
Sports Equipment	1,603.00	1,165.94	437.06
Technical & Scientific Equipment	184,690,986.51	165,443,540.38	19,247,446.13
Other Machinery & Equipment	60,189,454.07	47,544,023.48	12,645,430.59
Motor Vehicles	60,071,440.98	50,838,645.32	9,232,795.66
Other Transportation Equipment	461,174,662.95	360,415,029.76	100,759,633.19
Total	P1,219,533,774.61	P1,008,469,624.23	P211,064,150.38

The subject assets are composed of both old general and administrative equipment which could either be in the custody of the MWSS-Corporate Office or turned over to the concessionaires and GAEs procured thru various MWSS projects which are in the custody of the concessionaires.

11.2 We made observations on the valuation of PPE-GAE and on compliance with rules and regulations on Property Management, as discussed below.

11.2.2 ***On the valuation of PPE-GAE -***

11.2.2.1 In CY 2014, we called Management's attention on the noted discrepancy between the PMD inventory report of the amount of disposed assets and the Finance Department records of sold unserviceable GAEs dropped from the books of accounts which disclosed a variance of P33,995,067.84 with the PMD record registering a higher amount. The discrepancy disproved the existence, accuracy and valuation of the accounts which Management asserted in its financial statements.

11.2.2.1 Management also failed to reclassify unserviceable assets to Other Assets account, contrary to COA Circular No. 2004-008 and also failed to recognize provision for impairment loss in the books of accounts which negated the agency's accounting policy on Impairment of Assets as embodied in the Notes to Financial Statements and not in consonance with PAS 36.

11.2.2 ***On Compliance with rules and regulations on Property Management***

11.2.2.1 MWSS also failed to observe timely disposal which resulted in further deterioration and decline in value of unserviceable assets totaling P213.623 million, with details as follows:

General Administrative Equipment Accounts	Amount
Other Transportation	39,958,363.05
Laboratory and Medical	11,230,890.10
Construction and Engineering	75,881,113.26
Communication	4,646,482.42
Tools, Shop and Garage	2,881,172.39
Technical and Scientific	67,630,465.65
Computer Hardware and Software	2,307,990.75
Office Equipment	9,086,570.50
Total	213,623,048.12

11.3 Management could have prevented further wear and tear of these assets and generated additional funds to finance its operations, had the assets been disposed.

11.4 The Committee in-charge of the disposal of 53 units of unserviceable vehicles sold in CY 2014 also failed to submit justification on the negotiated price in the amount of P2.420 million which was found lower than 80% of the appraised value of P3.782 million, contrary to Section J of the Manual on Disposal of Government Property.

11.5 Also, there was no reconciliation on the noted discrepancy in the unit costs of the 53 unserviceable vehicles sold in CY 2014 which resulted in over/understatement in the recognition of gain or loss on disposal and the cost and related depreciation charges dropped from the books.

11.6 ***Considering the inaction of Management on the foregoing, we reiterated our previous years 'recommendations to:***

a. ***Conduct an investigation to determine the officers and employees responsible for the unaccounted unserviceable GAE and hold liable the person responsible;***

b. ***Conduct periodic inventory and inspection of all unserviceable GAE property to avert possible losses and immediately conduct disposal proceedings thru auction or sale of the unserviceable properties to avoid further deterioration and decline in value of the subject assets;***

c. ***Determine the recoverable amount from the obsolete and unserviceable assets and recognize appropriate impairment losses;***

d. ***Reclassify the obsolete and unserviceable GAE assets to the Other Assets 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. ***Obtain explanation/justification from the Disposal Committee on why the negotiated price in the sale of unserviceable vehicles was lower than 80% of the appraised value and henceforth, strictly comply with the provisions of the Manual on Disposal of Government Property to avoid any transactions that are disadvantageous to the Government; and***

g. ***Reconcile the Finance and Property records on all vehicles included in the Motor Vehicles /Other Transportation 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 necessary adjusting entries, if warranted.***

11.7 No Management comment was received.

12. **MWSS had not collected its share equivalent to 40 percent in the net income from operation of the La Mesa Ecopark (La Mesa Resort Zone) from CYs 2004 to 2015 due to the lack of concrete action in resolving the issue on the 15 percent management fee being charged by ABS-CBN Foundation Inc. (AFI). Likewise, the Financial Reports for CYs 2013 to 2015 were not submitted by AFI.**

12.1 Under Section 11 of the Agreement between MWSS, ABS-CBN Foundation Inc. and Local Government of Quezon City, the profit sharing of the parties involved in the La Mesa Ecopark operations shall be as follows:

MWSS	40 % of net income
AFI	30 % of net income
Local Government of Quezon City	30 % of net income

It requires that a Financial Report be prepared and submitted by the AFI to the La Mesa Executive Board (LMEB) and the income shall be distributed among the parties accordingly.

12.2 MWSS received in CY 2009 the audited Financial Statements of La Mesa Park/Watershed Operation covering the period CY 2004 to June 30, 2009 where it was noted that a 15 percent management fee was charged by AFI aside from its share in the net income.

12.3 In the CYs 2011 to 2014 Annual Audit Reports, we recommended, among others, that Management:

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; and*

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.*

12.4 In response to the above-stated recommendations, Management created in CY 2013 a MWSS audit team 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**)** from CYs 2004 to 2011**.**

12.5 Portion of the letter/report of the MWSS audit team is quoted as follows:

"(b) *On the issue of sharing:*

(i) Since 2005, no distribution of the share out of the net income was done by the AFI. The AFI has gone overboard by collecting Management Fees of 15% and still holding on to the 100% net income for the past 7 years."

12.6 As of audit date, 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, 2015 taking up the amount of Accounts Receivable from AFI or income earned from La Mesa Ecopark Operation.

12.7 The post-facto approval/ratification of the Memorandum of Agreement by the Board of Trustees for the agreement to be effective has not been secured to date and the other deficiencies noted in the contract have not been acted upon.

12.8 Further, the required Financial Reports for CYs 2013 to 2015 have not been submitted by AFI. Management informed that AFI submitted its Annual Report but not the Financial Reports. Thus, the results of operation, that is, whether MWSS will participate in income sharing on those years, were not known.

12.9 In the Agency Action Plan and Status of Implementation, Management informed that it will request from BIR a ruling on the management fee being collected by AFI as the AFI Accountant gave a copy of a BIR ruling on its right to collect such fees. We found Management plan of action not responsive to the immediate implementation of collecting its share in the management fee.

12.10 As of date, Management has not taken any concrete action to collect its revenue equivalent to 40 percent share in the net income from operation of the La Mesa Ecopark covering CYs 2004 to 2015.

12.11 ***We recommended that Management:***

a. ***Issue billing statement to AFI to enforce collection of its 40 percent share in the net income from operation of La Mesa Ecopark (La Mesa Resort Zone) for the period CYs 2004 to 2011 that was covered by the MWSS audit;***

b. ***Require AFI to submit the required Financial Reports from CYs 2012 to 2015 to determine its 40 percent share; thereafter, bill AFI for the amount collectible;***

c. ***Record in the books of accounts the amounts receivable from AFI; and***

d. ***Review the legal implication of not having the contract ratified/approved by the Board of Trustees as required in Section 22 of the Agreement.***

12.12 No Management comment was received.

13. **The balance of account, Construction in Progress (CIP) totaling P617.237 million as of year-end was not accurately stated due to the inclusion of (a) various costs of completed projects amounting to P159.654 million; (b) unallocated or unreconciled accounts amounting to P453.902 million and (c) cost of project funded by the Concessionaire in the amount of P3.681 million, resulting in material misstatement of the account balance. Moreover, the project status report as of December 31, 2015 showed that there were no ongoing projects.**

13.1 PAS/IAS 1 states among others, that "*Financial Statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definition and recognition criteria for assets, liabilities, revenue and expenses set out in the Framework*".

13.2 The CIP account showed a balance of P617,237,403.84 as of December 31, 2015 consisting of projects financed thru foreign loans and were accounted under various funds set up for the purpose, as follows:

Fund No.	Fund Name	CIP Balance
Fund 77	Angat Water Supply Optimization Project (AWSOP)	P82,574,730.99
Fund 78	Manila Water South Distribution Project (MWSDP)	3,103,585.18
Fund 82	Umiray Angat Transbasin Project (UATP)	10,002,972.67
Fund 84	Manila Second Sewerage Project (MSSP)	2,478,439.72
Fund 90	New Water Sources Development Project	10,817,116.53
Fund 91	Manila Third Sewerage Project (MTSP)	50,677,422.49
Fund 05	Corporate Fund (Various Unallocated/Unreconciled accounts)	453,901,592.21
	Design and Build of Joint Sewage and Septage Treatment Plant and Facilities	3,681,544.05
	Total	P617,237,403.84

13.3 Based on available records, the foregoing projects include expenditures spent for the construction of physical infrastructures, payment of loan financing charges, cost of various equipment and expenses incurred in the engagement of consultants.

a. *Angat Water Supply Optimization (AWSOP) Project -*

The project aimed at the construction of supply, treatment, and distribution facilities that would utilize an additional abstraction of additional water sourced from the Angat Reservoir to meet domestic, commercial, and industrial water demand. It also intends to improve overall water supply to the service area by improving flow and pressure in the distribution network.

b. *Manila Water South Distribution Project (MWSDP) -*

MSWDP's main objective is to improve water supply services in the project area by utilizing the increased water production provided under AWSOP and Umiray-Angat Transbasin Project (UATP). The secondary objective is to reduce use of groundwater, the main source of water for people in the project area who were not served by MWSS, and, thus, to reduce saltwater intrusion and land subsidence.

c. *Umiray Angat Transbasin Project (UATP) -*

The UATP was conceived as the second stage of water source development following the Angat Water Supply Optimization Project (AWSOP), and was to provide additional water to be distributed by Manila South Water Distribution Project (MSWDP). The Project included the construction of a tunnel and other facilities to divert water from the Umiray River to the Angat Reservoir, the reduction of non-revenue water and supervision of construction.

d. *Manila Second Sewerage Project (MSSP) -*

The objectives of the Project are to assist MWSS to reduce the pollution of Metro Manila waterways and Manila Bay, reduce the health hazards associated with human exposure to sewage in Metro Manila and establish a gradual low-cost improvement of sewerage services in Metro Manila. The project includes construction and repair and /upgrading of sewerage and laboratory facilities and strengthening of technical capabilities of the concessionaires in their operations.

e. *New Water Sources Development Project -*

On 14 October 2003 the Asian Development Bank (ADB) approved a technical assistance (TA) loan of $3.26 million for the MWSS New Water Source Development Project of the Government of the Philippines. The objectives of the project were to enable the MWSS to hire consultants to prepare public and private sector projects involving the development of new water sources for Metro Manila that could be financed by ADB, the private sector, or other sources and improve the capacity of MWSS for financial management, accounting, and fiscal control.

f. *Manila Third Sewerage Project (MTSP) -*

The Project was conceived with the aim to increase the coverage and effectiveness of sewerage service delivery in participating areas of Metro Manila through an integrated approach involving septage management, sewage management, and heightened consumer awareness of water pollution problems and their solutions; and establish the financial and technical viability of new approaches for sewage management in Metro Manila. The components of the project are: sewage management, septage management, and institutional strengthening.

13.4 Inquiry disclosed that Management could not provide the date of completion of the foregoing projects. However, based on the Concessionaires' Project Status Report as contained in the Annex D and E of the Annual Audit Report on MWSS for CY 2003 and from Project Completion Reports sourced from various development partners' websites, the foregoing projects have already been long implemented/completed and used in operations with their years of completion as follows:

Fund Name (with Various Contracts)	Year Completed
Angat Water Supply Optimization Project (AWSOP)	2003
Manila Water South Distribution Project (MWSDP)	2002
Umiray Angat Transbasin Project (UATP)	2002
Manila Second Sewerage Project (MSSP)	2003
New Water Sources Development Project	2009
Manila Third Sewerage Project (MTSP)	No information
Corporate Fund (Various Unallocated/Unreconciled accounts)	No information

13.5 The non-reconciliation and the failure to transfer the foregoing balances **totalling P617.237 million** to their appropriate asset or expense accounts resulted in the following:

a. Understatement of PPE accounts for items which qualify for capitalization;

b. Overstatement of CIP account which also gives due impression from the users of financial statements that MWSS has various on-going projects; and

c. Overstatement of Retained earnings due to the non provision of depreciation charges to the depreciable assets components of the projects. Paragraph 55 of PAS 16 provides 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 management."*

13.6 We also observed that the receipt from concessionaires of funds for financing the cost of the project "*Design and Build of Joint Sewage and Septage Treatment Plant and Facilities*" with a balance of P3,681,544.05 at year-end was accounted as CIP which was inconsistent with the adjustments made to account the previous receipt of funds as trust liability.

13.7 ***We reiterated prior years' recommendations that Management:***

a. ***Require the Finance Department to:***

i. ***Review and analyze the cost of completed projects and reclassify to their appropriate asset or expense accounts and make the necessary adjustments supported with Certificate of Completion and Acceptance; and***

ii. ***Make appropriate adjusting entries for the receipt of funds for the "Design and Build of Joint Sewage and Septage Treatment Plant and Facilities" project accounted as CIP instead of trust liability;***

b. ***Require both the Finance and Engineering Department for the proper and adequate safekeeping of project documents and***

financial records to comply with Section 111 of PD 1445 on the keeping of accounts; and

c. ***Immediately review the dormant and unreconciled accounts charged to the CIP account and effect necessary adjustments.***

13.8 No Management comment was received.

14. **The accuracy and validity of the reported rent income of P257.421 million was doubtful due to:**

a. **recognition of income totaling P158.834 million pertaining to prior years;**
b. **inclusion of unearned revenue of P2.820 million;**
c. **errors in double recording of income;**
d. **unrecognized income for the year totalling P964,397;**
e. **absence of lease contract between MWSS and its lessees; and**
f. **non-adjustment of rental rate despite being stipulated in the contracts.**

14.1 MWSS' reported rent income for CY 2015 amounting to P257,421,276.59 consisting of the following:

Sources	Amount
Income from the lease of properties to Government Agencies (Inter-Agency)	P14,463,063.82
Income from the lease of properties to Private Entities/Others	239,951,270.10
Right of Way (ROW)	3,006,942.67
Total	**P257,421,276.59**

14.2 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*."

14.3 Paragraph 92 of 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."*

14.4 Audit of the rent income showed the following:

14.4.1 Income totalling P158,833,999.86 was recognized in CY 2015 but the transactions pertain to prior years. Details are as follows:

Lease	Amount	Period	Remarks
LWUA	P32,678.09	December 2014	Paid on January 21, 2015 under Official Receipt No. 1213 and 1214
MWCI – Building	1,522,673.65	December 2014	Paid on January 20, 2015 under Official Receipt No. 1212
MWCI – Balara Quarters	1,731,662.49	2006-2013; November – December 2014	Partial payment for the period 2006-2013 and payment for the continued use of 17 living quarters for the period November – December 2014.
MWCI - San Juan Stockyard	155,503,125.00	March 2006 – December 2014	Rent income recognized for the reasonable compensation as well as final and full settlement of MWSS' demand for payment of back rentals for MWCI's use of the 36,000.00 square meters parcel of land or the San Juan Stockyard for the period March 2006 to December 2014.
WASSECO	43,860.63	August – December 2014	Paid on May 12, 2015 under OR No. 185613
Total	P158,833,999.86		

14.4.2 Unearned income in the amount of P2,820,000.00 was recognized as income in CY 2015:

Lease	Amount	Period	Discussion
MWCI - San Juan Stockyard	P2,700,000.00	January – February 2016	MWCI paid P17,334,000.00 with O.R. No. 2279 on July 10, 2015 which pertains to rent for the period March 2015 – February 2016. Total income recognized amounted to P16,200,000 in which P2,700,000 pertains to unearned income for the period January – February 2016.

Lease	Amount	Period	Discussion
MWSI – 1500 sq.m./parking lot	120,000.00	Advance payment/ 2 months advance rental as compliance to the contract entered into for the lease of the 1,500.00 sq.m.back in 2013.	P120,000.00 2-months advance rental originally recorded under deferred credits but was reversed in CY 2015 and recognized as income.
Total	**P2,820,000.00**		

As shown in the above tables, the income totaling P158,833,999.86 was earned from transaction of prior years' whereas the income of P2,820,000.00 pertains to income in CY 2016, contrary to paragraphs 25-26 of PAS 1 and paragraph 92 of the Conceptual Framework for the Preparation and Presentation of Financial Statements.

14.4.3 Income totalling P452,126.81 was recognized twice in the books as shown in the following instances:

Particulars	Amount	Remarks
OGCC	P334,568.75	Income for the month of April was recorded under JEV 2015-04-001393 upon taking up of receivables. Upon collection of said rent with Official Receipt No. 1282 on April 16, 2015, income was again recognized in the book under JEV 2015-04-001450 instead of a credit to Accounts Receivable.
MWCI (Balara Quarters)	73,235.74	Income for April 2015 was taken up twice under JEV Nos. 2015-05-001856 and 2015-05-002030.
Digitel Mobile Philippines, Inc.	44,322.32	Income for the lease period May 26- June 25, 2015 was recorded under JEV No. 2015-05-001856 upon taking up of receivable. Upon collection, income was again recognized under JEV No. 2015-05-002033 instead of a credit to Accounts Receivable.
Total	P452,126.81	

14.4.4 Unrecognized income for the year totalling P964,396.86 consisted of the following:

a. Income from lease by the North Luzon Railways Corporation (NLRC) totalling P964,396.86 from May 12, 2015 to December 31, 2015, which was covered by a new contract agreement starting May 12, 2015 until December 31, 2017, was not recognized in the books. The amount of P688,854.90 recorded in the books pertained to income earned for the period December 11, 2014 to May 11, 2015.

b. Likewise, income recognized for the Balara Quarters rented by MWCI for the month of December was only P69,573.95, understated by P3,661,79.

14.4.5 Absence of lease contract between MWSS and its lessees, thus, the accuracy of amount collected was not ascertained, as follows:

i. *Lease of MWSS Administration Building to Manila Water Company, Inc. (MWCI)*

As of audit date, the contract which expired on October 19, 2011 has not been renewed but MWSS continues to bill MWCI with the monthly rent of P1,522,673.65 exclusive of VAT. Also, an extension office of Manila Water Total Solutions Corporation, which operates the Healthy Family Purified Drinking Water owned by MWCI, occupies an area in the Network Technology and Development Center of MWCI, without written consent from MWSS.

ii. *Lease of Balara Quarters to MWCI*

MWSS allowed the continued use of the 17 living quarters in Balara Filters Compound by the MWCI employees even without renewing the lease contracts. The partial payment made in CY 2015 totaling P2,709,044.04 was based on the old rental rate.

iii. *Telecommunication Towers*

In response to past audit observations, Management offered the following lots thru public bidding:

Lot No./Site	Description	Remarks
A	300 sq.m. parcel of land/portion of MWSS Balara Complex, Katipunan Road, Balara, Quezon City.	Occupied by Globe telecommunication tower
B	40 sq.m. portion of Roof Deck of MWSS Administration Building, Katipunan Road, Balara, Quezon City	Occupied by telecommunication facilities of SMART
D	225 sq.m. meter parcel of land/portion of MWSS Pasig Reservoir Compound, Dona Julia Vargas Avenue, Pasig City	Occupied by Globe telecommunications tower

Bidding for the lease of the telecommunication sites was conducted on July 22, 2015. Under Board Resolution 2015-121-CO, the MWSS Board approved the declaration of Globe Telecom, Inc. as the lone bidder and responsive bidder for sites A and D and the award of the sites. Drafts of Contract of Lease for the awarded sites were already forwarded to the Office of the Government Corporate Counsel on February 26, 2016 for their review. The telecommunication companies continued to occupy the premises and pay monthly rental even without binding contracts.

iv. *Right-of-Ways (ROWs)*

Income from lease of ROWs for CY 2015 amounted to P3,006,942.67 which mostly are billed and collected based on "reasonable compensation". The accuracy of the reported income could not be ascertained due to absence of contracts.

v. *Water and Sewer Services Cooperative (WASSECO)*

On April 26th 2005 WASSECO and MWSS entered into a contract for the former to lease a parcel of land situated at P. Mack St., Balara Filters Compound, Barangay Pansol, Balara, Quezon City to use as a warehouse, exclusively for stockpiling of materials, equipment and storage area. The term of lease covers a period of one year and has expired in 2006. WASSECO continues to occupy the leased premises and pays rental of P8,772.13 exclusive of VAT even without the renewal of contract.

vi. *TASJODA*

The accuracy and validity of the income of P84,553.58 recognized in CY 2015 for the use of the MWSS parking along Tandang Sora Avenue could not be ascertained due to lack of contract of lease.

vii. *Food establishment in the Engineering Building leased by MWSI*

The lease agreement between MWSS and Maynilad Water Services Inc. (MWSI) stipulated that the Lessee (MWSI) agreed that it shall only use the leased premises exclusively for office purposes and that it shall not assign/sublease the whole or any part of the Leased Premises without the written consent of the Lessor (MWSS). Otherwise, such assignment or sublease shall be null and void.

An area leased by MWSI is being used by a food establishment without approval/consent from MWSS. Document showed that MWSS approved only the increase in the area being rented by MWSI, but not to use the area for other purposes other than office space.

14.4.6 No adjustment of rental rate or rental rate remained unchanged despite existence of a provision that the same is subject to adjustment as shown in the following contracts:

Lessee/Particulars	Contract provision	Rental rate	Observation
LWUA for the lease of 4,097 sq.m and 5,947.00 sq.m parcels of land	Section 2 provides that monthly rental is subject to adjustment every two (2) years	P14,652.24 and P18,025.85	Records showed that the monthly rental rate of P14,652.24 and P18,025.85 have not changed since CY 2007.

Lessee/Particulars	Contract provision	Rental rate	Observation
MWCI for the lease of a portion of the MWSS Administration building at the basement level with an area of 36.40 square meters	Subject to escalation of ten percent starting on the second year of the term of the contract in August 2013	P14,947.30 monthly	It was noted that the 10% escalation stated in the lease contract of the 36.40 sq.m. portion of the basement was not effected starting on the second year of the term of the contract which was on August 1, 2013
OGCC	Section 5 of the contract stipulated that arrearages arising from office rental and electric bill prior to renewal of contract in 2011, shall be paid on a monthly basis along with the new rental rate of P334,568.75 (exclusive of VAT) up to December 31,2014	P334,568.75 (exclusive of VAT)	Based on MWSS' records, collection of the arrearages was not enforced.

14.5 ***We recommended that Management:***

a. ***Instruct the Finance Department to recognize income when earned as provided under paragraphs 25-26 of PAS 1 and paragraph 92 of the Conceptual Framework for the Preparation and Presentation of Financial Statements;***

b. ***Prepare adjusting entries for income recorded twice in the books of accounts in the amount of P452,127 and the unrecognized income of P964,397;***

c. ***Require the Property Management Department to renew the lease contracts as legal documents/basis for the collection of income from leased property;***

d. ***Take appropriate action on the use of a rented building by the Concessionaires for purposes other than the intended purpose;***

e. ***Execute new or renew existing contracts on the use of MWSS Right-of-ways (ROWs) as basis to compel the occupants to pay rental fees; and***

f. ***Enforce the provision of the contract of lease on the collection of adjusted rental rates by taking appropriate legal action to collect unpaid fees or arrearages.***

14.6 No Management comment was received.

15. **As in previous years, the long outstanding advances to contractors totaling P278.402 million at year-end remained doubtful due to incomplete data on the projects for which the advances were granted and the lack of documents needed to determine the persons liable/responsible for the non-recoupment. Further, the action plan to recover the advances was found not responsive to the implementation of the audit recommendations.**

15.1 In previous years' Annual Audit Reports, we required the immediate submission of 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.

The said information were necessary so that Management could implement the audit recommendation to 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.

15.2 In the Agency Action Plan and Statius of Implementation for the AAR CY 2014, Management informed that part of their action plan was the reconciliation of unverified/unreconciled advances to contractors account to be done by the Contract of Service (COS) personnel that will be hired for the next two years to analyze and assist the Finance Department in the submission of the data/information needed regarding the various projects with outstanding advances to contractors. Its target implementation date will be November 2015 to December 2016.

15.3 As of date, there were no COS personnel hired for the purpose and therefore, the required data about the projects and the contractors have not been determined.

15.4 Further, we found the action plan not adequate enough to facilitate the implementation of the audit recommendation resulting in the advances to contractors account balance remaining at ₱278.402 million (net of reconciling items of ₱78.824 million) as of December 31, 2015, as shown in the table below.

Schedule of Advances to Contractors		
Account Code	**Contractor**	**Amount**
181-01-000-000-000-042	Consuelo Builders Corp.	2,500,340.59
181-01-000-000-000-058	FF Cruz Const. & Co. Inc.	2,959,907.17
181-01-000-000-000-063	Filipino Pipes & Foundry Corp.	34,792,597.88
181-01-000-000-000-076	Gotesco Kawalan Joint Venture	16,184,338.44
181-01-000-000-000-110	Makati Development Corp.	4,675,912.94
181-01-000-000-000-137	Pacifico Austria & Sons	704,028.70
181-01-000-000-000-160	R.D. Tuazon	9,459,323.95
181-01-000-000-000-170	Sigma Const.	132,812.02
181-01-000-000-000-197	Wilper Construction	212,062.79
181-01-000-000-000-351	A.M. Oreta & Co.	47,970,710.51

Schedule of Advances to Contractors		
Account Code	**Contractor**	**Amount**
181-01-000-000-000-355	W.M. Lewis & Asso.	73,523.29
181-01-000-000-000-356	B.C. Cuerto Const. Corp.	1,309,449.55
181-01-000-000-000-357	Devt. of Environmental System	127,839.48
181-01-000-000-000-649	Bousted Technologies Inc./Salcon Ltd.	70,989,440.27
181-01-000-000-000-674	First Global Hydro Corp.	25,712.45
181-01-000-000-000-687	A.G. & P./Hydro Resources Const. Corp	4,418,767.89
181-01-000-282-265-000	JV Angeles Const. Corp.	35,495,704.55
181-01-000-341-915-000	DM Consunji, Inc.	16,170,003.29
181-01-000-725-926-000	R II Builders	56,005.10
181-01-110-439-160-000	MMRR Construction	47,680,244.28
181-02-000-000-000-058	FF Cruz Const. & Co. Inc.	1,064,122.56
181-02-000-000-000-096	J.V. Angeles/JE Manalo Joint Venture	833,897.15
181-02-000-000-000-351	A.M. Oreta & Co.	1,091,720.22
181-02-000-000-000-351	CICG Inc	29.99
Sub total		298,928,495.06
Various SL 181-01	Various contractors	(20,526,057.67)
Total		278,402,437.39

15.5 ***We strongly reiterated our audit recommendations that Management:***

a. ***Determine and submit to this Office the name of the projects to which the above advances were made and the status of said projects, the information on whether the contractor was fully paid without deducting the above advances and person/s responsible, the date of payment, and the aging of the advances to contractors;***

b. ***Initiate immediately legal action against the contractors for the respective amount of unrecouped advance payments made to them by MWSS;***

c. ***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; and***

d. ***Take action for the blacklisting of the contractors who have outstanding advances from MWSS.***

15.6 No Management comment was received.

16. **Asset and liability accounts with balances aggregating P588.743 million and P884.549 million, respectively, remained unreconciled/unverified, thus affecting the fair presentation of these accounts in the Statement of Financial Position.**

16.1 With the adoption by MWSS of the E-NGAS in 2007, subsidiary ledgers for all accounts are necessary. However, there were General Ledger (GL) accounts with balances prior to privatization in 1997 with no subsidiary ledgers. To be able to establish the E-NGAS, all GL accounts without subsidiary ledgers were temporarily recorded to the suspense account 000-00-99. Subsequently, Management prepared the subsidiary ledgers for each of the GL accounts with 000-00-99 account subject to reconciliation/verification.

16.2 As reported in previous years' audit reports, the MWSS' Statement of Financial Position as at year-end showed the presence of various unreconciled/unverified accounts with updated figures in the net amount of P295,806,747.07. Details are shown in the table below:

	No. of Accounts	Amount
Assets	20	P588,742,507.51
Liabilities	5	884,549,254.58
Net		**P295,806,747.07**

16.3 The unreconciled/unverified balances are included in the following accounts:

Account Title	Amount
Accounts Receivable (Net)	P (516,007,266.75)
Due from Officers and Employees	17,732,590.07
Loans Receivable - Others	900,000.00
Receivables - Disallowances/Charges	609,942.00
Other Receivables	498,412.16
Deposit on Letters of Credit	2,888,349.43
Advances to Contractors	78,823,893.58
Other Prepaid Expenses	14,800,881.71
Land	(10,319,400.00)
Other Structures (Net)	2,369,189.17
Office Equipment (Net)	14,263,916.02
IT Equipment and Software (Net)	17,425.41
Communication Equipment (Net)	3,476,675.59
Medical, Dental and Laboratory Equipment (Net)	858,521.14
Military and Police Equipment (Net)	412.17
Technical and Scientific Equipment (Net)	2,140,438.40
Other Machinery and Equipment (Net)	13,608,053.75
Motor Vehicles (Net)	5,637,096.42
Construction in Progress	457,018,738.82
Other Assets	499,424,638.42
Total Unreconciled Assets	**588,742,507.51**
Accounts Payable	533,802,866.88
Guarantee Deposits Payable	170,533,388.90
Performance/Bidders/Bails Bonds Payable	1,428,947.39
Other Payables	156,151,331.89

Account Title	Amount
Other Deferred Credits	22,632,719.52
Total Unreconciled Liabilities	**884,549,254.58**
Net Unreconciled Accounts	**P295,806,747.07**

16.4 In the Agency Action Plan and Status of Implementation, Management informed that they will be hiring Contract of Service employees to do the work of reconciling the accounts. As of audit date, there was no contract of service personnel hired although the Governance Commission on Good Government (GCG) has already approved the hiring of said personnel.

16.5 We recognized Management's efforts to clean up the books as shown in the net decrease of P58,017,757.85 from last years unreconciled/unverified account balance of P353,824,504.92, with details as follows:

	2015	2014	Decrease	Per cent
Assets	1,490,384,306.84	1,567,037.313.11	76,653,006.27	5
Contra-Assets	901,641,799.33	1,036,312,563.45	134,670,764.12	13
Liabilities	884,549,254.58	884,549,254.58	0.00	0
Net	295,806,747.07	353,824,504.92	58,017,757.85	16

16.6 Although a decrease in the unreconciled/unverified account balances was noted, the fairness and reliability of the year-end financial statements as to its financial position remained doubtful and that the unreconciled/unverified accounts could overstate or understate the assets and liabilities as of year- end.

16.7 ***We reiterated our prior years' audit recommendation that Management facilitate the immediate reconciliation of the unreconciled/unverified accounts shown in the Statement of Financial Position totalling P295.807 million by immediately hiring contract of service personnel approved by the GCG which Management intend to hire as part of their action plan in the AAPSI.***

16.8 Management informed that they will be hiring Contract of Service personnel to assist them in the reconciliation of the accounts.

17. **Concession Income in the amount of P244.288 million was not accurately reported due to:**

   a. **discrepancy of P215.605 million between the amount recorded in the books and the amount of cash actually received from Concessionaires during the year; and**

   b. **income from Concession Fee – Debt Service and Progress Billing in the amount of P25.001 million and P3.681 million, respectively, were recorded as income in CY 2015 instead of CY 2014, the period to which the transaction pertained.**

17.1 In the Annual Audit Report for CY 2014, *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*

17.2 *Concession Income* refers to the payments received from Concessionaires for the COB of the MWSS in accordance with Sec 6.4(b) of the Concession Agreement. On the other hand, Concession Fee – Progress Billing includes payments received from the Concessionaires for bills issued to collect the amount payable to the contractors for MWSS implemented projects.

17.3 Audit of the account *Income from Waterworks* for the CY 2015 showed that the above audit recommendations were not complied with as discussed below:

17.3.1 We noted difference between the amounts of concession income received from Concessionaires and amounts of income recognized in the books, amounting to P215.605 million.

The Concession income received from Concessionaires for the Corporate Operating Budget (COB) for CY 2015 totalled P979,394,379.40, presented below:

	MWSI	**MWCI**	**Total**
Original Contract	P245,319,005.21	P245,319,005.21	P490,638,010.42
Term Extension Contract	244,378,184.49	244,378,184.49	488,756,368.98
	P489,697,189.70	P489,697,189.70	P979,394,379.40

On the other hand, there was a discrepancy amounting to P215,604,750.56 noted, as computed below.

Per books	**Per audit based on ORs issued**	**Difference**
P1,194,999,129.96	P979,394,379.40	

The difference was due to late accrual of concession income pertaining to the term extension for CY 2014. The income should have been taken up in CY 2014 to which transaction pertained and not in CY 2015.

17.3.2 We observed that income amounting to P3,681,544.05 million for the design and build of Joint Sewage and Septage Treatment Plant covering the period May 1, 2014 to August 31, 2014 under Payment Certificate No. 12 were set up only in CY 2015, instead of CY 2014, the period to which the transaction pertained.

Concession Fee – Debt Service represents payments received for the payment of loans as provided under Sec 6.4(a) of the Concession Agreement. The billing in the amount of P25.001 million representing concessionaire's shares on guarantee fees on various loans for the period October to December 2014 were billed *and* taken up in the books only on March 31, 2015, notwithstanding the fact that the monthly bills for loans were issued by the Bureau of the Treasury and were received by MWSS in CY 2014 (except for December 2014 bill which was received on January 20, 2015). The breakdown is as follows:

Loan	MWSI	MWCI	Total
ADB 1379- PHI	P3,749,046.92	P1,693,776.11	P5,442,823.03
1991 French Protocol	14,800.34	1,644.48	16,444.82
IBRD 4019 - PHI	426,445.29	367,643.19	794,088.48
EXIMBANK OF CHINA	9,374,290.22	9,374,290.23	18,748,580.45
Total	P13,564,582.77	P11,437,354.01	P25,001,936.78

17.4 In summary, the overstatement in the reported income from Concession Fees for CY 2015 caused by failure to properly accrue income in CY 2014 totalled P244.288 million, with details as follows:

Particulars	Amount
Overstatement in Concession Income	P215,604,750.56
Overstatement in CF- Progress Billing	3,681,544.05
Overstatement in CF – Debt Service	25,001,936.78
Total Overstatement in Concession Income	P244,288,231.39

17.5 ***We strongly reiterated and Management agreed to require the Finance Department to***:

a. ***For Concession Income, properly record and accrue the income on Concession Fee due to Term Extension in the year the amount was received; and***

b. ***For Concession Fee received for Debt Service and Progress Billings, ensure that income are recognized in the period to which transaction pertains, by promptly issuing Statement of Accounts (SOAs)/Billing Statements to Concessionaires and other debtors.***

18. **The accuracy and validity of the year-end balance of account *Sinking Fund at* P29.510 million was highly doubtful as confirmation from the Bureau of the Treasury showed negative sinking fund balance.**

18.1 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 BTr on June 30, 1995.

18.2 On April 30, 2002, the Angat Serial Bonds with value date, August 26, 2003, were fully redeemed by MWSS. Consequently, the BTr transferred to MWSS Current Account with PNB MWSS Branch with value date August 26, 2003 the sinking fund amounting to P27,813,984 including interest of P4,528,965.13 which was recorded under JEV No. 05-11-28010 dated October 7, 2003. However, analysis showed that there were adjusting entries made after the entry made on October 7, 2003. It appears that the said redemption was not recorded in the books since the MWSS books of accounts still showed a sinking fund balance of P29,510,406 as of December 31, 2015. Based on the General Ledger, the difference of P1,696,422 pertained to interest income earned.

18.3 As in previous year, confirmation with the BTr showed negative result for the balance of the account as of December 31, 2015.

18.4 In CY 2014 Annual Audit Report, we recommended that Management require the Finance Department to immediately reconcile with the BTr the sinking fund balance. However, as of audit date, Management had not acted on the recommendation and continuously failed to reconcile the sinking fund balance with the BTr.

18.5 Considering the fact that the BTr consistently confirmed the non-existent Sinking Fund, it is the responsibility of the MWSS to prove the correctness of the reported balance in its books and initiate the reconciliation of the sinking fund balance with the BTr.

18.6 ***We recommended that Management require the Finance Department to revisit and determine the correctness of the entry made under JEV No. 05-11-28010 when the BTr transferred to MWSS Current Account with PNB the sinking fund amounting to P27.814 million with value date of August 26, 2003; and thereafter, analyze the account and prepare the necessary adjusting entry to determine the accuracy of the sinking fund balance.***

18.7 The Acting Manager, Finance Department informed this is part of the reconciliation with the BTr and will be given priority.

19. **The accuracy and reliability of the accounts *Due to BIR*, *Other Prepaid Expenses EWT and Output VAT* amounting to P3.922 million, P15.339 million and P196,652, respectively were not ascertained due to:**

   a. **The opening balance for CY 2015 of account *Other Prepaid Expenses-EWT* of P25.035 million was not reconciled with the tax credits balance in BIR Form 1702 filed in CY 2014 amounting to P14.102 million, or a difference of P10.933 million. The account also included unsubstantiated and unreconciled tax credits balance of P11.097 million.**

   b. ***Other Prepaid Expenses-EWT* was credited instead of *Other Prepaid Expenses-Output VAT* to take up Creditable Withholding Tax applicable for Value-Added Tax remittances to the BIR resulting in understatement of *Other Prepaid Expenses-EWT* amounting to P110,091 and overstatement of *Other Prepaid Expenses-Output VAT* by the same amount.**

   c. **Tax credits applied in previous years were not recorded as credit to the Other Prepaid Expenses-EWT.**

   d. **There was no provision for Tax Refunds Payable amounting to P357,494 made at year-end due to the failure to prepare timely tax analysis and adjustments as provided by the National Internal Revenue Code (NIRC), resulting in misstatement of the account *Due to BIR*. Consequently, the tax due to employees was refunded past the deadline set in the Tax Code.**

   e. **The adjusted balance of account *Due to BIR* as of year-end, after taking into account the remittance for December 2015 tax collections showed an unremitted balance of P504,607 and various subsidiary ledgers with abnormal balances.**

Further, MWSS did not recognize and present as a separate line item the Income Tax Expense related to profit and loss from ordinary activities totalling P44.852 million in its Consolidated Profit and Loss Statement; instead, the same was inadvertently included in the account Taxes, Duties and Licenses under the Maintenance and Other Operating Expenses (MOOE), contrary to COA Circular 2004-008, PAS 1 on the Presentation of Financial Statements and PAS 12 on Income Taxes.

19.1 The account *Due to BIR* is used to record the liability for collections received or amount of taxes withheld from officers and employees or other parties for remittance to the Bureau of Internal Revenue (BIR).

The account *Other Prepaid Expenses-Output VAT* is used to record 5% creditable VAT withheld from transaction with government units. On the other hand, *Other Prepaid Expenses-EWT* is used to take up creditable income tax withheld.

19.2 Audit of the abovementioned accounts disclosed the following deficiencies:

19.2.1 ***Other Prepaid Expenses-EWT/Output-Value Added Tax (VAT)***

19.2.1.1 *Item a - The balance of Other Prepaid Expenses-EWT totalling P25.035 million was not reconciled with the tax credits balance in BIR Form 1702 (Annual) amounting to P14.102 million or a difference of P10.933 million. Also, the account unsubstantiated and unreconciled tax credits balance of P11.097 million*.

a. Analysis of opening balances revealed that as of January 1, 2015, tax credits carried over for the 1st quarter of 2015 amounted to P14,102,233.00 per BIR Form 1702. However, review of accounting records showed that the Other Prepaid Expenses-EWT (Income tax credits) amounted to P26,584,225.48 computed as follows:

Total EWT per e-NGAS (December 31, 2015)		**P25,035,382.07**
Add: EWT Claimed against Output VAT for CY 2014 and 2013 *(as discussed in 1.2)*		
CY 2013	**555,916.63**	
CY 2014	**992,926.78**	**1,548,843.41**
Total EWT, adjusted (December 31, 2015)		**P26,584,225.48**

b. The reliability of balance of Other Prepaid Expenses-EWT balance as of year-end amounting to P15,339,298.56 (net) was also found unreliable due to the existence of unreconciled account of P11,097,295.26 reported separately.

19.2.1.2 *Item b - Other Prepaid Expenses-EWT (185-03) was credited instead of Other Prepaid Expenses-Output VAT (185-02) to take up Creditable Withholding Tax applicable for Value-Added Tax remittances to the BIR, resulting in understatement of Other Prepaid Expenses-EWT amounting to P110,090.78 and overstatement of Other Prepaid Expenses-Output VAT (185-02) by the same amount***.***

a. This observation was guided by the following rules and regulations:

- Section 2 of Revenue Regulations No. 14-2002 dated September 9, 2002 entitled “Amending Further Pertinent Provisions of Revenue Regulations 2-98, as amended”, which provides amendment on income payments subject to creditable withholding tax and rates prescribed thereon;

"Whereas, Section 2.(57)(2) of RR No. 2-98 (as amended by Section 2 of RR No. 14-2002) provides:

*"Except as herein otherwise provided, there shall be withheld a **creditable income tax** at the rates herein specified for each class of payee from the following items of income payments to persons residing in the Philippines:*

Xxx Xxx xxx

(C)

Rentals

(1) Real Properties. – On gross rental for the continued use or possession of real property used in business which the payor or obligor has not taken or is not taking title, or in which he has no equity – Five percent (5%)";

- Section 22 of RR 4-2007 entitled "Amending Certain Provisions of Revenue Regulations No. 16 - 2005, as amended", otherwise known as the Consolidated Value-Added Tax Regulations of 2005 provides:

"SEC. 4.114-2. Withholding of VAT on Government Money Payments and Payments to Non-Residents.—

(a) The government or any of its political subdivisions, instrumentalities or agencies including government-owned or controlled corporations (GOCCs) shall, before making payment on account of each purchase of goods and/or of services taxed at twelve percent (12%) VAT pursuant to Secs. 106 and 108 of the Tax Code deduct and withhold a final VAT due at the rate of five percent (5%) of the gross payment thereof

b. The account "Other Prepaid Expenses" as of December 31, 2015 with the following Subsidiary Ledger accounts showed the following book balances:

SL Account	Code	Amount
Input VAT	185-01	541,995.73
Output VAT	185-02	196,652.01
EWT, net of unreconciled accounts	185-03	15,339,298.56
Franchise Tax	185-04	32,395.29
Bail Bonds-Real Estate	185-07	300,000.00
Total		**16,410,341.59**

The journal entry to record Output VAT remittance to the BIR is as follows:

Due to BIR-Output VAT	xxx	
Cash in Bank-LCCA		Xxx
Other Prepaid Expenses-Input VAT		Xxx
Other Prepaid Expenses-EWT		Xxx

Section 2.57.2 of RR No. 2-98 (as amended by Section 2 of RR No. 14-2002) is explicit on the application of the Creditable Withholding Tax (Expanded Withholding Tax on Rentals-5%); in which, such tax credit shall be applied against **income tax due** and not against Value-Added Tax payable. Instead, the Creditable Withholding VAT (5%) for Government Money Payments (Other Prepaid Expenses-Output VAT (185-02) can be used against Output VAT payment.

c. The tax credit misapplication resulted in overstatement of Other Prepaid Expenses-Output VAT by P110,090.78 equal to the amount of understatement of Other Prepaid Expenses-EWT for entries posted to effect VAT remittances to BIR.

19.2.1.3 *Item c - The tax credits applied in previous years were not recorded as credit to the Other Prepaid Expenses-EWT.*

a. Section 2.57(B) of the BIR Revenue Regulations 2-98 provides that *"Under the creditable withholding tax system, taxes withheld on certain income payments are intended to equal or at least approximate the tax due of the payee on said income. The income recipient is still required to file an income tax return, as prescribed in Section 51 and Section 52 of the NIRC, as amended, to report the income and/or pay the difference between the tax withheld and the tax due on the income. Taxes withheld on income payment covered by the expanded withholding tax (referred to in Section 2.57.2 of these regulations) and compensation income (referred to in Sec.2.78 also of these regulations) are creditable in nature."*

b. The Other Prepaid Expenses-EWT showed an ending balance of P15,339,298.56. The account balance may not be accurate because analysis of the transactions within the year showed that tax credits available during the year were not fully applied when MWSS paid its corporate income tax for the 2nd Quarter of CY 2015.

c. Analysis of the application of tax credits shown below:

Tax Due		44,852,353.74
Less: Tax Credits		
Beginning Balance 01/01/2015	(14,102,233.00)	
Add: Tax Credits -1st Quarter	(847,088.69)	
Tax Credits - 2nd Quarter	(8,927,611.58)	(23,876,933.27)
Tax Payable		**P20,975,420.47**

d. We noted that the tax credits applied amounted to P23,876,933.27 only. However, review of accounting records showed that the Other Prepaid Expenses-EWT showed a remaining balance as of June 30, 2015 totaling P12,627,535.53, computed as follows:

Account Code	Account Name	Ending Balance
185-03-000-000-000-202	Local Water Utilities Administration (LWUA)	P165,909.01
185-03-000-000-000-203	Philippine Water Works Association (PWWA)	213.59
185-03-000-000-000-495	Digitel Mobile	109,809.47
185-03-000-000-000-960	International School of Technology(Do not use)	2,791.43
185-03-000-000-001-221	ISOT-ASIA	6,541.52
185-03-000-000-001-601	Sta. Lucia Realty & Development Corp.	3,248.70
185-03-000-000-001-602	Laser Freight International, Inc.	10,777.74
185-03-000-000-001-603	Superlines transportation Co., Inc.	86,459.99
185-03-000-000-001-604	Avid Sales Corp.	300.00
185-03-000-000-001-959	International Graduate School of Leadership	4,931.91
185-03-000-000-001-960	Filomeno Garcia/Gh Garcia Dev't Corp.	1,523.22
185-03-000-188-209-185	Philippine National Bank (PNB)	340,495.86
185-03-000-360-916-000	Globe Telecom (Cellsite)	93,538.44
185-03-000-797-979-000	Office of the Gov't. Corp. Counsel (OGCC)	1,684,057.37
185-03-000-865-512-000	Supreme Court of the Philippines	4,264,941.50
185-03-004-574-945-000	Multi Media Telephony	55,623.00
185-03-004-656-561-000	North Luzon Railways Corporation(NLRC)	75,774.05
185-03-005-038-428-000	Manila Water Co. (MWCI)	15,332,387.09
185-03-005-393-442-000	Maynilad Water Services Inc (MWSI)	13,765,754.46
185-03-252-783-397-000	Yale Hardware Corporation	4,253.57
185-03-470-001-901-673	Smart Communication	322,923.13
Balance before adjustment		36,332,255.05

Account Code	Account Name	Ending Balance
Add: EWT erroneously claimed (adjusted in August 2015)		172,213.75
Balance after adjustment, net		36,504,468.80
Less: Claimed Tax Credits		23,876,933.27
Balance		P12,627,535.53

e. Inquiry from the Accounting Office on why the tax credit was not applied in full disclosed that the amount of P12,627,535.53 was already applied in previous periods but no accounting entry was made to record the application of tax credits.

19.2.1.4 *Item d - No provision for Tax Refunds Payable amounting to P357,493.69 was made at year-end due to failure to prepare timely tax analysis and adjustments as provided by the National Internal Revenue Code (NIRC) resulting in misstatement of the account Due to BIR. Consequently, the tax due to employees was refunded past the deadline set by the Tax Code. .*

a. Section 79 (H) of the NIRC provides, and we quote:

> *"(H) Year-End Adjustment. - On or before the end of the calendar year but prior to the payment of the compensation for the last payroll period, the employer shall determine the tax due from each employee on taxable compensation income for the entire taxable year in accordance with Section 24(A). The difference between the tax due from the employee for the entire year and the sum of taxes withheld from January to November shall either be withheld from his salary in December of the current calendar year or refunded to the employee not later than January 25 of the succeeding year."*

b. Audit of transactions showed that tax analysis and adjustments were only made after the last payroll period (December 2015), hence no provision for tax refunds payable has been set up in the books as of year-end.

c. Review of subsequent transactions for the first payroll period [January] of 2016 also revealed that erroneous entries are being used to record payment of tax refund illustrated as follows:

a. To record the withholding of taxes from compensation		
Salaries and Wages	xxx	
Cash		xxx
Due to BIR		xxx
b. To record remittance to BIR		
Due to BIR	xxx	
Cash		xxx

c. To record payment of tax refund for CY 2015 (February 2016) Due to BIR Cash	xxx	 xxx
d. To record claim for tax credits equal to the amount of taxes refunded to employees; applied against the taxes withheld for January 2016 Due to BIR *(taxes withheld for January 2016)* Cash *(amount payable)* Due to BIR *(equal to tax refunded)*	xxx	xxx xxx

d. It can be observed that the agency temporarily debit Due to BIR, to record the refund and reverses the same when it applies the overpayment as tax credit for January tax collections which could have been avoided had a Tax Refund Payable been set up on December 31, 2015, thus correcting Due to BIR at year-end.

e. As mentioned in Section 79 (H) of the Tax Code, *"the difference between the tax due from the employee for the entire year and the sum of taxes withheld from January to November shall either be withheld from his salary in December of the current calendar year or refunded to the employee not later than January 25 of the succeeding year".* Taxes due to employees were only refunded in February 2016.

f. There were also retired and terminated employees whose tax refund due were not paid amounting to P90,022.86.

g. Management's attention was invited to the penal provision of the NIRC which Section 252 states that:

> *"SEC. 252. Failure of a Withholding Agent to refund Excess Withholding Tax. - Any employer/withholding agent who fails or refuses to refund excess withholding tax shall, in addition to the penalties provided in this Title, be liable to a penalty to the total amount of refunds which was not refunded to the employee resulting from any excess of the amount withheld over the tax actually due on their return."*

19.2.1.5 *Item e - The adjusted balance of Due to BIR as of year-end, after taking into account the remittance for December 2015 tax collections showed an unremitted balance of P504,607.50 and various subsidiary ledgers with abnormal balances.*

a. As of December 31, 2015, the account Due to BIR registered the following ending balances:

Account Code	Account Title	Amount
412	Due to BIR	P 1,269.98
412-01-01-01	ITW from Salaries & Other Compensation-Regular	1,577,197.00
412-01-01-02	ITW from Salaries & Other Compensation-Contractual	45,923.12
412-01-02	VAT Withheld	686,520.92
412-01-03	Professional Tax	339,369.94
412-01-04	Franchise Tax	58,592.18
412-01-05	Expanded Withholding Tax	198,962.11
412-01-08	Output VAT	1,018,757.00
412-01-10	Final Withholding Tax	(4,603.15)
	Total	P3,921,989.10

b. The foregoing balances were inclusive of taxes collected in December 2015 which were remitted in January 2016.

c. Normally, the ending balance of Due to BIR should pertain only to the December 2015 tax withheld. However, analysis disclosed that the account has an unremitted amount of P504,607.50 after taking into consideration the amount of tax withheld and remitted in January 2016, computation shown in the table below.

Tax Type	Unadjusted Balance Dec. 31, 2015	December Taxes withheld Remitted on January 2016	Adjusted Balance Dec. 31, 2015
Due to BIR	P1,269.98	-	P1,269.98
ITW from Salaries and Other Compensation-Regular	1,577,197.00	1,215,101.76	362,095.24
ITW from Salaries and Other Compensation-Contractual	45,923.12	-	45,923.12
VAT Withheld	686,520.92	564,383.69	122,137.23
Professional Tax	339,369.94	238,905.00	100,464.94
Franchise Tax	58,592.18	-	58,592.18
Expanded Withholding Tax	198,962.11	240,729.74	(41,767.63)
Output VAT	1,018,757.00	1,158,261.41	(139,504.41)
Final Withholding Tax	(4,603.15)	-	(4,603.15)
Total	P3,921,989.10	P3,417,381.60	P504,607.50

d. Section 251 of the NIRC provides:

> *"SEC. 251. Failure of a Withholding Agent to Collect and Remit Tax. - Any person required to withhold, account for, and remit any tax imposed by this Code or who willfully fails to withhold such tax, or account for and remit such tax, or aids or abets in any manner to evade any such tax or the payment thereof, shall, in addition to other penalties provided for under this Chapter, be liable upon conviction to a penalty equal to the total amount of the tax not withheld, or not accounted for and remitted".*

e. Furthermore, review of accounting records showed that there were various subsidiary ledgers with dormant account balances.

19.2.2 ***Corporate Income Tax***

19.2.2.1 *Item a - MWSS did not recognize and present as a separate line item the Income Tax Expense related to profit and loss from ordinary activities totaling P44.852 million in its Consolidated Profit and Loss Statement; instead, the same was inadvertently included in the account Taxes, Duties and Licenses under the Maintenance and Other Operating Expenses, which was not compliant with COA Circular 2004-008, PAS 1 on the Presentation of Financial Statements and PAS 12 on Income Taxes*.

a. Section 18 of the MWSS Charter (RA 6234) provides that *"All articles imported by the Metropolitan Waterworks and Sewerage System xxx, shall be exempt from the imposition of import duties and other taxes*."

b. BIR Ruling No. DA-088-2001 ruled that the concession fees paid by the Concessionaires to MWSS, if at all they are in the nature of income, shall be excluded from the gross income subject to tax.

c. Categorically, MWSS is taxable with respect to its other income other than concession fees received from the concessionaires.

d. The account *Taxes, Duties and Licenses* is used to recognize the amount of taxes, duties and licenses and other fees due to regulatory agencies except income tax. This also includes taxes on interest income on savings deposits, time deposits, and government securities of the bond sinking fund/other funds. *(COA Circular 2004-008 and the New Government Accounting Manual)*

e. Audit of accounts for CY 2015 revealed that MWSS did not recognize and present the Income Tax Expenses related to profit and loss from its operations which is non-compliant with paragraph 77 PAS 12 which provides that "*77. The tax expense (income) related to profit and loss from ordinary activities shall be presented on the face of the income statement".*

f. Paragraph 82 of PAS 1 provides that:

> *"as a minimum, the statement of comprehensive income shall* ***include line items that present the following amounts*** *for the period:*
>
> *(a) revenue;*
> *(b) finance costs;*
> *(c) …xxx*
> ***(d) tax expense;***
> *(e) xxx*
> *(f) …" (emphasis ours)*

g. MWSS paid Corporate Income Tax in the 2nd Quarter of taxable year 2015 amounting to P44,852,353.74. The same was accounted for as Taxes, Duties and Licenses which formed part of the agency's MOOE, hence, included in the determination of its operating income (net income before tax) in its Consolidated Profit and Loss Statement.

h. Based on the foregoing, the income tax expense is a separate line item in the Consolidated Profit and Loss Statement and is not an operating expense.

19.3 ***We recommended that Management:***

a. ***Reconcile and substantiate the tax credits variance per BIR Form 1702 against the book balance of Other Prepaid Expense-EWT and provide a reliable basis for the unreconciled tax credits of P11.10 million;***

b. ***Review and analyze dormant and abnormal balances of the various subsidiary ledgers of Due to BIR, and account for possible unremitted tax collections and remit the same to BIR, if any;***

c. ***Review and account for the Tax Refunds Payable due to its employees and effect the necessary adjusting entries at year-end and henceforth, prepare timely tax analysis and adjustments to comply with Section 79 (H) of the NIRC;***

d. ***Direct the Finance Department to effect reversal of credit entries made against Other Prepaid Expenses-EWT and effect corresponding credit entries to Other Prepaid Expenses-Output Tax to rectify the misclassification of accounts, and henceforth, diligently review accounting entries before recording in e-NGAS to avoid erroneous entries;***

e. ***Analyze and review the Other Prepaid Expenses-EWT account balance to determine the correct amount of tax credits and apply the same to the amount of tax due;***

f. ***Recognize and present in the Consolidated Profit and Loss Statement the current tax expense and prepare reconciliation of accounting and tax income for the year; and further, review charges that should have been made to Other-Prepaid Expenses for the tax credits claimed by MWSS in the current and previous taxable years; and***

g. ***Reverse and reclassify the entry made to record the Corporate Income Tax paid in 2nd Quarter of CY 2015 to its appropriate account and present the same as tax expense in the Consolidated Profit and Loss Statement in compliance with COA Circular 2004-008, PAS 1 and PAS 12.***

19.4 No Management comment was received.

20. **Money claims for Retirement Benefits (RA 1616), Cost of Living Allowance (COLA) and Amelioration Allowance (AA) totaling P65.269 million were reverted to Retained Earnings, contrary to Section 98 of PD 1445.**

20.1 Section 98 of PD 1445 requires the reversion of any unliquidated balance of accounts payable which has been outstanding for two years or more and against which no actual claim, administrative or judicial, has been filed or which is not covered by perfected contracts on record. (Emphasis supplied)

20.2 In CY 2014, the MWSS closed the subject accounts to the Retained earnings account applying the DBM COA Joint Circular No. 99-6 for being dormant of more than two years, to wit:

Particulars	Amount	
Money claims for Retirement benefits under RA 1616	P	36,055,153.29
Money claims for Cost of Living Allowance (COLA)		29,056,714.52
Money claims for Amelioration Allowance (AA)		157,896.22
Total	P	**65,269,764.03**

20.3 DBM COA Joint Circular No. 99-6 prescribes the guidelines in the implementation of Executive Order No. 109 which directs all National Government Agencies to Revert Certain Accounts Payable to the Cumulative Result of Operations of the National Government. This Circular shall cover all National Government Agencies and *Government Owned or Controlled Corporations maintaining a General Fund (GF) and Special Account in the General Fund*.

Considering that the MWSS does not maintain a General Fund and Special Account in the General Fund, DBM COA Joint Circular No. 99-6 cannot be used as basis in closing the money claims to the Retained Earnings account.

20.4 Furthermore, audit showed that the money claims due to the retirees are not dormant accounts. There were claims made from CYs 2013 to 2015 for the subject benefits, with details as follows:

Year	Retirement Benefits	COLA
CY 2013	P 1,797,312.40	P 149,820.96
CY 2014	437,716.90	888,829.15
CY 2015	1,033,138.12	110,562.72
	P3,268,167.42	P 1,149,212.83

20.5 In addition, these are legal claims ruled by the Supreme Court and therefore not covered by the aforementioned Circular discussed as follows:

a. *Money claims for Retirement benefits under RA 1616 amounting to P36.055 million*

Money claims for the payment of the Retirement benefits to former MWSS employees amounting to P375.338 million JEV No. 2008-09-007848 were taken up in the books of accounts in CY 2008 under 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.*

b. *Money claims for Cost of Living Allowance and Amelioration amounting to P29.056 million and P157,896.22, respectively*.

20.6 In CY 2008, money claims for the Cost of Living Allowance (COLA) and the Amelioration Allowance (AA) of former MWSS employees amounting to P39.575 million were recorded in the books under JEV No. 2008-09-007947 in view of the ruling of the Supreme Court in the case of Genaro C. Bautista, et al vs MWSS through GR No. 171351 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."

20.7 ***We recommended that Management require the Finance Department to reverse the entries made to close its obligations covered by Supreme Court rulings; otherwise submit a certification that all qualified claimants of the subject RA 1616, COLA and AA have already received their benefits and there is no need for the set-up of payable.***

20.8 Management agreed to submit a certification that all qualified claimants of the subject RA 1616, COLA and AA have already received their benefits and there is no need for the set-up of payable. They also informed that reconciliation as to the paid and unpaid claimants is on-going.

21. **The accuracy and validity of the reported year-end balance of Accounts Receivable – Inter-Agency Transfer totalling P16.155 million were not established due to (a) unsubstantiated and dormant balances of P4.993 million; and (b) net discrepancy of P1.106 million between the records of MWSS and the lessee government agencies.**

21.1 One of MWSS' sources of income comes from the lease of its properties and the lessees include government agencies, as follows:

Agency	**Leased Property**	**Term**	**Monthly Rental Rate (exclusive of VAT)**
Supreme Court of the Philippines	Parcel of land located at #176 Gat Antonio Villegas St., (formerly Arroceros), Manila known as Lot No. 1A, Block 304, Psd-12841, covered by Transfer Certificate Title No. 51485 of the Office of the Reistry of Deeds for the City of Manila, with a story building erected thereon.	May 29, 2012 – May 28, 2017	P750,000.00
Office of the Government Corporate Counsel	Third floor of the MWSS Administration Building with an area of 1,675.30 square meters	January 1, 2011 – December 31, 2015	334,568.75
Local Water Utilities Administration	• Portion of parcel of land in Balara, Diliman, Quezon City, title evidenced Transfer Certificate of Title No. (36069-Rizal) 199170 of the Registry of Deeds for Quezon City. 4,097 sq.m. • Parcel of land at Balara, Diliman, Quezon City, title evidenced by Transfer Certificate of Title No. 80123 of the Registry of Deeds of Quezon City. 5,947 sq. m	• For a period of 40 years commencing on July 1, 1979. • For a period of 40 years commencing on January 1, 2000.	32,678.09

Agency	Leased Property	Term	Monthly Rental Rate (exclusive of VAT)
North Luzon Railways Corporation	Premises located at the third floor of MWSS' Engineering Building with a total area of 650 square meters.	For a minimum period of three years starting from May 12, 2012.	137,770.98

21.2 The year-end balance of the Inter-agency receivables of MWSS totalled P16,154,942.02 consisting of the following:

Account Title	Amount
Due from NGAs	15,562,624.41
Due from GOCCs	579,293.94
Due from LGUs	13,023.67
Total	**16,154,942.02**

21.3 Audit of the accounts for CY 2015 showed the following:

21.3.1 ***Unsubstantiated balances of P4.993 million -***

This is a reiteration of CY 2014 audit observation. Per inquiry, the nature of the receivable from other government agencies of P4,993,439.53 could not be determined as the contracts of lease or any document supporting such claim could not be produced due to the accounts' long history which dates back to MWSS' privatization in 1996. Thus, collection of said receivables could not be enforced, rendering the account dormant. Details of the dormant/non-moving receivables from government agencies are as follows:

	Account No.	Amount
Due from NGAs		
DPWH – Office Rental	136-01-01	P1,209,411.05
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
		4,698,639.90
Due from GOCCs		
Ninoy Aquino International Airport (NAIA)	137-01	4,195.56
Dormant Accounts	137-03	277,580.40
		281,775.96
Due from LGUs		
City of Manila	138-01	13,023.67
		13,023.67
Total		**P4,993,439.53**

21.3.2 ***Net discrepancy of P1.106 million between the records of MWSS and the lessee government agencies -***

The result of confirmation showed that the book balance of P8,900,157.99 was higher than the confirmed amount of P7,794,160.67 by the following Government Agencies, thus resulting in a negative confirmation or a net discrepancy of P1,105,997.32:

Particulars	Per Confirmation	Per Books	Discrepancy
OGCC – Office Rental	5,118,128.50	5,993,105.89	(874,977.39)
OGCC - Electricity	1,346,551.11	2,609,534.12	(1,262,983.01)
LWUA	33,331.66	172,275.62	(138,943.96)
NLRC	1,296,149.40	P125,242.36	1,170,907.04
Total	**7,794,160.67**	**8,900,157.99**	**(1,105,997.32)**

It was also noted that the set-up of receivable amounting to P2,250,000.00 from the lease of the Supreme Court of the Philippines was erroneously recorded in the Subsidiary Ledger (SL) of Supreme Court of the Philippines – Others (136-04-04) instead of the SL for Office Rental (136-04-01).

21.4 ***We reiterated our prior year's audit recommendations that Management:***

a. ***Consider requesting from the Commission on Audit for authority to write off from the books, accounts which qualify for de-recognition pursuant to the guidelines of COA Circular 97-001 dated February 5, 1997 on the Proper Disposition/Closure of Dormant Funds, and COA Resolution No. 2003-002 dated January 30, 2003 on delegation of authority to approve write off of, among others, uncollectible accounts receivable; and***

b. ***Reconcile discrepancies of receivable from leased properties with the lessees and make necessary adjustments, if necessary.***

21.5 Management informed that reconciliation and clean-up process being undertaken and the hiring of the contract of service personnel will facilitate the reconciliation.

22. **Various reconciling items totaling P40.966 million were not adjusted at the end of the year, thus Cash in Bank – Savings and Current Account balance of P36.444 million was not correctly stated. No Monthly Bank Reconciliation Statements (BRSs) for the Foreign Currency Savings Account and no Status of MWSS Special Account Peso Deposit maintained with the Bureau of the Treasury were prepared and submitted contrary to Section 74 of PD 1445.**

22.1 In this year's audit, we noted material variance in the net amount of P40.966 million between the balances of the bank accounts per General Ledger and the bank statements.

Presented below is the comparison of the General Ledger balance of the various cash in bank accounts and the bank statements:

	Per Book	Per Bank	Difference
Cash in Bank – Local Currency, Current Account			
Local C/A – LBP – Katipunan Br – Main Fund	P(3,003,783.45)	P40,482,094.83	P(43,485,878.28)
Local C/A – LBP – KatipunanBr – Corporate Office	28,160,804.80	28,240,583.27	(79,778.47)
Local C/A – LBP – MWSS – MPLP	3,108,194.94	3,109,391.08	(1,196.14)
Local C/A – LBP – MWSS – Trust Account	89,684.29	132,628.13	(42,943.84)
Local C/A – PNB – MWSS Br – Corporate Office	6,010.43	0.00	6,010.43
Local C/A – PNB – MWSS Br – Main Fund	(287,506.71)	0.00	(287,506.71)
Sub-total	**28,073,404.30**	**71,964,697.31**	**(43,891,293.01)**
Cash in Bank – Local Currency, Savings Account			
Local S/A – DBP - Makati Branch	5,902,494.61	2,596,205.16	3,306,289.45
Local S/A – LBP - UP Diliman Branch	544,202.10	544,480.25	(278.15)
Local S/A – PNB – MWSS Branch – Corporate Office PNB	820,421.71	1,234,447.89	(414,026.18)
Local S/A – PNB – MWSS Branch – Main Fund	722,394.85	689,333.37	33,061.48
Sub-total	**7,989,513.27**	**5,064,466.67**	**2,925,046.60**
Cash in Bank – Foreign Currency, Savings Account			
Foreign S/A – BSP Manage by BTr	13,901.23	*13,901.24	(0.01)
Foreign S/A – LBP – Katipunan Br – Main Fund	367,325.51	*367,325.03	0.48
Sub-total	**381,226.74**	**381,226.27**	**0.47**
TOTAL	**P36,444,144.31**	**P77,410,390.25**	**P(40,966,245.94)**

25,394. 08x47.166BSP Exchange Rate (12/29/15)

22.2 Analysis disclosed that the reconciling items of P40,966,246.41 were accounted as follows:

22.2.1 ***On the Cash in Bank – Local Currency, Current Account–variance of P43.891 million -***

Cash in Bank – Local Currency, Current Account			
Bank Account	**Reconciling Item**	**Year**	**Amount**
Local C/A – LBP – Katipunan Br – Main Fund	Unrecorded Credit Memos	2014 & 2015	P(43,427,897.17)
	Bank Error	2013	(57,981.11)
	Sub-total		**(43,485,878.28)**

Cash in Bank – Local Currency, Current Account			
Bank Account	**Reconciling Item**	**Year**	**Amount**
Local C/A – LBP – KatipunanBr – Corporate Office	Outstanding Checks	2015	(58,289.11)
	Unrecorded Interest Income for the 4th quarter	2015	(22,209.68)
	Unrecorded Debit Memo	2015	720.00
	Various JEVs for adjustment due to ETPS	2014 & 2015	0.32
	Sub-total		**(79,778.47)**
Local C/A – LBP – MWSS – MPLP	Unrecorded Interest Income for the 4th quarter	2015	(1,196.14)
	Sub-total		**(1,196.14)**
Local C/A – LBP – MWSS – Trust Account	Outstanding Checks	2015	(42,835.42)
	Unrecorded Interest Income for the 4th quarter	2015	(108.42)
	Sub-total		**(42,943.84)**
Local C/A – PNB – MWSS Br – Corporate Office	Outstanding Checks	2011;2014;2015	(45,901.11)
	Unrecorded Encashed Checks	2010 & 2013	36,911.54
	Bank Error: Check No. 9981 dated 11.19.03 debited twice by the bank in 11.26.03 & 12.29.03	2003	15,000.00
	Sub-total		**6,010.43**
Local C/A – PNB – MWSS Br – Main Fund	Outstanding Checks	2010;2012;2013;2014	(317,874.92)
	Unrecorded Encashed Checks	2013	29,960.69
	Double debited by the bank check no. 179247 dated 10/14/03 (PNB – Fund 05)	2003	(7,936.97)
	Already encashed by the claimant dated 2/24/03 with check no. 171017 same appeared bank statement dated 3/13/03		8,344.49
	Sub-total		**(287,506.71)**
Total			**P(43,891,293.01)**

22.2.2 ***On the Cash in Bank – Local Currency, Savings Account –variance of P2.925 million -***

Cash in Bank – Local Currency, Savings Account			
Bank Account	**Reconciling Item**	**Year**	**Amount**
Local S/A – DBP - Makati Branch	Unrecorded Deposits	2000 & 2003	P(800,644.39)
	Unrecorded Debits	2000;2001;2005	4,110,179.39
	Unrecorded Interest Income for the 4th quarter	2015	(3,245.55)
	Sub-total		**3,306,289.45**

Cash in Bank – Local Currency, Savings Account			
Bank Account	**Reconciling Item**	**Year**	**Amount**
Local S/A – LBP - UP Diliman Branch	Unrecorded Interest Income for the 4th quarter	2015	(278.15)
	Sub-total		**(278.15)**
Local S/A – PNB – MWSS Branch – Corporate Office PNB	Unrecorded Credits	2009;2011;2013	(28,521.52)
	Unrecorded Bank Charges	2012 & 2013	304.50
	Unrecorded Fund Transfer to Current Combo Account in 2007	2007	15,000.00
	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
	Unrecorded payments of PNB for its electric consumption	2015	(132,777.06)
	Unrecorded payments of PNB for its lease of MWSS property	2015	(299,505.42)
	Reversal of Service Charge on RTGS	2015	(251.50)
	Unrecorded Service Charge	2015	2,000.00
	Unrecorded Interest Income for the 4th quarter	2015	(269.89)
	Sub-total		**(414,026.18)**
Local S/A – PNB – MWSS Branch – Main Fund	Claim as double take-up/charging of the bank against MWSS' account	2007 & 2008	33,203.23
	Unrecorded Interest Income for the 4th quarter	2015	(141.75)
	Sub-total		**33,061.48**
Total			**P2,925,046.60**

22.3 On the other hand, variance of P535,284 between the book balance and the bank balance of the account Cash in Bank - Time Deposit was noted. Cash in Bank - Time Deposit maintained with Authorized Government Depository Banks and the non-authorized government depository banks (closed accounts) showed unreconciled discrepancies with details as follows:

	Book Balance	Bank Balance	Discrepancy
PNB – Local Currency, Time Deposit	P(488,502.91)	0.00	P(488,502.91)

	Book Balance	Bank Balance	Discrepancy
PNB – Foreign Currency, Time Deposit	(21.59)	0.00	(21.59)
	(488,524.50)	**0.00**	**(488,524.50)**
Local Currency, Time Deposit			
DBP	836,123,963.50	836,128,898.84	(4,935.34)
LBP	1,811,624,350.92	1,811,665,362.53	(41,011.61)
Foreign Currency, Time Deposit			
LBP	1,196,924.11	1,197,737.18	(813.07)
Sub Total	2,648,945,238.53	2,648,991,998.55	**(46,760.02)**
Total	**2,649,433,763.03**	2,648,991,998.55	**P(535,284.50)**

22.4 Further, we noted non-submission of Bank Reconciliation Statement (BRS) in violation of Section 74 of PD 1445. MWSS maintained foreign currency savings account with the Bangko Sentral ng Pilipinas, managed by the BTr, and the LBP. Despite previous year's audit recommendation on the submission of BRS for the said foreign currency accounts, Management had not complied with the submission as required in Section 74 of PD 1445. Further, no monthly Status of MWSS Special Account-Peso Deposit was submitted with regard to the MWSS Special Account – Peso Deposit Account maintained with the BTr.

22.5 ***We reiterated our prior years' audit recommendations for Management to:***

a. ***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; if any discrepancies are noted in the future, it is advised that Management promptly notify the concerned banks so that discrepancies can be immediately addressed;***

b. ***For recurring bank reconciling items, verify their existence and validity and provide the concerned depository banks with schedule of bank reconciling items for the purpose of reconciliation and make necessary adjusting entries, if necessary; and***

c. ***Prepare BRS on all local/foreign currency savings accounts at the end of each month in compliance with Section 74 of PD 1445.***

23. **Documentation on the reversion of intra-agency payables to government agencies (GSIS, Pag-ibig and Philhealth) in MWSS CO books totaling P2.047 million in CY 2014 remained unsubmitted for audit, thus, the validity of the reversal was not ascertained.**

23.1 Our audit disclosed that Intra agency payable - Due to GSIS, Pag-ibig and Other Agencies totaling P2.047 million were revered/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

23.2 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 reverted. Instead, the amounts should be remitted to the concerned agency.

23.3 ***We recommended and Management agreed to require the Finance department to analyze the payable accounts and submit documents supporting the reversion made in CY 2014 for audit purposes.***

23.4 No Management comment was received.

24. **Contract for the security services of Catalina Security Agency covering the period December 2014 to November 2016 was found non-compliant with the Revised Implementing Rules and Regulations (RIRR) of RA 9184, to wit: a) the prescribed timelines or period of action required under Section 38.2 was not complied with, b) documents required in various Sections were not submitted and c) the Abstract of Bid as Calculated was not prepared pursuant to Section 32.3.**

24.1 Review of the contract for security services was anchored on the following provisions of the RIRR of RA 9184:

a. Section 38.2 set forth in Annex C of the /rIRR the computation of the latest allowable time for a period of action on the procurement of goods.

b. Sections 20.1 and 20.2 provide that prior to the advertisement or the issuance of the Invitation to Bid for each procurement undertaken through a public bidding, the BAC, through its Secretariat, shall call for a pre-procurement conference except for small procurements, i.e., procurement of goods costing Two Million Pesos (P2,000,000.00) and below.

c. Section 32.3 which states that *"After all bids have been received, opened, examined, evaluated, and ranked, the BAC shall prepare the corresponding Abstract of Bids".*

24.2 Audit of the supporting documents to the contract for security services showed deficiencies as discussed below.

24.2.1 The prescribed timelines or period of action required under Section 38.2 of the IRR of RA 9184 was not complied with. The procurement activities for the contract of security services exceeded the latest allowable 142 calendar days for the procurement of goods and services.

24.2.1.1 Using the table in Annex C, the allowable time for the procurement of the security services was 142 calendar days computed as follows:

Activity	**No of days**
Latest allowable time per Annex C	124
Additional number of days in case of GOCCs for the issuance of Notice of Award by higher authority per Sec.37.1.2	8
Additional number of days in case of GOCCs for the approval of the contract by higher authority per Sec.37.3	10
Total	142

24.2.1.2 Comparison of the procurement timeline's latest allowable time provided by the GPPB on the procurement of goods and the actual procurement activities showed the following results:

Activity	Should be	Actual	No. of days delay
Advertisement	6/30/2014	6/27/2014	
Pre-bid Conference	8/2/2014	7/30/2014	
Submission of Bids	8/14/2014	8/13/2014	
Bid Evaluation	8/21/2014	8/13/2014	
Post-qualification	9/20/2014	9/9/2014	198 days
Issuance of Notice of Award	10/5/2014	10/17/2014	
Contract Preparation and Signing	10/15/2014	12/15/2014	
Issuance of Notice to Proceed	11/12/2014	1/12/2015	

24.2.1.3 As shown in the table above, the activities from the advertisement to the post qualification 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	
Issuance of Notice of Award	10/5/2014	10/17/2014	11 days
Contract Preparation and Signing	10/15/2014	12/15/2014	60 days
Issuance of Notice to Proceed	11/12/2014	1/12/2015	60 days

24.2.2 Supporting documents showed that only an Abstract of Bid as Read was submitted. The Abstract of Bid as Calculated was not prepared pursuant to Section 32.3 of the IRR of 9184.

24.2.3 Documents required in various Sections of RA 9184 were not submitted as follows:

a. Project Procurement Management Plan; (*Section 7.3.2*)
b. Minutes of Pre-procurement Conference; (*Section 20*)
c. Abstract of Bids as calculated; (*Section 32.3*)
d. Certification from Head of BAC Secretariat on the posting at conspicuous place within 7 calendar days of advertisement, notice of award and notice to proceed; (*Section 21.2.1 for Advertising and Posting of ITB and Section 37.1.6 for Award*)
e. Notification of Bidding Results to the Bidders as required under Section 37.1.2 of RA9184; (*Section 37.1.2*) and
f. Notice of Post Qualification (*Section 34.2*).

In reply to the request for submission of the above-mentioned documents, the Manager, Property Management Department informed that the required documents have not been prepared.

24.2.4 We also observed that the issuance of the revised bidding documents for free to participating bidders on the rebidding of the security services was not supported with authority from the Bids and Awards Committee (BAC).

a. Records of the BAC on the issuance of Bid Documents and per Pre-bid Conference's Minutes of meeting, showed that the following interested bidders purchased the new bidding documents, for the 2nd bidding on Multi-year Security Services, as follows:

Name of interested bidder	Date purchased
Catalina Security Agency	June 24, 2014
Lockheed Security & Investigation Agency, Inc.	July 3, 2014
Bessang Pass Security Agency	July 15, 2014
Star Special Corporate Security Mgt. Inc.	July 28, 2014

b. However, no collection was recorded in the books pertaining to such purchase of bidding documents for the second bidding. The above mentioned four bidders were the same bidders who purchased the bidding documents amounting to P25,000.00 each and who have been declared eligible bidders from the first bidding, but were later declared not complying with the technical requirements of the TOR during bid evaluation.

c. Inquiry with members of BAC Secretariat revealed that the revised bidding documents for the 2nd bidding were given for free to four bidders. However, there was no document submitted that it was approved by the BAC.

24.3 ***We recommended that Management:***

a. ***Strictly comply with the provisions under Section 38.2 of the IRR of RA 9184 on the period of procurement activities for goods and/or services, Section 20 for the conduct of pre-procurement conference required for procurement of goods costing above P2 million, and Section 32.3 with respect to the preparation of the Abstract of Bid as Calculated;***

b. ***Ensure that all reporting requirements required in the IRR of RA 9184 are complied with; and***

c. ***Submit BAC Resolution authorizing the non-collection of payment from the purchase of new bidding documents by interested bidders for the 2nd bidding.***

24.4 No Management comment was received.

25. ***Accounts Payable-Accrued* was overstated by P915,436 due to error in the accrual of the obligations for security services and booking up of the accrual for consultancy services with no contract.**

25.1 Paragraph 91 of the Framework provides that "In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognized as liabilities in the financial statements."

25.2 Review of the accruals for CY 2015 disclosed an overstatement in the amount of P0.915 million consisting of the following:

Particulars	Amount
Security services	P553,468.58
Consultancy services	50,000.00
Printing of annual reports	311,967.00
Total	P915,435.58

25.3 The accrual for security services for the period Nov. 1 – December 31, 2015 under JEV 2015-12-005092 and 2015-12-005124 was not supported with billing statements, thus the amount obligated was not accurate. As a result, the examination of subsequent payments in the 1st Quarter of 2016 revealed that the amount accrued in 2015 was overstated in the amount of P553,468.58, details shown in the table below.

Assigned Area	Payments made on CY 2016 for November to December 2015	
	Check no.	**Amount**
MWSS La Mesa Dam, Macabud Det.,Ipo Dam, Wawa Dam and Laiban Dam	521214, 521215, 521216, 521217	P2,116,917.18
MWSS Main Office and Balara Filtration	519854, 519855, 519856, 519857	1,722,901.41
MWSS Umiray Transbasin Project	519850, 519851, 519852, 519853	262,158.28
Total		**P4,101,976.87**
Accrued Amount per SL		**4,655,445.45**
Under(Over) Accrual of security services		**P(553,468.58)**

25.4 Also, the accrual of consultancy service in the amount of P50,000 under JEV-2015-12-005122 was not supported with contract and proof that services were rendered by the consultant.

25.5 Furthermore, the contract for the design, layout, and printing of Annual Reports for CYs 2014 and 2015 in the amount of P311,967 was already obligated in CY 2015, however, delivery was unlikely as the contract remained unsigned as of year-end. It was only signed/notarized on January 7, 2016.

25.6 ***We recommended and Management agreed to:***

a. ***Require the Finance Department to ensure that all obligations are supported with documents as provided under Section 4(6) of PD 1445 to avoid excess obligation;***

b. ***Recognize as liabilities at the end of the year goods and services which have been delivered and rendered in accordance with paragraph 91 of the Framework; and***

c. ***Prepare the necessary adjusting entry to correct the overstatement of Account Payable – Accrued and the Security Service Expense***

B.2 Reiteration of Prior Years' Audit Observations and Recommendations - MWSS RO

1. **The validity of PPE accounts costing P147.590 million (exclusive of Building costing P2.815 million) as of December 31, 2015 remained doubtful mainly due to:**

   a. Exclusion of assets related to the Public Assessment of Water Services (PAWS) Project totaling P119.359 million in the Physical Inventory Report;

   b. Non-reclassification of unserviceable assets in the amount of P777,722 from PPE accounts to Other Assets account and non-recognition of impairment loss as provided for in PAS 36 on Impairment of Assets; and

   c. Improperly accomplished Inventory Reports as there was no certification from the in-charge of the Inventory Committee and no approval by the Agency Head.

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

1.1.1 ***Exclusion of the PAWS Project assets totalling P199.359 from the Physical Inventory Report***

a. Review of the December 31, 2015 Inventory report showed that assets related to the Public Assessment of Water Services (PAWS) Project Cost composing of IT Equipment/Software and Technical and Scientific Equipment acquired in September 2003 were not included in the Physical Inventory Report. The lapsing schedule as of December 31, 2015 showed that the said equipment were already fully depreciated.

b. However, the PAWS assets were listed as part of the Summary of Count Results (a document that accompanied the Inventory Report when it was submitted on January 28, 2016). In said document, the amount of P119,359,013.22 **was deducted from the book balance to show reconciliation with the Inventory Report, thus** creating doubt as to the physical existence of the asset.

c. Considering that the equipment have not been disposed of even if unserviceable, the same should have been included in the Inventory Report if found existing during the conduct of the physical inventory taking. Its non-inclusion put into question the existence of the IT Equipment/Software and Technical and Scientific Equipment.

1.1.2 ***Non-reclassification of unserviceable assets in the amount of P777,722 from PPE accounts to Other Assets account and non-recognition of impairment loss as provided for in PAS 36 on Impairment of Assets*.**

a. PAS 36 on Impairment of Assets 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**. Impairment is define 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.

b. Review of the physical inventory report showed the existence of unserviceable assets totalling P777,721.86 which remained recorded under the PPE account instead of the Other Asset account, details shown below:

Account Code	Account	Amount
221	Office Equipment	P 26,024.94
223	IT Equipment and Software	317,515.59
235	Sports Equipment	122,372.00
240-4	OM & E – Audio Visual	311,809.33
	Total	**P 777,721.86**

1.1.3 ***Non-disposal of the abovementioned unserviceable assets, resulting in further deterioration of the assets***

a. The Manual of Disposal of Government Property provides that 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.

b. Item IV of COA Circular No. 89-296 dated January 27, 1989, squarely lodged full and sole authority and responsibility to heads, among others, of the governing bodies or managing heads of government-owned or controlled corporations and their subsidiaries the divestment or disposal of property and other assets owned by government-owned and/or controlled corporations and their subsidiaries.

c. We noted that the assets identified as unserviceable during the conduct of the inventory as reported in the ***Physical Inventory Report*** were not immediate disposed pursuant to The Manual of Disposal of Government Property and Item IV of COA Circular No. 89-296.

1.1.4 ***The Physical Inventory Report was not accomplished properly as required under Item V (4) of COA Circular No. 80-124.***

a. Item V (4) of COA Circular No. 80-124, dated January 18, 1980 provides, *All inventory reports shall be prepared on the prescribed form* ***and certified correct by the committee in charge thereof****, noted by the Auditor and* ***approved by the head of the agency****. The reports shall be properly reconciled with accounting and inventory records." (emphasis ours)*

b. The submitted Inventory Report did not include the required certification by the committee in charge of the inventory count and approval by the head of the agency.

1.2 ***We recommended and Management agreed to:***

a. ***Include the IT equipment in the Inventory Report with information on the current condition, e.g. Serviceable or Unserviceable, and the location of the asset;***

b. ***Reclassify all unserviceable assets to the Other Assets account;***

c. ***Facilitate the immediate disposal of the unserviceable assets in accordance with the Manual of Disposal of Government Property; and***

d. ***Submit properly accomplished Physical Inventory Report pursuant to COA Circular No. 80-124.***

2. **The Accounts Payable balance totalling P91.577 million was unreliable due to:**

a. **Inclusion of amounts due to officers and employees of P48.420 million without supporting documents and negative amounts of P3.281 million which reduced the ending balance to P45.139 million; and**

b. **Accrual of expenses totaling P22.460 million for goods not yet delivered and services not rendered at year end including expenses of P1.960 million already paid.**

2.1 Our audit was guided by the following:

a. Paragraph 91 of the Framework provides that "In practice, obligations under contracts that are equally proportionately unperformed (for example, liabilities for inventory ordered but not yet received) are generally not recognized as liabilities in the financial statements."

b. Section 4(6) of PD 1445, otherwise known as the Government Auditing Code of the Philippines, which states that *"Claims against government funds shall be supported with complete documentation."*

c. Paragraph 60 of the same Framework also states, "An essential characteristic of a liability is that the entity has a present obligation."

2.2 The Payable accounts as of December 31, 2015 showed a balance of P91,576,929.09 with details as follows:

	Amount
Vouchers Payable	P1,769,182.01
Accrued expenses – CY 2014	19,568,481.46
CY 2015	25,011,171.07
Due to Officers and employees	45,139,199.37
Interest Payable	88,895.18
Total	P91,576,929.09

2.3 Our examination disclosed that the accrued payables included amounts due to officers and employees without supporting documents and a negative account balance, as discussed below.

a. The Due to Officers and Employees (403) account in the amount of P45,139,199.37, consisted of the following:

Acct Code	Account	Amount
403-1	Due to Officers and Employees-Payroll	P(3,281,295.00)
403-2	Due to Officers and Employees- Claims	48,378,262.02
403-3	Due to Officers and Employees- Others	42,232.35
	Total	**P45,139,199.37**

b. Account 403-1 consistently reported the same abnormal or debit balance at year-end that slightly reduced the ending balance. This is an observation brought to the attention of Management since CY 2013.

c. Account 403-2 consisted mostly of payments for terminal pay and last salaries/allowances, payroll register adjustments, accrual of PBB, terminal leave pay adjustments and reimbursement of mobile phone charges. Management has not provided any breakdown of the Account 403-2 balance necessary to establish any present obligation or to warrant recognition as of year-end pursuant to Paragraph 60 of the Framework for the Preparation and Presentation of Financial Statements.

d. Account 403-3 showed no recorded transaction for the last three years.

2.4 We also noted accrual of expenses for goods not yet delivered and services not rendered and already paid, as follows:

a. The accrued expenses for CY 2015 totaling P25,011,171.07, are shown with details below:

Account	Amount
Extraordinary and Miscellaneous Expense (EME)	P1,649.00
Electricity expenses	516,448.87
Gasoline, oil and lubricants	85,098.80
Telephone Expenses – Landline	10,084.40
Telephone Expenses – Mobile	22,145.34

Account	Amount
Representation expenses	18,810.00
Security Services	179,518.26
Janitorial Services	132,064.00
Consultancy Services	12,708,863.00
Procurement of Goods	11,336,489.40
Total	**P25,011,171.07**

2.5 Further examination of the documents showed the accrual of expenses totalling P22,459,804.08 for goods not yet delivered and services not rendered as presented below:

a. The obligation for the procurement of goods totalling P11,336,489.40 was not supported with delivery receipts and/or Inspection and Acceptance Reports (IARs) to prove that goods were already received by RO at year end.

b. The consultancy contract with Test Consultants, Inc. (TCI) for the Technical Audit and Evaluation of MWCI and MWSI CAPEX Programs and Projects with total amount of P11,916,968.00 was obligated in full. However, the contract provides that the deliverable as of December 31, 2015 was the submission of an inception report in the amount equivalent to 25 percent of total remuneration less recovery of advance payment, or P1,191,696.80 as the value of the contracted services as at year-end. There was no document submitted to prove that the inception report was submitted within the required due date. Moreover, the consultant was already paid an advance payment of P1,787,545.20 on November 2, 2015, thus there was no need to obligate the total amount.

c. Other contracts totaling P648,750.00 were also not supported with documents to prove that services were rendered as of year-end, to wit:

Contract No.	Particulars	Amount
ROCS 2015-02	ISSP Project	P300,000.00
ROCS 2015-03	QMS-ISO	348,750.00
Total		**P648,750.00**

d. There were also no documents submitted to support the accuracy of the electricity expenses for the period October 26, 2015 to December 25, 2015 totalling P343,492.88 and the EME accrual of P1,649.00.

e. The practice of recording the obligation as outright Accounts Payable even without the actual delivery and rendition of services overstated the year-end balance of the account.

2.6 We also noted that accrued expenses of P1,960,501.19 were already paid but still included in the Accounts Payable, as discussed below:

a. Electricity expenses of P516,448.87 included the amount of P172,955.99 covering the period September 26, 2015 to October 25, 2015 already paid by RO to the MWSS Corporate Office on December 10, 2015; and

b. Advance payment for consultancy services included P1,787,545.20 already paid on November 2, 2015 to the consultant as discussed in finding 2(ii) above.

2.7 ***We recommended that Management require the Finance Department to:***

a. ***Determine the validity of the undocumented Due to Officers and Employees account - claims; analyze the abnormal balance and effect the necessary adjusting entry, if warranted;***

b. ***Substantiate the accrued expenses with valid and complete supporting documents to support the validity of the recorded liabilities; Revert immediately those invalid and non-existing payables;***

c. ***Ensure that only liabilities for which goods have been delivered and services rendered are recognized in the books; and***

d. ***Prepare the necessary adjusting entries for accrued expenses that were already paid.***

3. **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) remained unrefunded by UP to MWSS RO although the project was completed in CY 2011.**

3.1 In the Annual Audit Report for CY 2014, we recommended that Management demand for the immediate refund of the unexpended balance of advances to UP.

3.2 In the Agency Action Plan and Status of Implementation, Management informed that a letter dated February 18, 2015 was sent to UP-NEC requesting for an updated Financial Report to be able to ascertain the amount of the unexpended balance of the PAWS Fund. In a reply dated April 24, 2015 from UP-NEC, a request reiterating the realignment of the funds was again made citing the chronology of events that led to a proposed project extension caused by the El Nińo phenomenon. However, on March 14, 2016, a final demand for the refund of P5.967 million was made by MWSS RO citing the recommendation of COA as the most prudent course of action to finally settle the issue at hand.

3.3 ***We recommended that Management provide time-bound action plan to settle the issue with UP NEC for the return/refund of the outstanding balance from the PAWS project.***

3.4 Management informed that they are exerting all efforts to close the issue on the outstanding cash advances from UP NEC and in fact has sent a final and inextendible demand for the refund of the amount. However, the PAWS Project Manager requested for some documents and a meeting with the Chief Regulator and the members of the MWSS Board of Trustees.

On the other hand, the Audit Risk Management Committee of the Board of Trustees has directed the Regulatory Office to provide a chronology of events/facts pertaining to the PAWS project on May 2, 2016.

4. **Due to GSIS, PAG-IBIG, Philhealth and other Funds carried negative balances totalling P100,314 and P686,846, respectively, indicating over-remittances to the concerned agencies and/or errors in the computation of amount dues.**

4.1 Various negative account balances of P100,314.11, on the Due to GSIS, PAG-IBIG and Philhealth which reduced the account balance, pertained to prior year balances which have remained unreconciled and unadjusted. Details as follows:

Account Code	***Account Name***	**CY 2015**
412-3	Due to BIR - VAT Professionals	P 18,854.66
412-5	Due to BIR – Final VAT Withheld	54,614.00
413-3	Due to GSIS – State Insurance	511.70
414-3	Due to PAG-IBIG – Employee Loans	498.75
415-1	Due to PHILHEALTH-Gov't. Share	25,835.00
Total		**P 100,314.11**

4.2 Similarly, the Due to Other Funds account (424) showed the following abnormal debit balances:

Account Code	***Account Name***	***Ending Balance***
424-2	Due to Other Funds-WF Empl. Share	P 89,685.86
424-3	Due to Other Funds-WF Empl. Loans	562,349.75
424-3 INS	Due to Other Funds-WF Empl. Ins	34,810.43
Total		**P 686,846.04**

4.3 Analysis showed that these accounts pertained to prior years' transactions which remained unreconciled. This reduced the account balance.

4.4 ***We reiterated our prior years' audit recommendation and Management agreed to analyze the accounts with abnormal balances and effect adjusting/correcting entries, if warranted.***

B.3 Reiteration of Prior Years' Audit Observations and Recommendations Common to MWSS CO and RO

1. **The collection efficiency of *Due from Officers and Employees and Loans Receivables – Others* with year-end balances totalling P85.130 million remained low due to the Management's decision of allowing loan payment at the debtor's discretion and not on the agreed monthly amortization; the inaction of Management to recover the receivables totaling P14.333 million from debtors no longer connected with MWSS; inclusion of dormant accounts totalling P7.24 million; and non-collection of the P25 million seed money granted to MWSS Multi-Purpose Cooperative.**

   Moreover, the subsidiary ledgers showed abnormal balances totaling P2.632 million rendering the balances questionable.

   1.1 The year-end balance of *Due from Officers and Employees and Loan Receivables – Others* accounts showed an aggregate balance of P85.130 million for CY 2015. Details are as follows:

Account	Corporate Office	Regulatory Office	Total
Due from Officers & Employees(pertaining to loans)	P35,196,411.30	0	P35,196,411.30
Loans Receivable – Others	6,712,933.09	43,220,934.25	49,933,867.34
Total	P41,909,344.29	P43,220,934.25	P85,130,278.54

   1.2 Analysis revealed that the collectability of the receivables/due from incumbent and former MWSS RO officers and employees was low and doubtful for the following reasons:

   1.2.1 ***MWSS Corporate Office –***

   1.2.1.1 The collections for the housing and car loans during the year amounted to P2,727,461.37 or equivalent to only 8 percent of the total housing and car loan receivables of P35,402,285.73 due to Management's decision allowing the payment of the loans at the debtor's discretion and not on the agreed monthly amortization.

   We noted that the Human Resources Department (HRD) conducted a survey regarding the desired amount each employee may want to deduct from his/her salary for the payment of contracted loans. Initially, deduction for all loans should not be less than P500/month, but there were employees who desire a P100.00/month deduction. The HRD contradicted its action indicated in the Agency Action Plan and Status of Implementation (AAPSI) wherein Management informed that it will abide with the audit recommendation to 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.

1.2.1.2 Total collections of P2,778,098.79 was sourced from the following:

Particulars	Amount		Total
	Housing & Car Loans	Others Receivables	
Collection from incumbent employees	1,711,237.46	47,437.42	P1,758,674.88
Retired/resigned employees	1,016,223.91	3,200.00	1,019,423.91
Total	**P2,727,461.37**	**50,637.42**	**P2,778,098.79**

1.2.1.3 The outstanding balances from officers and employees who are no longer connected with MWSS totaled P14,333,088.51 or 34 percent of the total receivables of P41,909,344.39. Also of this amount, 40 percent or P5,771,004.35 was outstanding for more than eight years. For the past several years, MWSS has not taken any action to recover the amount due from them.

1.2.1.4 Included are dormant accounts totaling P7,240,315.07 which were dormant for almost two to five years.

Account Title	Account No.	Amount	Dormant Since	Years
Terminal Pay	123-03	5,823,391.79	2010	5
Cellphone	123-05-02	(3,876.14)	2010	5
Miscellaneous	123-05-05	43,400.00	2011	4
Housing Loan	126-01-01	711,122.52	2013	2
Medicard	126-01-04	193,908.04	2012	3
HMI	126-01-05	4,646.81	2013	2
MCMC (B.R. No. 97-002)	126-02-01	467,722.05	2011	4
Total		**7,240,315.07**		

1.2.1.5 We also noted that the subsidiary ledger account balances showed abnormal account balances with an aggregate amount of P2,631,575.08, indicating inaccurate account balance. Likewise, the abnormal balance reduced the account balance. Details are as follows:

Particulars	Amount
Due From Officers and Employees	P2,371,051.85
Loans Receivable – Others	260,523.23
	P2,631,575.08

1.2.2 ***MWSS Regulatory Office –***

1.2.2.1 The year-end balance of loans receivable decreased only by P1,967,447.65 or equivalent to only 5 percent of the total loan receivables of P43,220,934.25 due to Management decision allowing the payment of the loans at the debtor's discretion and not on the agreed monthly amortization;

1.2.2.2 The collection of P1,967,447.65 or the decrease in the Loans Receivable for the same amount, is detailed below:

	Particulars	Amount
1	Collection from eight borrowers no long connected with RO, including the return of one unit Toyota Innova with Plate No. TBI 923 (dacion en pago)	P1,553, 270.52
2	Collection from 23 incumbent Officers and Employees, starting March 2015	262,252.41
3	Adjustments made based on COA confirmed balances in CY 2014	151,924.72
	Total	**P1,967,447.65**

We noted that monthly loan amortizations deducted from the salaries of incumbent officers and employees ranged from P500.00 to P5,000.00 only or an average of around P26,200.00 per month. The payments are quite minimal considering the substantial loan granted to the concerned employees with some reaching up to P1 million for housing loans.

1.2.2.3 The confirmation letters sent to four former employees with total outstanding balance of P1,460,976.45 were either returned to sender or no reply received. The outstanding balances from officers and employees who are no longer connected with MWSS RO totaled P3,612,666 or 8 percent of the total receivables of P43,220,934.25.

1.2.2.4 The low collection rate was also due to the continuous non-payment/refund 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.

1.2.2.5 In the AAPSI, the MWSS RO Management informed that it has recommended to the MWSS BOT that payments thru salary deductions be maintained at present levels so as to avoid a scenario where the take-home pay of the concerned employees will fall below the government prescribed statutory limit of P4,000. However, they committed that the same will be revisited once the SSL 4 or CPCS is implemented. Further, they informed that Deed of Assignments was signed by the employees to authorize the deduction of the loan balances from retirement benefits and for separated employees to submit post-dated checks for their monthly amortizations. On the matter of the P25 million seed money, aside from the Transfer of Certificate of Title of the land being in the possession/custody of the Regulatory Office as security, a demand letter dated December 8, 2015 was served requesting the return/refund of the amount to include the accounting of all expenses incurred/charged against it and submission of documents supporting each and every transaction pertaining to said amount.

1.2.2.6 Again, we found 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.

1.2.2.7 The documents pertaining to the payment of P25 million to RO Multipurpose Cooperative as seed money for the housing program were 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 audit of the MWSS disbursement of funds from CY 2005 to June 30, 2010.

1.3 ***Since this is a reiteration of prior years' audit recommendation, we strongly recommended that MWSS CO and RO Management:***

a. ***Reconsider its decision allowing the payment of loans at 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 reiterated the previous year's audit recommendation to require the Finance Department to reconcile its records and monitor the balances due from employees, officers and non-employees.***

1.5 ***For MWSS RO, we likewise reiterated the previous year's audit recommendation to take immediate legal action to recover from the MWSS Multi-Purpose Cooperative the P25 million seed money.***

1.6 MWSS RO Management informed that they will revisit the paying capacity of the concerned employees once the new Compensation and Position Classification

System is implemented. MWSS CO has not issued any comment on the recommendation.

2. **Deficiencies in the handling, utilization, recording and monitoring of cash accountabilities of the Collecting and Special Disbursing Officers were found in audit.**

2.1 Our audit was guided by the following:

a. Revised Cash Examination Manual prescribed under COA Memorandum 2013-004;

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

Section 4.3.1 thereof which provides that the cash advance shall be sufficient for the recurring expenses of the agency for one month;

Sections 6.1 to 6.3 require the newly designated accountable officer to start with a new cashbook and that all AOs should record all transactions in the cashbook daily, reconcile the book balance with the cash on hand and close the books at the end of each month;

c. COA Circular No. 2012-001 dated June 14, 2012 which requires among the documentary requirements in the liquidation/replenishments of petty cash fund the Petty Cash Vouchers duly accomplished and signed; and

d. COA Circular No. 92-389 dated November 3, 1992 which provides that paid vouchers, including its supporting documents, shall be perforated and conspicuously stamped "Paid" by the Cashier. The stamp shall provide space for the number of the check issued and date of actual payment, and its size should be 2" x 3".

2.2 Review of the collections of moneys received by the Collecting Officer and on the grant, utilization and liquidation of petty cash funds to the Special Disbursing Officers showed that the abovementioned COA Circulars were not followed, as shown in the following observations:

2.2.1 ***On the Collecting Officer's (COs) accountability – MWSS CO***

2.2.1.1 There was a noted delay in the issuance of Official Receipts to PNB, ranging from two months to more than one year, for the payment of rent and utilities due to the practice of the Collecting Officer to issue OR only upon presentation of PNB of the copy of the credit memo for the payment of their dues and the failure to monitor daily cash in bank balance.

Verification revealed that PNB, a lessee of MWSS, pays its monthly rental and electricity bill thru an automatic transfer of funds to MWSS PNB Savings Account. MWSS was not informed by PNB that payment was already made thru fund transfer. It was only when PNB furnished MWSS with a copy of the credit memo, which usually took from two to three months, that MWSS issued an Official Receipt. Hence, there was delay in the issuance of the official receipt by MWSS to PNB.

Particulars	OR No.	Amount	Date of OR	Date credited by the bank	No of days/months delayed
Lease January 2015	1206	99,835.14	1/8/15	1/6/15	2 days
Electric Bill for July 26 – August 25, 2014	185384	20,709.01	1/26/15	11/14/14	2 months & 3 days
Electric Bill for August 26 – September 25, 2014	185385	21,688.83	1/26/15	11/14/14	2 months & 3 days
Electric Bill for March 26 – April 25, 2014	185420	22,853.82	2/16/15	5/29/14	8 months & 23 days
April 26 – June 25, 2014	185421	48,048.68	2/16/15	8/5/14	6 months & 15 days
Lease for March 2015	1256	99,835.14	3/9/15	3/5/15	4 days
Electric Bill for April 26 – May 25, 2015	185683	22,827.76	6/18/15	6/9/15	9 days
Lease for June 2015	2254	99,835.14	6/18/15	6/9/15	9 days
Electric Bill for January 26 – February 25, 2014	185686	21,126.58	6/19/15	4/7/14	1 year and 2 months
Electric Bill for June 26 – July 25, 2014	185687	22,091.52	6/19/15	9/24/14	9 months
Electric Bill for September 26 – October 25, 2014	185688	20,449.05	6/19/15	12/3/14	6 months & 18 days
Electric Bill for October 26 – February 25, 2015	185689	79,957.50	6/19/15	3/9/15	6 months & 12 days

2.2.1.2 There were numerous errors in the recording of collections and in footing total collections and deposits which if remained unchecked may result in having an incorrect/ inaccurate cash book balance, with the following instances:

Date	Particulars	Recorded Amount	Should be amount	Difference
12/15/14	OR No. 1201	341,260.81	341,260.12	0.69
12/16/14	OR No. 185322	18,059.15	18,059.45	-0.30
12/22/14	OR NO. 185332	3,700.96	2,700.96	1,000.00

Date	Particulars	Recorded Amount	Should be amount	Difference
6/11/15	Total deposit	5,989,004.22	5,989,007.22	-3.00
6/12/15	Total collections	107,826.73	128,366.73	-20,540.00
1/31/15	Total collections	519,192,172.13	519,158,637.38	33,534.75
	Total deposit	519,158,637.39	519,158,637.38	0.01
3/31/15	Total collections	23,253,256.88	39,299,121.33	-16,045,864.45
	Total deposit	23,239,756.88	39,299,121.33	-16,059,364.45
5/31/15	Total collections	16,666,485.44	16,463,032.83	203,452.61
	Total deposits	16,666,798.47	16,666,485.47	313.00
6/30/15	Total deposits	107,511,229.06	275,467,789.38	-167,956,560.32
	Total collections	275,901,188.10	275,921,728.10	-20,540.00

2.2.1.3 The Collecting Officer allowed the use of three Official Receipts with Serial Nos. 185851 to 185853 by the MWSS Employees Welfare Fund on September 17, 2015.

It was explained that the ORs were used only by the Welfare Fund in receiving the remittance from MWSS of the employees' payment of car loans. We already called the attention of the Collecting Officer and the remaining unused ORs were returned by the Welfare Fund employee.

2.2.2 ***On the Special Disbursing Officers' (SDOs) accountability - MWSS CO***

2.2.2.1 Expenses totalling P7,881 charged to the Petty Cash Fund (PCF) of an AO for the Corporate Planning Department (Mr. Bautista) are not within the purpose for which the cash advance was established which was to cover food expenses *during meetings and events.* Expenses incurred by personnel in the water meter reading and in the collection of payment from raw water customers under the Finance Department were charged to the fund of Mr. Bautista.

2.2.2.2 Expenses in the amount of P2,672 were charged to the PCF of the AO for Office of the Administrator, Senior Deputy Administrator's Office and the Corporate Planning Department, when these expenses were incurred by other departments - the Property Management Department, Human Resource Department and the Engineering and Property Management Department, that have their own PCF.

2.2.2.3 The PCF of four AOs were found excessive. Analysis of expenses of the various offices of MWSS Corporate Office showed that the average monthly expenditures of the funds are low compared with the petty cash fund, as shown below:

Accountable officer	Amount		Percentage of total PCF
	Petty Cash Fund	Average Monthly Expenditures	
Rowena Pamatmat	70,000	26,950	38
Johnny Emmanuel, Jr.	50,000	13,879	28
Lilybeth Santos	40,000	21,980	55
Kathleen Agullana	20,000	3,031	15

In the case of Ms. Agullana, she was the only personnel assigned in the Internal Audit Department and therefore, it was not necessary that she maintained a PCF.

2.2.2.4 Two AOs namely, Ms. Pamatmat and Mr. Emmanuel, did not maintain pre-numbered Petty Cash Vouchers (PCVs) for disbursements out of the PCF required under COA Circular No. 2012-001. The pre-numbered PCVs were used for the payment of cash advance, but not for reimbursements and other payments.

In the PCF of Ms. Ceguerra, the acknowledgement receipt portion of the PCVs was not signed by the receiving party.

Sound internal control dictates that any payment or disbursement of fund should be supported with corresponding pre-numbered voucher. In this case, the PCF should be supported with pre-numbered PCVs. Vouchers are designed to ensure that all payments or disbursements are valid. In addition, the PCVs are primary tool for the recording of payments or disbursements.

2.2.2.5 Some of the Journal Entry Vouchers (JEVs) and supporting documents, specifically those pertaining to the final liquidation of the fund, were not stamped “Paid” upon release of checks to the payees

The JEVs and supporting documents should be stamped “PAID” in order to avoid reuse to support other expenses or disbursements.

2.2.2.6 In the case of Ms. Pamatmat who was handling the PCF for the Property Management Department, Legal Services Department, Board Secretariat and COA-MWSS, the entries in the cashbook were not correctly written in the proper column.

2.2.2.7 The cashbooks of the following AOs were not updated, did not indicate the balance at the end of each month and not properly closed at the end of the year as required in Sections 6.2 and 6.3 of COA Circular No. 97-002:

a. Loida Ceguerra;
b. Johnny Emmanuel Jr;
c. Rowena Pamatmat;
d. Orlando Bautista; and
e. Merilyn Ortha

Further, the newly designated AO for the Internal Audit Department (Ms. Agullana) continued using the cashbook of the former AO, in violation of Section 6.1 of the said COA Circular. The old cashbook should have been turned over to the Accountant, and Ms. Agullana started with a new one.

2.2.2.8 Special purpose cash advances were granted to Special Disbursing Officers who were not bonded contrary to the provisions under Treasury Circular 02-2009 and COA Circular No. 2006-05, thereby exposing government funds to unwarranted risk of loss.

2.2.2.8.1 Treasury Circular No. 02-2009 emphasizes the importance of the fidelity bond as the fidelity fund shall cover for replacing defalcations, shortages, unrelieved losses in the accounts of bonded public officers, for the payment of fees and costs incident to civil proceedings brought against them to recover the sums paid on their account. The coverage of the bond shall encompass but not limited to those whose nature of duties permits or requires the possession, custody or control of funds or properties for which he is accountable.

2.2.2.8.2 An Accountable Officer whose total cash accountability is not less than P5,000.00 shall be bonded per COA Circular 2006-05 and the amount of bond premium shall be based on the total accountability of the Accountable public officer as determined by the Head of the Agency.

2.2.2.8.3 Monitoring of the grant of cash advances for CY 2015 showed that there were One Time Cash Advances for Special Purposes granted to three Accountable Officers who were not bonded/ insured even though their total cash accountability is not less than P5,000.00; to wit:

JEV No.	Check	Purpose	Amount
05-001928	41269	Strategic Planning on May 21- 22, 2015 at KAMANA Sanctuary Resort and SPA, Subic Bay Freeport Zone	48,400.00
06-002295	41400	To defray expenses for the 1st Stage bid for the AWTIP on June 5, 2015	30,000.00
08-003099	41652	To defray expenses on the purchase of initial disaster kits/GO bag to be distributed to the employees in MWSS' participation to the synchronized Metro-Wide Earthquake Drill on July 30, 2015	10,000.00
		Total	**88,400.00**

2.2.3 *On the SDO's accountability – MWSS RO*

2.2.3.1 Payments out of the PCF exceeded the limit of P15,000 per transaction contrary to COA Circular No. 97-002 and reiterated under Section 1.1.2 of COA Circular No. 2012-001 which states as follows:

> "Xxx..Payments out of the PCF, which shall be made through a Petty Cash Voucher, 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."

For the period under audit, we found various expenses totalling P172,409.61 that exceeded the allowable limit per transaction of P15,000 as shown in the table below:

Date	PCV No.	Payee	Particulars	Amount
January 29, 2015	15-061	Makati Shangrila	Venue for hearing	62,628.23
January 29, 2015	15-061	Makati Shangrila	Venue for hearing	34,941.00
January 30, 2015	A-001	Makati Shangrila	Venue for hearing	33,088.38
February 23, 2015	A-003	Makati Shangrila	Venue for arbitration hearing	41,752.00
Total				**P172,409.61**

2.2.3.2 The PCVs issued by the AO were not pre-numbered and numbering is done only upon processing of documents for replenishment. Assignment of numbers on PCVs is not done prior to release or upon issuance of the PCF in order to monitor and facilitate the accounting of cash disbursed from the fund. Since PCVs were not pre-numbered, it was observed that there were gaps in the PCV series of numbers recorded in the electronic cashbook.

2.2.3.3 The accountable officer maintains an electronic file Cash Book; however transactions were not updated daily as required under COA Circular 97-002 dated February 10, 1997. Sections 6.2 and 6.3 state as follows:

> "6.2 *Xxx..The AO shall record the transactions in the prescribed cashbook daily. He may record each invoice/ receipt/voucher individually or the total disbursements for the day depending on the volume of the transactions.*
>
> *6.3 The AO shall reconcile the book balance with the cash on hand daily. He shall foot and close the books at the end of each month. The AO and the Accountant shall reconcile their books of accounts at least quarterly."*

2.3 ***We recommended and MWSS CO Management agreed to:***

a. ***Regularly monitor the cash in bank balance to check if there were credits to the bank accounts considering that MWSS accepts payments thru bank credits;***

b. ***Require PNB to immediately furnish MWSS with the credit memo once deposit/payment of monthly rentals and utilities is made; and***

c. ***Stop the use of MWSS Official Receipts by the MWSS Employees Welfare Fund, and require the latter to secure its own official receipt.***

2.4 ***We also recommended that MWSS CO and RO Management require their respective SDOs to -***

a. ***Disburse funds in accordance with the nature/purpose and scope provided in MWSS Office Order authorizing the establishment of petty cash funds;***

b. ***Comply with the following COA regulations:***

- ***COA Circulars No. 97-002 on the grant, utilization and liquidation of the cash advance;***

- ***COA Circular No. 2012 -001 particularly Section 1.1.2 thereof, on the documentary requirements in the liquidation of cash advances/petty cash fund; and***

- ***COA Circular No. 92-389 on the requirement that all vouchers and supporting documents should be stamped "Paid";***

c. ***Reduce the amount of the PCF of the AOs to such amount necessary to cover petty expenses for one month as provided in Section 4.3 of COA Circular No. 97-002;***

d. ***Consider closing the PCF maintained by Ms. Agullana and consolidate it with the fund handled by the other SDOs; and***

e. ***Require adequate bonding of all Accountable Officers in accordance with COA Circular No. 2006-5 and Treasury Circular No. 02-2009.***

3. **MWSS had no approved plans and programs for GAD for CY 2015 required under EO 273 to address GAD issues in the workplace.**

3.1 PCW Memorandum Circular 2013-02 required all concerned agencies to submit the CY 2015 GAD Plan and Budget (GPB) on February 28, 2014 in compliance with the implementation of EO 273.

3.2 We noted that at MWSS CO, there was no approved GAD Plan and Budget for CY 2015.

3.3 At MWSS RO, we observed the following:

3.3.1 The MWSS RO had not submitted their CY 2015 GPB to PCW as required under PCW Memorandum Circular 2013-02. The GAD budget for the year totaled P1,040,000 equivalent to 0.67 per cent of the total approved Corporate Operating Budget of MWSS-RO of P154,760,000.00, contrary to Section 6 of the Joint Circular.

3.3.2 The Annual GAD Accomplishment Report showed that GAD activities and fund utilization were not maximized. Of the total budgeted GAD fund of P1,040,000, the actual disbursement in CY 2015 amounted to P675,787.14, or 65 percent utilization, leaving an unutilized amount of P364,212.86.

3.4 ***We recommended and Management agreed to comply with the provision of EO 273 on the institutionalization of the GAD plans and programs in MWSS.***

4. **No elimination of reciprocal accounts was effected in the consolidation of the 2015 financial statements of the MWSS CO and RO, due to unreconciled balance of P142.556 arising from:**

a. **Non-settlement of the issue on the unremitted share of MWSS RO in the Concession Fees for CY 2014 in the amount of P142.009 million; and**

b. **Non-accrual of expenses by the RO which was paid by CO totalling P0.547 million.**

4.1 The reciprocal accounts to be eliminated in the consolidation of the MWSS financial statements are shown below:

Particulars	Nature	Corporate Office (CO)	Nature	Regulatory Office (RO)
Shared expenses paid by Corporate Office	Asset	Due from RO (143)	Liability	Due to CO (421)
Concession fees received from the two concessionaires (MWSI and MWCI) for the Corporate Operating Budget of MWSS and for the term extension of the contract.	Liability	Due to RO (423)	Asset	Due from CO (141)

4.2 Analysis of the reciprocal accounts, which should have a zero balance after consolidation, showed the following amounts were not eliminated at the end of the year:

CO Books		RO Books	
Asset - Due from R.O. (143)	547,114.16	Liability - Due to C.O. (421)	0
Liability - Due to R.O. (423)	142,008,664.45	Asset - Due from C.O. (141)	142,008,664.45

4.3 The uneliminated amount of P142,008,664.45 as shown in the table above pertained to the balance of the Concession Fess for CY 2014 which were not closed due to expectations that there may be charges to be made between RO and CO accounts.

4.4 On the other hand, the P547,114.16 variance pertained to electricity expenses billed by CO to RO but were not recorded as payable or due to the CO by RO.

4.5 Because of the non-elimination, the total assets and total liabilities were not correctly stated.

4.6 ***We recommended that Management:***

a. ***Reconcile immediately the discrepancies between the reciprocal accounts to come up with reliable account balances in the books of both MWSS CO and MWSS RO; and***

b. ***Require the Finance Department to periodically reconcile and analyse the reciprocal accounts to preclude any discrepancy and ensure proper elimination in the consolidated financial statements.***

4.7 Management informed that the adjustments to the accounts will be made in May 2016.

C. Internal Control Evaluation – MWSS CO

1. **Due to lapses in the agency's asset management system and the absence of effective and efficient internal control on the verification of the physical existence of MWSS properties, the accuracy of the physical inventory report on building and other structures with carrying value of P26.106 billion was not ascertained.**

1.1 In the audit of PPE accounts, the following have been noted:

a. The incomplete physical inventory taking in previous years resulted in non-detection that several water distribution facilities, recorded in the books with total carrying value of P371.230 million, did not exist and could not be located due to incomplete data.

b. The result of physical inventory taking in CY 2015 showed that retained assets with carrying amount of P79.491 million were reportedly used by the Concessionaires and the Common Purpose Facilities (CPF);

c. The property accountabilities of the two Concessionaires at the onset of the MWSS privatization of its water distribution operations was not ascertained due to the non-submission/lack of a detailed list or inventory of assets turned-over to the Concessionaires; and

d. There were dilapidated underground water facilities with carrying amount of P8.174 million still recorded in the books.

1.2 Section 2 of PD 1445 confers upon the Head of the Agency the fiscal stewardship of government resources to ensure that all resources of the Government shall be managed with a view of ensuring efficiency, economy and effectiveness in its operations.

1.3 A critical element of internal control involves the periodic checking that the information shown in the property record system corresponds to the actual assets reported to be existing. The scope of this responsibility is not limited to the traditional financial and administrative controls, but also covers the broader concept of management and operations controls. This also extends to the agency's function to evolve a system of evaluation and to implement appropriate corrective measures on observed weaknesses or breakdowns. *(COA Manual on Property and Supply Management)*

1.4 As an asset-based agency, MWSS registers a large number of asset classes that range from small-value general administrative equipment to complex and high-value government resources which include land and land rights, buildings and other structures and the largest among them are the service concession assets assigned to the concessionaires by virtue of the Concession Agreement with MWSI and MWCI.

1.5 The Property Management Department is the functional unit tasked to monitor and control all MWSS properties. This includes acquisition, inspection, maintenance, insurance, proclamation of watershed, prevention of squatters and disposal of non-operating assets of MWSS.

1.6 Over the years, the failure of Management to conduct and render a **complete and timely** report on the periodic physical-inventory taking has been one of the perennial audit issues contained in the Annual Audit Report on MWSS.

1.7 In CY 2015, the Property Management Department (PMD) created a committee tasked to conduct physical inventory and prepare a report on the results thereon. For the purpose of distinction, MWSS' PPE can be broadly classified as follows:

a. Service Concession Assets – These include land and land rights, buildings and other structures:
   - Assigned to Concessionaires;
   - Assigned to Common-Purpose Facilities (CPF)
   - MWSS-retained assets

b. General Administrative Equipment (GAE) – These include old GAEs prior to MWSS' privatization; and GAEs acquired thru projects implemented by MWSS:
   - Turned over Old GAEs to Concessionaires;
   - Turned over Project GAEs to Concessionaires;
   - MWSS-retained old GAEs; and
   - MWSS-retained Project GAEs

1.8 The report of the physical inventory taking of retained assets- building and other structures totalling P2.959 billion showed that the physical existence of assets with carrying amount of P458.895 million could not be ascertained, as shown in the following results:

Status Report of Retained Assets	**Carrying Amount**		**Total**
	Buildings	**Other Structures**	
Existing with no other remarks	122,349,659.97	2,377,909,663.12	2,500,259,323.09
Inexistent	181,007.87	314,464,442.65	314,645,450.52
Existing and used by the Concessionaires	17,393,542.95	57,994,455.39	75,387,998.34
Cannot be located, needs specific location and description	0.00	56,585,030.87	56,585,030.87
Indeterminate	0.00	7,444,413.13	7,444,413.13
Existing and operated by CPF	0.00	4,102,612.95	4,102,612.95
Existing but dilapidated, abandoned or remnants	280,050.00	169,171.44	449,221.44
Inexistent: Replaced/Decommissioned by Concessionaires)	247,600.00	32,673.39	280,273.39
Subtotal	**18,102,200.82**	**440,792,799.82**	**458,895,000.64**
Total	140,451,860.79	2,818,702,462.94	2,959,154,323.73

1.9 From the report of physical inventory taking, we observed that assets totalling ₱371.230 million no longer existed as these could not be located due to incomplete information. This clearly disproves management's assertion of the existence of asset and showed the absence of the critical element of internal control that the property records correspond to the actual assets reported to be existing. This consisted of the accounts discussed below.

1.9.1 ***Non existing assets of P314.645 million -***

MWSS-retained assets with a carrying amount of ₱314.645 million were found to be inexistent but still recorded in the books of accounts. These are the following assets:

Description	Acquisition cost	Accumulated depreciation	Net carrying amount
Other Structures			
Gauging at Tanay, Rizal	695,608,010.60	381,506,270.01	314,101,740.59
Miscellaneous other structures	6,410,486.94	6,047,784.88	362,702.06
Office Buildings			
1 Hanging Cabinets-Recruitment & Employment Div, Personnel Mgt. Dept	125,000.00	118,633.96	6,366.04
1-B107N-00092 Paco Br Off	29,179.21	27,720.25	1,458.96
1-B107N-00093 Cubao Br - Old	640,000.00	608,000.00	32,000.00
Renovation/Modification of Former one(1) storey laboratory bldg at MWSS Arroceros Cmpd. Mla	192,225.97	96,531.85	95,694.12
1-B107N-00096 Painting of Official Quarters along 1-B107N-00096a Carriedo & L. Wood	13,775.00	13,086.25	688.75
1-B107N-00095 Clinic (Bicti)	896,000.00	851,200.00	44,800.00
Sub-total	1,896,180.18	1,715,172.31	181,007.87
Total	**703,914,677.72**	**389,269,227.20**	**314,645,450.52**

1.9.2 ***Assets that could not be located due to incomplete data in the amount of P56.585 million -***

The Inventory Committee was unable to locate retained assets amounting to ₱56.585 million citing that they need more specific property description and location as reference. These are the following:

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
W&F (MWSP II)-Cogeo, Antipolo, Rizal GSWP	154,164.40	139,133.47	15,030.93
W&F (MWSP II)-Sumulong H-Way, Marikina	41,357.30	37,324.80	4,032.50
W&F (MWSP II)-Industrial Valley, Marikina	49,210.61	44,412.25	4,798.36
Deepwells - 5 Units in Metro Manila 1-B109N-00002a	2,002,000.00	1,901,900.00	100,100.00

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
MIA Well No.2, Paranaque	611,346.00	580,778.70	30,567.30
Balut, Tondo, Manila	679,040.00	645,088.00	33,952.00
Deepwell 4, 5, & 6 (Cap. 12/90)	3,040,000.00	2,887,999.99	152,000.01
Deepwell 6, 7, & 8 (Cap. 12/90)	5,760,000.00	5,472,000.00	288,000.00
W&F (MWSP II)-Buenviaje, Cainta (Poblacion)	30,485.81	27,513.71	2,972.10
Naga No. 1, Las Pinas	447,704.00	425,318.80	22,385.20
Sto. Nino, (Tambo) Paranaque	51,779.99	49,190.99	2,589.00
Satorre, Imus	44,966.27	42,717.96	2,248.31
Venturi Hse-Heiser	5,156.74	4,898.90	257.84
Baby Quezon Terrace	16,805.00	15,964.75	840.25
Tondo 1M. Gal. Storage Tank	34,999,000.00	28,807,233.22	6,191,766.78
Tondo 30,000 Gallon Storage Tank	1,846,000.00	1,523,222.14	322,777.86
Tondo 1,000 Gallon Storage Tank	100,856.19	90,845.67	10,010.52
Concrete Underground Tanks (2 units)	241,000.00	228,950.00	12,050.00
Rehab of Electrical Wirings &Comm (PA 74-75)	29,000.00	27,550.00	1,450.00
Balara Bldg Complex	3,019,000.00	2,868,050.00	150,950.00
Deepwell House	73,000.00	69,350.00	3,650.00
Machinery & Equipment	18,693,000.00	17,758,350.00	934,650.00
Pumping Station Building	4,897,000.00	3,264,716.80	1,632,283.20
Reservoir	205,200,000.00	159,372,000.00	45,828,000.00
Machinery & Equipment	15,905,000.00	15,109,750.00	795,250.00
W&F (MWSP II)-Mamuyo, Las Pinas GSWP	21,631.55	19,522.56	2,108.99
W&F (MWSP II)-Pulang Lupa, Las Pinas GSWP	14,374.61	12,973.18	1,401.43
Steel Tank - Dr. Santos, Paranaque	392,602.50	353,694.21	38,908.29
Total	**298,365,480.97**	**241,780,450.10**	**56,585,030.87**

1.9.3 ***Retained assets in the custody and used by the Concessionaires and CPF, totalling P 79.491 million -***

a. Various MWSS-retained assets are currently used by the concessionaires and the CPF but classified in the books as MWSS-retained assets totalling P79,490,611.29. Details are as follows:

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Used by CPF-Other Structures			
Cyclone Wire Fence along the Aqueduct 6 By-Pass Line	7,337,429.23	3,742,088.96	3,595,340.27
Cyclone Wire Fencing of BNAQ-6 ROW station	1,727,985.65	1,399,668.21	328,317.44
Power Hse - L Mesa	6,751.06	6,413.51	337.55
Venturi Hse, L Mesa	19,000.00	18,050.00	950
Grd Hse, L Mesa	2,981.00	2,831.95	149.05
Grd Hse, East Gate, L Mesa	1,274.00	1,210.30	63.7
Serv Rd, & Fencing, L Mesa	44,818.75	42,577.81	2,240.94

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Bldg Pav, Ipo	810,000.00	769,500.00	40,500.00
Dancing Pav, Ipo	29,280.00	27,816.00	1,464.00
Swimming Pool, Ipo	2,351,000.00	2,233,450.00	117,550.00
Hollow Blk Fence-Ipo, Bicti	314,000.00	298,300.00	15,700.00
Sub-Total	**12,644,519.69**	**8,541,906.74**	**4,102,612.95**
Used by Concessionaires-Other Structures			
Deepwell Pump - Lagro Subd. No. (5)4, Q. C.	784,003.76	60,653.70	723,350.06
Windmill Pavilion-Open Walled Hexagonal1	362,000.00	343,900.00	18,100.00
Landscaping of Pasig Br	86,536.74	82,209.90	4,326.84
Drainage Sys - Pasig Br	15,030.00	14,278.50	751.5
Ticket Booth 1 (near Swimming Pool)	61,000.00	57,950.00	3,050.00
Ticket Booth Between Filter & Bathhse	1,875.00	1,781.25	93.75
Bath Hse - 1Sty. w/ Bsement, 144 sq. m.	1,148,000.00	1,090,600.00	57,400.00
Orosa Pav - 1 Sty. Open Steel Framed Bldg 286sq. m.	1,576,000.00	1,497,200.00	78,800.00
Escoda Pav - 1Sty. Timber Framed Bldg 264 Sq.m.	1,454,000.00	1,381,300.00	72,700.00
Quirino Swming Pools (3 Units)	39,000.00	37,050.00	1,950.00
Rooftop Pav	20,853.41	19,810.74	1,042.67
Plyground	19,410.88	18,440.34	970.54
Lourdes Grotto	2,919.00	2,773.05	145.95
Fountain in frt of Filter	2,731.00	2,594.45	136.55
Venturi Bath & Wire Fence	55,632.88	52,851.24	2,781.64
Accelerator Basins (2 units)	6,742,000.00	6,404,900.00	337,100.00
pair of MWSS Roof top and Bath house Balara Filtration Plant	397,784.62	360,989.28	36,795.34
Dagat-Dagatan 100,000 Gallon Storage Tank	3,500,000.00	2,933,951.06	566,048.94
Buildings (Cement Floor wooden structures)	762.13	724.02	38.11
Fencing (Hollow blocks & Eyelock wires)	530.19	503.68	26.51
Buildings (all wood)	662.75	629.61	33.14
Fencing (Hollow blocks & Eyelock wires)	1,507.73	1,432.34	75.39
aged 78"x78" is sluiced gate stem and stem guide joint at intake tower no.3	4,694,583.05	3,873,031.32	821,551.73
Reservoir	190,000,000.00	136,750,791.38	53,249,208.62
Perimeter Fence-S Juan Reservoir	2,175,000.00	2,066,250.00	108,750.00
W&F (MWSP II)-Tipaz(s), Taguig (Pumping Stn)	5,585.55	5,041.02	544.53
Construction of CHB Wall Fence of the La Mesa Dam Spillway and at Kaingin in Balara	2,327,662.86	418,979.28	1,908,683.58
Sub-total	**215,475,071.55**	**157,480,616.16**	**57,994,455.39**
Used by Concessionaires-Office Buildings			
Replacement of existing cooling tower at MWSS Bldg MWSS Complex Balara QC-*EL was changed fr 40 to REL24	2,878,000.00	2,629,515.76	248,484.24

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Supply and Installation of two (2) units of 350 tons Water Cooled Centrifugal Water Chiller.	6,515,000.00	5,818,744.42	696,255.58
Pelota Court-MWSS Balara QC	130,000.00	114,283.17	15,716.83
HRDD Bldg-MWSS Balara QC	9,905,000.00	8,430,025.94	1,474,974.06
Field Ofce & Motor Pool for the Restorat'n Task Force	13,721,000.00	12,354,650.08	1,366,349.92
Renovat'n of MWSS Meter Repair & Machinery Shop Bldg (PA54-90)	6,682,749.61	2,886,321.27	3,796,428.34
Repair of MWSS Cooling Tower, MWSS Complex, Balara, QC (PA 13-88)	14,425,756.92	5,896,528.21	8,529,228.71
Bldg III - Rehab Bldg (Formerly Construction Bldg.)	424,000.00	402,800.00	21,200.00
Bldg V - Warehse(Formerly Infirmary Bldg.)	3,839,000.00	2,706,075.65	1,132,924.35
Welfare Fund Ofce-Grnd Flr, Eng'g & Operations Bldg.	424,000.00	381,619.08	42,380.92
Ofce of the Auditor (Balara Warehouse-Property)	1,392,000.00	1,322,400.00	69,600.00
Sub-total	**60,336,506.53**	**42,942,963.58**	**17,393,542.95**
Grand Total	**288,456,097.77**	**208,965,486.48**	**79,490,611.29**

b. The inconsistency in the classification whether the property is a retained asset of MWSS or included in the Common Purpose Facilities of the Concessionaires showed the lack of internal control system on accountability and utilization control. As a result, control over the custodianship of the MWSS assets was not clear. Retained assets which are being used by the Concessionaires should be the subject of a lease agreement, thus, earning revenue for MWSS.

c. On the other hand, accountability was not established for lost/decommissioned assets which may not be reported to MWSS.

1.9.4 ***Non-submission/lack of a detailed list or inventory of assets turned over to the Concessionaires in 1996 -***

a. The physical inventory-taking conducted in CY 2015 included only the MWSS-retained land and land rights, office buildings and other structures. Management contended that the service concession assets assigned to the concessionaires are not included, citing that the concessionaires were obliged by virtue of the Concession Agreement to return all those turned-over assets at the end of the concession term, thus inventory taking of such assets is not necessary.

b. However, Management was not able to provide a detailed list or inventory on file of those assets turned-over to the concessionaires at the onset of MWSS' privatization. But rather, assets are just broadly referred to as in the "West (MWSI) and East (MWCI) Service Concession Area" in the Guidelines/Procedures for the Allocation of MWSS fixed assets, equipment and inventory of construction materials.

This posed a significant area of concern for MWSS in establishing the accountability of the concessionaires over those assets at the end of the concession term, considering that they already have introduced improvements and even decommissioned a number of these agency's old facilities.

1.10 We also noted that there were also dilapidated underground water facilities with carrying amount of P8.174 million consisting of the items shown in the table below.

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
Deepwell - Naga Rd., Pulang Lupa, Las Pinas	7,105.00	6,749.75	355.25
Deepwell - Naga Rd., Pulang Lupa, Las Pinas	37,160.00	35,302.00	1,858.00
Wells and Facilities (C.O)	4,319,000.00	4,103,050.00	215,950.00
4-8A (MMSSP-60/61) Addtl Capitalization	890,681.94	803,098.14	87,583.80
4-5F (MMSSP-60/61) Addtl Capitalization	132,116.22	119,124.70	12,991.52
4-5O (MMSSP-60/61) Addtl Capitalization	20,693.86	18,659.19	2,034.67
4-4 (MMSSP-60/61) Addtl Capitalization	1,652,209.00	1,489,742.04	162,466.96
4-2G (MMSSP-60/61) Addtl Capitalization	44,346.55	39,985.50	4,361.05
4-1A (MMSSP-60/61) Addtl Capitalization	838,551.55	756,094.25	82,457.30
4-1C (MMSSP-60/61) Addtl Capitalization	350,322.60	315,873.67	34,448.93
1-6 (MMSSP-60/61) Addtl Capitalization	238,632.67	215,166.83	23,465.84
1-5 (MMSSP-60/61) Addtl Capitalization	143,617.09	129,495.17	14,121.92
1-1 (MMSSP-60/61) Addtl Capitalization	1,594,963.02	1,438,125.35	156,837.67
Public Sanitary Facilities (PSI & II)	1,348,000.00	1,280,600.00	67,400.00
Various Septic Tanks - 180 cm	354,330.00	336,613.50	17,716.50
Raising of Sewer Manholes PA-2-79/3-79	806,000.00	765,700.03	40,299.97
Replacement of Manhole Frame & Cover	70,000.00	66,500.00	3,500.00
Locating,exposing & raising of Manholes	13,000.00	12,350.00	650.00
Replacement of Cement & wornout manhole frame & cover	448,000.00	425,600.00	22,400.00
Manholes (CI frame & cover)	31,237,000.00	29,675,150.00	1,561,850.00
Manholes	200.00	190.00	10.00
Manholes	5,000.00	4,750.00	250.00
Liq.700 cast iron manhole frame & cover set (RHB 1-3)	327,000.00	310,650.00	16,350.00
Various Project Cost Rehabilitation	64,938,111.24	60,023,057.49	4,915,053.75
Sub Total	109,816,040.74	102,371,627.61	7,444,413.13
Existing but dilapidated,	280,050.00	169,171.44	449,221.44

Description	Acquisition Cost	Accumulated Depreciation	Carrying Amount
abandoned or remnants			
Inexistent: (Replaced/Decommissioned by Concessionaires)	247,600.00	32,673.39	280,273.39
Total	**110,343,690.74**	**102,573,472.44**	**8,173,907.96**

1.11 Further, there were unauthorized dismantling and demolition of structures due to lack of monitoring of MWSS properties as shown in the following instances:

1.11.1 ***Tañong Pumping Station in Provident Village, Marikina City***

The pumping station has a total land area of 4,419 sq. m. titled in the name of MWSS (NWSA) under TCT no. 27668561. The station has been unoperational since 1992 as it has been found not suitable site for the East Service Sector. The pumping facility has been demolished by a private contractor engaged by MWCI in 2012.

It was reported that the said demolition was made without prior notice and approval from MWSS. The physical inventory report stated that there were no scrap materials turned over to MWSS.

1.11.2 ***Elevated Water Tank in Ascencion Road, Lagro Subdivision***

The cylindrical water tower was found inexistent during the inspection conducted by the COA Audit team on August 13, 2015. Interview with the residents in the area revealed that the tank was decommissioned sometime in CY 2010. However, Management negatively confirmed the approval of dismantling and disposal of the same.

The Concessionaires are granted the right to manage, operate, repair, decommission and refurbish the facilities in the service area pursuant to Article 2, Section I of the Concession Agreement. However, the lax internal control system makes it difficult for MWSS Management to substantiate claims that these assets can now be recommended for dropping in the books, considering the stringent relevant rules and regulations on the proper disposition of government properties.

1.12 The absence of established policy/guidelines on the timeline for the disposal of turned over unserviceable properties by the Concessionaires was also observed as mentioned in the CY 2014 Annual Audit Report. The disposal of the subject unserviceable assets, as recommended in CY 2014 remained unacted by Management in the current year.

1.13 It bears stressing that the materiality of the amounts involved in the foregoing circumstances is only a piece of the entire MWSS assets. However, as we dwell on matters involving internal control, it is important that MWSS establish a reliable accountability and utilization controls over its assets.

1.14 ***We recommended that Management:***

a. ***Inform this office on the actions taken on the result of the physical inventory-taking particularly on assets which could not be located;***

b. ***Submit the following documents set forth in the Concession Agreement duly acknowledged by the Concessionaires to establish accountability of the concessionaires over the turned-over assets:***

   i. For Movable Properties - Undated document captioned "General Administration Equipment, Physical Inventory, distributed December 2, 1996;

   ii. For Inventories - Undated document captioned "Summary of Construction Materials/Office Supplies", distributed December 2, 1996; and

   iii. For Retained and Assigned Fixed Assets-Document captioned "Allocation of Fixed Assets" dated December 6, 1996;

c. ***Immediately conduct disposal 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; and***

d. ***Institute/Establish and maintain a reliable, efficient and cost-effective asset/property management system to ensure that government properties are safeguarded from deterioration and losses.***

1.15 No Management comment was received.

2. **Internal control weaknesses in the recording of check disbursements were observed, to wit:**

   a. **Practice of recording transactions only upon release of checks to payees contrary to the accrual basis of accounting required under para. 27 PAS 1;**

   b. **Delay in the approval of the Journal Entry Vouchers (JEV) and in the recording of paid checks resulting in unrecorded disbursements at the end of each month, inconsistent with the Financial Reporting System Conceptual Framework in the Preparation of Financial Statements and COA Circular 91-368;**

   c. **The "Received From" portion of the Disbursement Vouchers (DVs) not signed by the payees as required under COA Circular 92-389; and**

   d. **The Monthly Reports on Checks Issued (RCI) not prepared by a Data Encoder and not by the Cashier as required in e-NGAS.**

2.1 Our audit was guided by the following:

a. Section 124 of PD 1445 provides that *"It shall be the direct responsibility of the agency head to install, implement, and monitor a sound system of internal control."*

b. Conceptual Framework for the Preparation and Presentation of the Financial Statements which stated that one of the qualitative characteristics of financial statements is the timeliness/relevance of information;

c. Section 27 of PAS 1 provides that an entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting;

d. Manual on New Government Accounting System (MNGAS) – Corporate prescribes that Report of Checks issued should (RCI) be signed by the Cashier and supported with List of Unreleased checks and cancelled checks ;

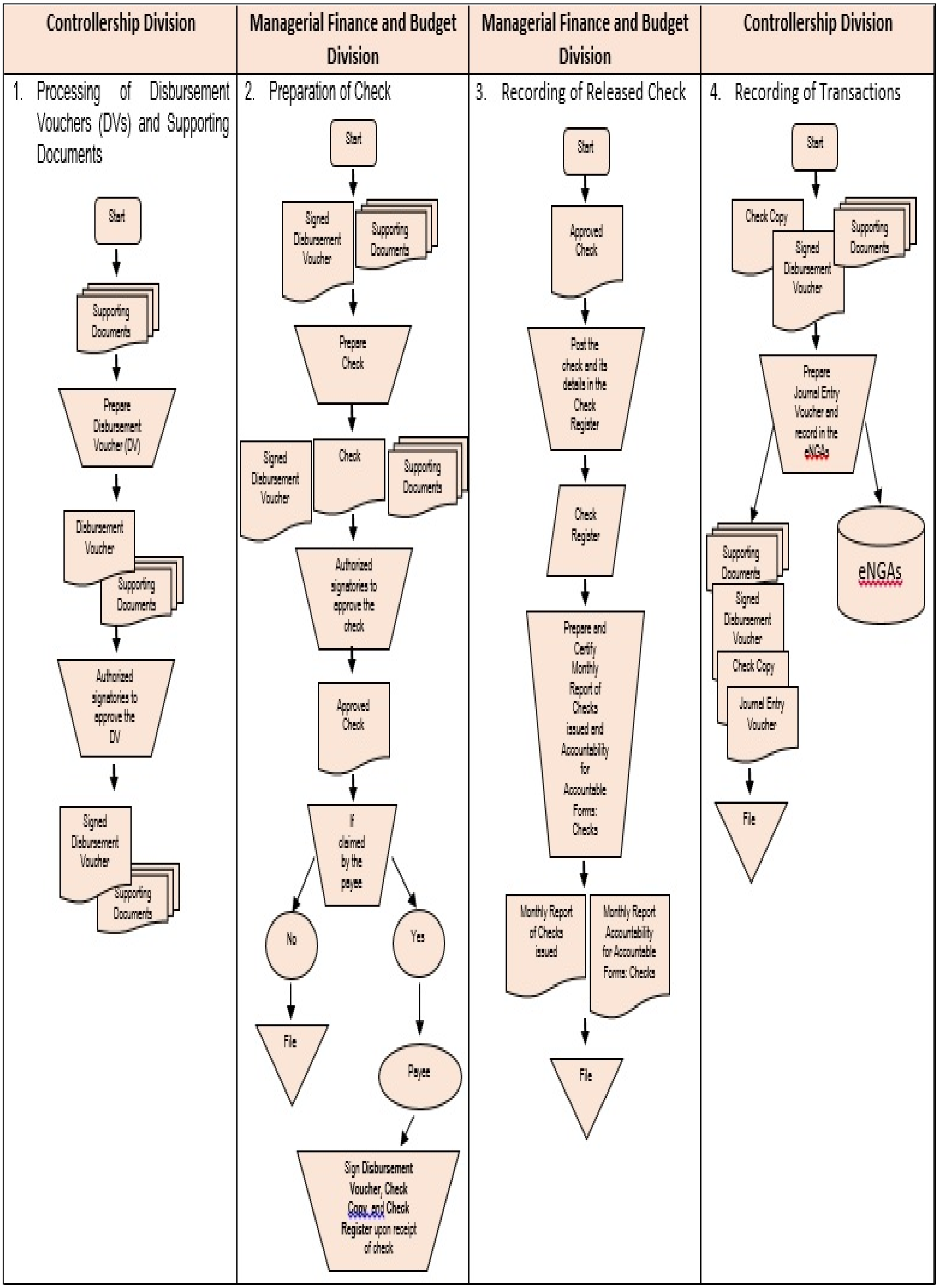
e. Section 48 of COA Circular No. 91-368 provides that financial transactions and events shall be promptly recorded in accordance with the state accounting standards. This would permit timely preparation of required financial statements and reports and maintaining adequate accountability for assets. Transactions must be promptly recorded to maintain the relevance and value of the information to agency management in controlling operations and making decisions.

f. COA Circular 92-389 provides that the "Received From" portion of the voucher shall be accomplished by the claimant or his authorized representative after actual receipt of cash or check.

2.2 Walkthrough of the transaction pertaining to check disbursements showed weaknesses in internal control which if not corrected may result in misleading or inaccurate financial reports.

2.2.1 ***On the practice of recording transactions upon release of checks to payees –***

a. Review of transactions pertaining to check disbursements are shown in the flowchart.


Controllership Division
Managerial Finance and Budget Division
Managerial Finance and Budget Division
Controllership Division
1. Processing of Disbursement Vouchers (DVs) and Supporting Documents
Start
Supporting Documents
Prepare Disbursement Voucher (DV)
Disbursement Voucher
Supporting Documents
Authorized signatories to approve the DV
Signed Disbursement Voucher
Supporting Documents
2. Preparation of Check
Start
Signed Disbursement Voucher
Supporting Documents
Prepare Check
Signed Disbursement Voucher
Check
Supporting Documents
Authorized signatories to approve the check
Approved Check
If claimed by the payee
No
Yes
File
Payee
Sign Disbursement Voucher, Check Copy, and Check Register upon receipt of check
3. Recording of Released Check
Start
Approved Check
Post the check and its details in the Check Register
Check Register
Prepare and Certify Monthly Report of Checks issued and Accountability for Accountable Forms: Checks
Monthly Report of Checks issued
Monthly Report Accountability for Accountable Forms: Checks
File
4. Recording of Transactions
Start
Check Copy
Signed Disbursement Voucher
Supporting Documents
Prepare Journal Entry Voucher and record in the eNGAs
Supporting Documents
Signed Disbursement Voucher
Check Copy
Journal Entry Voucher
eNGAs
File

2.2.2 ***On the delay in the approval of the JEV and recording of checks paid -***

a. We observed that there was delay ranging from 20 to 149 days in recording checks issued in the monthly Reports of Checks Issued (RCI) as shown below:

Date of Check	Check Number	Payee	Amount of Check	Date of Release	Date of Entry	Gaps noted (days)
1/20/2015	40707	Caparas, Emmanuel L.	13,500.00	01.21.15	02.28.15	38
1/20/2015	40708	Esquivel, Gerardo A.I.	10,200.00	01.21.15	02.28.15	38
1/20/2015	40709	Soriano, Ma. Cecilia	13,500.00	01.22.15	02.28.15	37
1/20/2015	40710	Valderrama, Helena Agnes	13,500.00	01.22.15	02.28.15	37
12/17/2014	40589	MERALCO	6,445.93	01.23.15	05.29.15	126
1/28/2015	40735	Caparas, Emmanuel L.	13,500.00	01.29.15	03.24.15	54
1/20/2015	40702	Procurement Service	95,830.20	01.30.15	06.28.15	149
1/28/2015	40739	Yambao, Benjamin	13,500.00	02.04.15	03.24.15	48
1/28/2015	40737	Soriano, Ma. Cecilia	13,500.00	02.06.15	03.24.15	46
1/28/2015	40764	Nissan Commonwealth Inc.	18,762.18	02.25.15	03.17.15	20
2/13/2015	40859	KPI Elevators, Inc.	10,788.75	04.16.15	05.29.15	43
4/13/2015	41141	Ahead – Biz Computer & Repair Services	52,337.50	04.21.15	05.29.15	38
5/8/2015	41251	Caparas, Emmanuel L.	7,650.00	05.12.15	06.25.15	44
5/21/2015	41315	Nissan Gallery	17,216.94	05.26.15	06.30.15	35
5/25/2015	41348	Intensity Tire Supply	20,866.85	05.27.15	06.30.15	34
5/29/2015	41364	Caparas, Emmanuel L.	7,650.00	05.29.15	06.30.15	32
5/21/2015	41332	PLDT	1,770.70	06.09.15	07.29.15	50
7/29/2015	41616	Bureau of Internal Revenue	77,491,573.88	07.30.15	09.30.15	62
7/08/2015	41517	National Irrigation Administration	52,000,000.00	08.06.15	09.30.15	55
7/14/2015	41549	KPI Elevators, Inc.	36,224.55	08.14.15	09.30.15	47
7/24/2015	41592	Nissan Commonwealth, Inc.	13,696.88	08.14.15	09.30.15	47
8/18/2015	41730	Ralgo Industries Inc.	16,331.25	08.27.15	09.30.15	34
8/20/2015	41736	Opnet Works, Inc.	36,456.43	09.08.15	12.28.15	111
9/23/2015	41864	Procurement Service	510,671.10	09.30.15	12.28.15	89

b. The practice of recording transactions upon release of checks to payees; delay in the approval of JEVs and in recording checks issued resulted in the following:

(1) Unrecorded checks as recurring reconciling item in the bank reconciliation statement;

(2) The cash in bank and the expense/asset/liability accounts were overstated; and

(3) The checks issued were not chronologically recorded in the RCI.

c. Further, the failure to immediately record checks issued was not consistent with the Conceptual Framework in the preparation of Financial Statements and COA Circular No. 91-368 on the timeliness of information as it may affect the decision making process of the users of the Financial Statements.

d. For instance, the recording of the check issued to BIR in the amount of P77.491 million was effected on September 30, 2015, when in fact it was paid/released on July 30, 2015, thus overstating the cash in bank balance and the corresponding expense account by P77.491 million in July 2015

2.3 We also noted that the "Received from" portion of the DV was not signed by the payee; it was only in the copy of the Check Voucher that the payee acknowledged the receipt of the check.

Further, the monthly RCI, which was not supported with list of unreleased and cancelled checks, was certified correct by the Data Encoder instead of the Cashier as required in MNGAS Corporate.

2.4 ***We recommended and Management agreed to institute measures to improve the internal control on check disbursements by requiring the Finance Department to:***

a. ***Record the transaction upon approval of the disbursement voucher and not after the release of check;***

b. ***Review and process the approval and recording of the JEV in the e-NGAS immediately;***

c. ***Require the Cashier to sign or certify correct the RCI which should be supported with list of unreleased and cancelled checks; and***

d. ***Instruct the Cashier to have the payee sign the "Received from" portion of the DV.***

D. Value for Money (VFM) Audit – MWSS CO

1. **Of the total Accounts Receivable of P1.578 billion, the collection efficiency of P1.117 billion or 71 percent consisting of receivables from water service customers covering the period from 1988 to 1996 (prior to MWSS' privatization in 1997) was considered nil, as the same had not been moving for five years.**

1.1 Under Section 3.4 of the Concession Agreement entered into in 1997 with MWCI and MWSI, the Concessionaire shall have the exclusive right to collect any accounts receivable from customers for water and sewerage services until the first anniversary of the Commencement Date (May 6, 1998). All amounts collected less collection fees shall be remitted to MWSS. From August 1997 to December 1999, the Concessionaires collected a total amount of P713, 293,514.

1.2 Documents gathered revealed that in CY 1999, a collection service agreement was executed between MWSS and DBP Service Corporation (DBPSC) for the purpose of collecting the MWSS Accounts Receivable (AR) from its customers. Said agreement was renewed for an indefinite term until CY 2010.

1.3 Based on the Status of Collections for the period August 1, 1997 to December 31, 1999 and CY 2001, provided by the accounting personnel, Contract collectors and four collecting agencies also assisted MWSS in the collection of the Accounts Receivable from customers. There was no report for CY 2000 on file with Management.

1.4 Thereafter, a collection Task Force was created under Office Order 2010-015 dated January 22, 2010 with the objective of facilitating and expediting the collection of prior years' water accounts receivable and raw water accounts. The task force was also to handle and prepare the billing statement, demand letters, collections, notice of disconnection/final disconnection and revision, as the need arises. The Chairman, AR Task Force provided this Office a copy of the Report on the MWSS AR Project where it recommended the accounts for write off and the ARs for collection. It appears that the former Management did not take any action on the report of the Task Force on long outstanding accounts.

1.5 As of year-end, the Accounts Receivables still included water/sewer accounts receivable from water service customers prior to MWSS' privatization in 1997 stated at P1,116,986,530.01 or 71 percent of the total Accounts Receivable of P1.578 billion. Details as to the composition of the P1.117 billion dormant accounts were not established since there was no available account summary of customers and subsidiary ledgers. The only available document to support the receivable account is the voluminous collection stubs safely kept at the MWSS storage room.

1.6 We noted that Management provided an allowance for doubtful accounts for the full amount. While the account may be fairly presented by providing an allowance, Management's inability to collect them resulted in loss to government. As disclosed in Note 6 of the Notes to FS, the collectability of the amount was highly improbable.

1.7 ***We recommended and Management agreed to:***

a. ***Review and evaluate whether there is still recoverable amount from the said accounts and enforce collection;***

b. ***Refer the matter to the MWSS Legal Department for legal action if needed; and***

c. ***Initiate the request for write off of the accounts to COA with proof that the amount could no longer be collected and the actions taken to enforce collection.***

2. **The structural integrity of some portions of the Bigte-La Mesa Aqueduct and the potability of water flowing therein remained compromised due to the presence of unauthorized structures and improvements in the Right of Way (ROW) areas.**

2.1 In CY 2014 Annual Audit Report, we recommended that Management (i) cause the immediate relocation of the illegal settlers along the aqueduct right of way; (ii) demolish the structures and unauthorized improvement constructed along the MWSS Right of Way at owner's expense; and (iii) 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.

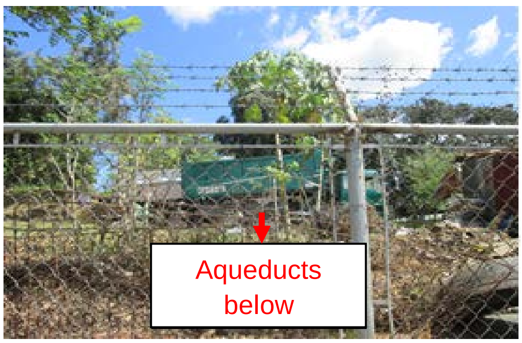
2.2 In the Agency Action Plan and Status of Implementation of audit recommendations for CY 2014, Management commented that ROWs are now under the bounds of the Common Purpose Facilities' (CPF) management. It was also reported that the CPF Management engaged contractors for the purpose of fencing the MWSS ROWs and that a master plan on the security of the ROW from Bigte to La Mesa Portal is being prepared by the CPF for submission to MWSS.

2.3 CPF are facilities upstream of Angat dam established under the UATP project and the facilities downstream of the auxiliary hydropower plant of Norzagaray, Bulacan, including the Ipo reservoir facilities, the Ipo-Bicti tunnels, Bicti basins and Bicti-Novaliches aqueducts, up to and including the Novaliches portal interconnection facilities operated by the two concessionaires, MWSI and MWCI.

2.4 Inspection by the audit team on February 23, 2016 to determine the extent of compliance and to validate the status of implementation of CY 2014 audit recommendations on the subject issue of property safeguarding and management revealed that portions of the aqueduct ROWs from La Mesa-Dam to San Jose Del Monte, Bulacan remained occupied by business establishments and informal settlers who introduced unauthorized structures into the premises and other improvements wanting approval from MWSS, to wit:

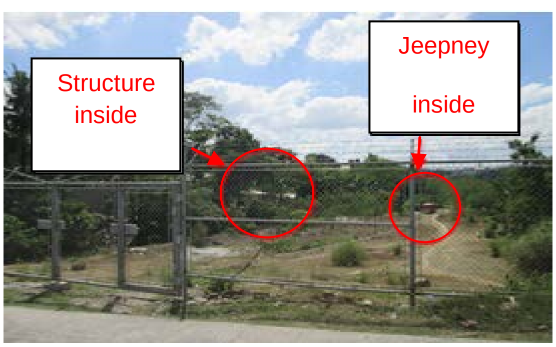
2.4.1 Portion of the aqueducts ROW were occupied by business establishments.

2.4.2 There were dump trucks parked just above the old water aqueducts. Portion of the ROW is also being occupied by a junk shop, sash factory and a landscaping business.



2.4.3 In Amparo Subdivision, Caloocan, The picture shows that the ROW block was not completely fenced. The picture on the left shows the fenced portion while the picture on the right is the opposite side which remains open.

There are structures, jeepney and cleared access road found inside the ROW



2.4.4 In Tala Estate, Caloocan, the block was not completely fenced due to the presence of structures inside the MWSS Right of Way. A hardware store extends to a portion of the property line. There is also a paved (concrete) access road inside the ROW.

Further, the fence gate was also left open, thereby allowing intruders to dump garbage inside the ROW.

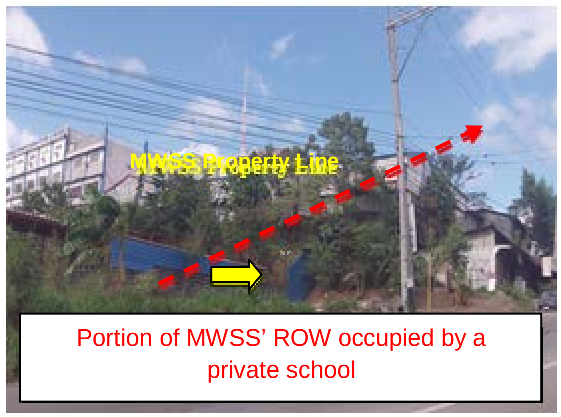
2.4.5 In Road 10, Victoria Wave Special Economic Zone, the fencing project on the MWSS property was not completed due to the presence of access road inside the ROW. PMD contends that the Right of Way given by the National Housing Authority (NHA) to the residents was purportedly erected with houses, thus the access road overlapping the MWSS property line.

2.4.6 In San Jose Del Monte, Bulacan, there were several buses parked inside the MWSS ROW. The fencing project on the MWSS Property was not also completed due to the fenced portion of the MWSS' ROW with MWSS marker found inside the resort.

2.4.7 The ROW is also occupied by an auto supply provider/dealer and a landscaping business. Portion of the ROW is also occupied by a private school.


Auto supply dealer occupying the MWSS Right of Way in San Jose Del Monte City, Bulacan


Landscaping Business occupying portion of MWSS' ROW



Portion of MWSS' ROW occupied by a private school

2.5 ***We reiterated the previous year's audit recommendations that Management:***

a. ***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 from MWSS;***

b. ***Cause demolition of the structures and improvements erected inside the MWSS property line at owner's expense; and***

c. ***Coordinate with the Concessionaires (CPF), the Local Government Unit (LGU) which has jurisdiction in the area and the National Housing Authority (NHA) and settle the foregoing issues on the management of MWSS Right of Ways.***

2.6 No Management comment was received.

3. **Lack of planning to maximize the use of the Balara Quarters consisting of 117 residential houses resulted in the following:**

   a. **Further deterioration of 35 units that posed risk to life and properties due to falling materials;**

   b. **The presence of 37 illegal occupants of which 21 having pending court cases, six with decided cases for ejection and 10 having no action from Property Management Department;**

   c. **Thirty two units were rented but without valid contracts;**

   d. **Thirteen were occupied by "caretakers"; and**

   e. **There were structures demolished in the Balara Quarters that were not accounted.**

The number of residential houses per accounting records did not tally with the property management's records with the former higher by 19 houses. Likewise, the physical inventory report identified the Balara Quarters as turned-over assets whereas in the security service contract, the area was considered MWSS retained-assets as provided for in the Guidelines and Procedures in the Detailed Allocation of Fixed Assets of MWSS.

3.1 The MWSS Balara Quarters, whose designs were mainly influenced by pre-war art style and constructed sometime in the 1930's to 1950's was one of the attractions in the Balara Filters Park. It is located in Brgy. Pansol, Balara, Quezon City and were originally built to house the then old NAWASA employees working at the Balara Filtration Plant compound. The privilege to occupy the housing facilities for some qualified employees has been terminated following the privatization of the water distribution operations of MWSS and their consequent termination of service to the agency.

3.2 Analysis of the status report on the condition of the housing units at the Balara Quarters as of end of the year submitted by the Property Management Department (PMD) showed that of the117 units, 35 were dilapidated and posed risk to life and properties caused by falling materials and 32 units were rented but without valid contracts, 37 have pending court cases while the other 13 units were occupied by "caretakers" who are MWSS employees.

3.3 Ocular inspection conducted by the COA Audit Team together with the PMD personnel showed the following:

3.3.1 ***The 35 houses have further deteriorated and need to be demolished as they pose risk to life and properties*.**

3.3.1.1 The Manual on Building Services and Real Property Management issued thru Joint Circular No. 1 dated September 30, 1989 between the DBM, DENR and DPWH provides the conditions which necessitate the repair, maintenance or demolition of government buildings, and we quote:

"1.2. Conditions wherein a structure or building needs repair, maintenance or demolition

1.2.1 Structural Hazards

1.2.1.1 x x x

1.2.1.2 Whenever any portion or member or appurtenance of a building is likely to fall, or to become detached or dislodged or to collapse and thereby injure persons or damage property.
…
1.2.1.8 whenever the building or structure has been so damaged by fire, wind, earthquake or flood, or has become so dilapidated or deteriorated as to become (1) an attractive nuisance to children; (2) a harbour for vagrants, criminals or immoral persons; or as to (3) enable persons to resort to committing unlawful or immoral acts."

3.3.1.2 The 35 units are no longer habitable and already dilapidated and should have been demolished to avoid the possible damage it may cause to life and properties due to falling off of some materials. There is also the risk that the place may be used for illegal purposes/activities.

3.3.2 ***The presence of 37 illegal occupants of which 21 having pending court cases, six with decided cases and for ejection and the 10 having no action from PMD*****.**

3.3.2.1 PMD reported that there are 37 civil cases filed in the Quezon City regional/municipal trial court against different individuals for unlawful detainer. However, verification of the list of pending legal cases submitted by the Legal Department disclosed that there are only 27 cases filed in court while the remaining 10 occupants have no action taken against them by the MWSS.

3.3.2.2 We noted that included in the list of pending cases are six cases with notation that these are for PMD action. Inquiry from the Legal Department disclosed that these were cases already decided, thus transferred to PMD for their execution. As of year-end, they still illegally occupy the housing units.

3.3.3 ***There were 32 units rented but not covered with valid contracts.***

3.3.3.1 In CY 2001, MWSS entered into a contract with MWCI for the leasing of 32 quarters to house some of the MWCI personnel whose assignments are directly related to the operations of the Balara Filter Plants. The sub-lease of those quarters by MWCI to its qualified employees is subject to the understanding that they recognize ownership of MWSS and for which they are willing to lease the premises subject to an agreement with MWSS. The contract was renewed on October 27, 2006 and expired on October 26, 2011, renewable at the option of MWSS. As of date, the contracts were not renewed but the occupants continue to reside in the Balara Quarters.

3.3.3.2 Verification showed that only 17 occupants paid the rent as of CY 2015 totalling P2,709,044.04. The non-renewal of lease contracts which expired in 2011 and separation from service with MWCI of the remaining 15 occupants add burden to the enforceability of collection and thus causing revenue loss to MWSS.

3.3.4 ***Of the 13 units occupied by MWSS employees, only seven have been currently employed in MWSS*.**

3.3.4.1 Office orders signed by the Administrator of MWSS served as the authority to occupy and use a Quarter/unit in Balara. The authority shall be ineffective upon retirement /resignation or separation from the service.

3.3.4.2 Documents submitted showed that of the 13 units occupied by MWSS employees, only seven are still connected with MWSS. We noted that the PMD Manager has issued letters to the concerned unauthorized dwellers to vacate the place within 30 days from receipt of the notice in October 2014. However, inspection revealed that they continue to reside in the Balara Quarters.

3.3.5 ***There were structures demolished in the Balara Quarters that were not accounted*.**

3.3.5.1 The list of assets turned over to MWCI submitted by the PMD showed that there were 32 units Condo Housing-Row Type House that were not found or were reported as demolished.

3.3.5.2 The PMD reported that there were seven housing units demolished as of year end; however, based on the latest record of approved demolition of housing facilities under Board Resolution No. 2008-028, only five units were approved by the MWSS Board of Trustees or a difference of two housing units.

3.3.5.3 The above observation revealed the absence of proper monitoring or supervision on properties located at the Balara Quarters. It is quite disturbing that the structures were allowed to be demolished without securing proper approval and without undergoing the appropriate disposal procedures of government properties. Moreover, the lack of action on the reported demolished 32 condo housing row type units is a cause of concern because it showed apathy or lack of interest on the assets of MWSS.

3.4 We also found discrepancies in the records between the PMD and the Finance Department in the number of houses. Accounting records showed that there were 136 residential quarters in Balara while the PMD reported 117 or a difference of 19 units. The Finance Department recorded the residential quarters in lump carrying amount of P7,390,801.46 as of December 31, 2015; thus, reconciliation of discrepancies cannot be easily established.

3.5 The MWSS Balara Quarters are among the MWSS-retained assets based on the Guidelines and Procedures in the Detailed Allocation of Fixed Assets, pertinent provision reads as follows:

> *2. STRUCTURES AND IMPROVEMENTS/BUILDING AND IMPROVEMENT*
> *…*
> *2.5 Employees quarter where there is alternative housing available such as Balara and San Juan shall be retained by the MWSS to be sold or leased.*
> *…*

However, the subject housing units were not included in the physical inventory-taking of MWSS-retained assets conducted in CY 2015 because Management claimed that these were turned-over assets to MWCI.

3.6 ***We recommended that Management:***

a. ***Demolish the dilapidated structures taking into consideration the rules and regulations on the disposal of unserviceable properties and the Manual on Building Services and Real Property Management issued thru Joint Circular No. 1 dated September 30, 1989 by the DBM, DENR and DPWH on the proper inspection and demolition procedures of government buildings;***

b. ***Require the Property Management Department to coordinate with the Legal Department on the implementation of the court decision for the ejection of the six illegal occupants;***

c. ***Take action on the 10 illegal occupants reported by the Property Management Department but having no pending case in the Legal Department;***

d. ***Coordinate with the concessionaire (MWCI) on the status of the sub-leased Quarters and enforce collection of rental arrearages and ejectment of those former MWCI employees who are still occupying the quarters;***

e. ***Renew the lease contracts with MWCI for the continued use of the Balara Quarters by their employees;***

f. ***Investigate why the employees who are no longer connected with MWSS and MWCI were allowed to reside in Balara;***

g. ***Direct the PMD to reconcile records with the Finance Department on the actual number of residential houses in Balara, Quezon City; and***

h. ***Review the Guidelines on the allocation of Fixed Assets of MWSS with regard to the Balara Quarters, whether these are turned-over facilities or MWSS-retained to establish accountability over their management.***

3.7 No Management comment was received.

4. **Delayed collection of Raw Water Connection Accounts from large customers was observed due to the practice that collection of the amount due from the previous billing period was simultaneously done with the issuance of the billing statement for the current period, contrary to the Raw Water Service Connection Contract. Moreover, MWSS could have earned additional revenue from raw water totaling P796.917 had it collected the penalties/interest charges for late payment from large customers.**

4.1 Income from Raw Water totaled P54,023,665.88 as of December 31, 2015. Raw water consumers are located in San Jose del Monte to Norzagaray, Bulacan and are covered by the Raw Water Service Connection Contract.

4.2 Under Item 5, Section 2 on the Obligations and Duties of the Concessioner/Customer in the Raw Water Service Connection Contract, the customer agrees and is obliged to religiously pay the amount due within 10 days after the receipt of the statement of account or else an interest of 1 ½ percent shall be charged and collected.

4.3 However, we noted that the MWSS designated collecting officer personally collects the amount due from raw water customers simultaneous with the issuance of the current statement of accounts, contrary to the abovementioned raw water contract. Hence, delay in the collection ranging from 16 to 28 calendar days was observed in the case of the San Jose del Monte Water District, the largest raw water consumer.

4.4 Audit showed that interest charges were collected only from individual customers for late payment, while large raw water consumers were not charged totalling P796,916.72 with details as follows:

Customer	Amount
San Jose Del Monte Water District - WTP2	P514,632.36
San Jose Del Monte Water District – WTP1	230,262.24
Tungkong Mangga Barangay Water Services	35,814.26
Victoria Wave Limited Inc.	5,632.20
Sitio Crusher Homeowners Assn.	2,068.37
Barangay Hall Bigte (Samson Wenceslao)	4,746.47
Carlos Rayo (Norzagaray Water District)	2,939.13
Others	821.69
Total	**P796,916.72**

4.5 The non-imposition of interest was not compliant with Paragraphs 14 and 15 of the Policies and Guidelines for Raw Water Accounts which states:

> "*14. Payment made <u>more than</u> ten (10) working days after the receipt of bill shall be subject to interest charges.*
>
> *14.1 Any bill falling due on a legal/special holiday shall be payable on the next working day.*

WHO	DOES WHAT	WHEN
Meter Reader	Gets Reading	7th day of month
Meter Reader	Delivers bill to customer	5 working days after meter reading
Customer	Pays due amount (w/out interest charges)	Up to 10 working days after receipt of bill only

> *15. An account left unpaid after the due date is subject to interest charge computed at one and one-half (1-1/2%) percent per month of the amount due".*

4.6 Details of the late payments by the San Jose Del Monte Water District (SJDMWD) are shown below:

Customer	Monthly Basic Charge	Due Date	Date of payment	No of days delayed	Penalty/interest	
					Due	Collected
SJDMWD1	1,279,234.54	12/29/14	1/26/15	28	19,188.52	0.00
	1,279,234.54	01/30/15	2/24/15	25	19,188.52	0.00
	1,279,234.54	02/27/15	3/19/15	20	19,188.52	0.00
	1,279,234.54	03/30/15	4/17/15	18	19,188.52	0.00
	1,279,234.54	04/30/15	5/22/15	22	19,188.52	0.00
	1,279,234.54	05/29/15	6/22/15	24	19,188.52	0.00
	1,279,234.54	06/29/15	7/23/15	24	19,188.52	0.00
	1,279,234.54	07/31/15	8/17/15	17	19,188.52	0.00
	1,279,234.54	08/28/15	9/24/15	27	19,188.52	0.00
	1,279,234.54	09/30/15	10/16/15	16	19,188.52	0.00
	1,279,234.54	10/30/15	11/25/15	26	19,188.52	0.00
	1,279,234.54	11/27/15	12/21/15	24	19,188.52	0.00
					230,262.24	**0.00**
SJDMWD2	2,859,068.62	12/29/14	1/26/15	28	42,886.03	0.00
	2,859,068.62	01/30/15	2/24/15	25	42,886.03	0.00
	2,859,068.62	02/27/15	3/19/15	20	42,886.03	0.00
	2,859,068.62	03/30/15	4/17/15	18	42,886.03	0.00
	2,859,068.62	04/30/15	5/22/15	22	42,886.03	0.00
	2,859,068.62	05/29/15	6/22/15	24	42,886.03	0.00
	2,859,068.62	06/29/15	7/23/15	24	42,886.03	0.00
	2,859,068.62	07/31/15	8/17/15	17	42,886.03	0.00
	2,859,068.62	08/28/15	9/24/15	27	42,886.03	0.00
	2,859,068.62	09/30/15	10/16/15	16	42,886.03	0.00

Customer	Monthly Basic Charge	Due Date	Date of payment	No of days delayed	Penalty/interest	
					Due	Collected
	2,859,068.62	10/30/15	11/25/15	26	42,886.03	0.00
	2,859,068.62	11/27/15	12/21/15	24	42,886.03	0.00
					514,632.36	**0.00**

4.7 Late collection of the due accounts could have been avoided if raw water customers, specifically the large consumers, pay directly to the MWSS Main Office. It is understood that per Policies and Guidelines of Raw Water Accounts and the stipulations stated in the Raw Water Service Connection Contract, the customer agrees and is obliged to religiously pay the amount due within 10 days after the receipt of the statement of account or else an interest of 1 ½ percent shall be charged and collected. In addition, a date on or before the due date should have been scheduled for the collection of the raw water accounts.

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

a. ***Impose penalties and interest on late payments made by raw water customers in accordance with Paragraph 15 of the Policies and Guidelines for Raw Water Accounts; and***

b. ***Consider requiring the large water consumers to pay directly to MWSS or to pay through the banks the amount of raw water due in accordance with the provision of Item 5, Section 2 on the Obligations and Duties of the Concessioner/Customer in the Raw Water Service Connection Contract.***

E. Compliance with Tax Laws

1. For MWSS CO, the Due to BIR account as of December 31, 2015 amounted to P3.921 million and remittance made in January 2016 totaled P3.417 million. The balance of P504,607 pertained to adjustments to the account for transactions in previous periods which are for reconciliation/ verification. See related Audit Observation under paragraph 19 B.1

2. For MWSS RO, all income taxes withheld on salaries for CY 2015 were remitted in CY 2015. See related Audit Observation under paragraph 4 B.2.

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

1. For MWSS CO, the accounts *Due to GSIS, Pag-ibig and Philhealth* showed an unremitted amount aggregating P48,383.27 as of January 2016. Details are as follows:

Account	Ending Balance, Dec. 31, 2015	January 2016 Remittance	Balance	Unremitted (PY & CY)
Due to GSIS	P1,212,789.62	P1,167,789.38	**P45,200.24**	P45,200.24
Due to Pag-ibig	85,044.35	86,155.51	**(1,111.16)**	556.28
Due to Philhealth	74,526.75	71,875.00	**2,651.75**	2,826.75
Due to other GOCCs	2,727.43	4,094.63	**(1,367.20)**	
Total				**P48,383.27**

We recommended that Management immediately remit the withheld funds to GSIS, Pag-Ibig and Philhealth and explain the non-remittance of the outstanding balances.

2. For MWSS RO, the amount withheld from employees for their GSIS, PAG-IBIG and Philhealth contributions from January to November 2015 were all remitted in CY 2015, while the December 2015 GSIS and Philhealth contributions were remitted on January 8, 2016 and the PAG-IBIG contribution on January 14, 2016. See related Audit Observation under paragraph 4 B.2.

G. Status of Unsettled Audit Disallowances, Charges and Suspensions

1. A summary of the audit disallowances and suspensions issued for transactions ending December 31, 2015 is shown below:

Particulars	***MWSS – Corporate Audit Office***	***MWSS-Regulatory Office***
Audit Disallowances/Charges with Pending Appeal with the Cluster 3/Commission Proper or Without Appeal Received but Appeal Period has not yet Expired	264,543,288.51	132,349,519.77
Notice of Disallowances which are final and executory: NFD dated 1/26/16 P4,712,423.60 NFD dated 3/24/11 8,762,948.31 NFD dated 5/22/14 900,000.00	14,373,371.91	
Audit Disallowances for Prior Years transactions issued in CY 2016	3,259,912.90	

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

MWSS Corporate Office
List of Audit Disallowances with Pending Appeals with COA

ND NO.	Date	Nature of Disallowance	Amount	Status
10-001-05-(09)	July 16, 2010	Year-End Financial Assistance	6,565,910.90	Cluster B Decision No. 2011-007 Appeal filed before 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 (1^{st} Tranche)	3,985,333.71	-do-
10-016-05-(09)	July 16, 2010	Scholarship Allowance (2^{nd} 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 (4^{th} Quarter)	2,630,000.00	With Cluster B Decision No. 2011-012 dated November 9, 2011 With Petition for Review filed before the Commission Proper

ND NO.	Date	Nature of Disallowance	Amount	Status
				under CP Case No. 2011-371
10-018-05-(09)	July 29, 2010	Grocery Incentive Pay (1st Quarter)	2,048,273.83	-do-
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 Fraud Audit Office (FAO), Special Services Sector, COA Appeals filed are pending at the FAO.
13-001-05-(12)	Jun 13, 2013	Amelioration Allowance	3,680,227.14	With CGS Cluster 3 Decision No. 2015-01 dated Jan. 14, 2015 With Petition for Review filed before the Commission Proper
13-002-05-(12)	Jun 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	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-

ND NO.	Date	Nature of Disallowance	Amount	Status
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	CGS Cluster 3 Decision No. 2016-11 dated April 8, 2016
14-003-05-(12)	May 21, 2014	Welfare Fund – Government Share	11,848,750.23	Appeal with Cluster Director
14-004-05-(13)	May 26, 2014	Welfare Fund – Government Share	3,789,683.15	-do-
14-005-05-(12)	Jun 30, 2014	Meal Allowance	2,094,571.00	CGS Cluster 3 Decision No. 2016-08 dated Mar 31, 2016
14-006-05-(12)	Jun 30, 2014	Meal Allowance	2,033,200.00	-do-
14-007-05-(13)	Jun 30, 2014	Meal Allowance	2,038,752.00	-do-
14-008-05-(13)	Jun 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	Appeal with Cluster Director
14-010-05-(13)	Oct. 14, 2014	RATA	1,736,399.47	CGS Cluster 3 Decision No. 2016-09 dated Mar 31, 2016
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	CGS Cluster 3 Decision No. 2016-10 dated Apr 7, 2016
14-013-05-(13)	Nov. 24, 2014	Janitorial Services	3,657,198.05	Appeal with Cluster Director
15-002-05-(PY)	Apr 20, 2015	Validity of Appointment	822,129.00	-do-
15-003-05-(PY)	Jun 29, 2015	Consultancy Services	1,315,000.00	-do-
15-004-05-(PY)	Jun 30, 2015	Separation Pay – Contract Collectors	6,886,524.79	-do-
15-006-05-(14)	Jul 23, 2015	Welfare Fund – Government Share	1,524,881.13	-do-
15-007-05-(14)	Nov 3, 2015	RATA	366,372.00	Within Appeal Period
15-008-05-(14)	Nov 3, 2015	RATA	519,596.00	-do-
15-009-05-(14)	Nov 3, 2015	Hazard and Longevity Pay	751,962.93 5,032.26	-do-
15-010-05-(14)	Nov 23, 2015	Reimbursement OGCC Lawyers	728,232.33	Appeal with Cluster Director
Total Disallowance for MWSS-Corporate Office			**264,543,288.51**	

MWSS Regulatory Office
List of Audit Disallowances with Pending Appeals with COA

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 Petition for Review filed before the Commission Proper
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-
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 (2nd 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 (1st 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-

ND NO.	Date	Nature of disallowance	Amount	Status
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 Incentive	3,175,426.20	-do-
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-

ND NO.	Date	Nature of disallowance	Amount	Status
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 1st Quarter	1,330,000.00	-do-
RO10-039-883-4 (09)	7/22/2010	Grocery Incentive Pay 2nd Quarter	1,340,000.00	-do-
RO10-040-883-4 (09)	7/22/2010	Grocery Incentive Pay 3rd Quarter	1,350,000.00	-do-
RO10-041-883-4 (09)	7/22/2010	Grocery Incentive Pay 4th 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-
RO10-048-719-1(09)	10/08/2010	Calamity Economic Assistance	3,444,769.20	-do-
13-001-RO-(12)	Jun 10, 2013	Amelioration Allowance	1,991,974.15	CGS Cluster 3 Decision No. 2015-02 dated Jan. 27, 2015 Petition for review dated Feb 13, 2015 were dismissed by the Commission Proper for having filed out of time thru Decision No. 2015-405 dated Dec 28, 2015.
13-002-RO-(12)	Jun 10, 2013	COLA	7,910,835.98	-do-
13-004-RO-(12) Amended	Jun 10, 2013	Productivity Incentive Bonus	3,924,797.50	-do-
13-005-RO-(12)	Jun 10, 2013	Representation and transportation allowance	4,389,873.84	-do-

ND NO.	Date	Nature of disallowance	Amount	Status
13-006-RO-(12)	Jun 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	Appeal with the 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)	Apr 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)	Jun 10, 2014	Extraordinary and Miscellaneous Expenses	628,272.99	-do-
14-007-RO-(13)	Jun 26, 2014	Extraordinary and Miscellaneous Expenses	443,217.87	-do-
14-008-RO-(13)	Jun 30, 2014	Private Health Insurance	32,438.13	-do-
14-009-RO-(12)	Jun 27, 2014	Meal Allowance	2,278,667.44	-do-
14-010-RO-(13)	Jun 27, 2014	Hazard Duty Pay	406,545.17	-do-
14-011-RO-(13)	Jun 27, 2014	Meal Allowance	2,022,150.00	-do-
14-012-RO-(13)	Sept. 4, 2014	Janitorial Services	770,228.00	-do-

ND NO.	Date	Nature of disallowance	Amount	Status
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-
15-001-RO-(12,13&14)	Jun 25, 2015	Subsistence – Children's Allowance	117,770.78	-do-
15-002-RO-(14)	Jun 26, 2015	RATA	294,611.60	-do-
15-003-RO-(14)	Sep 29, 2015	Welfare Fund – Government Share	559,504.08	-do-
15-004-RO-(14)	Nov 10, 2015	Meal Allowance	905,250.00	-do-
15-005-RO-(14)	Nov 10, 2015	Rice Allowance	543,836.41	Within Appeal Period
Total Disallowance for MWSS-Regulatory Office			**132,349,519.77**	

MWSS Corporate Office
Audit Disallowances – Final and Executory

ND NO.	Date	Nature of disallowance	Amount	Status
2000-017-07-(99)	Aug 15, 2000	RATA, Longevity, Rice, Meal, Children's and Medical Allowance	4,710,423.60	COA Decision No. 2003-071 dated April 8, 2003 was issued. Notice of Finality of Decision dated January 26, 2016 was issued. Darlina Uy appealed before the Commission Proper for exclusion from the Order of COA to refund the benefits per COA NFD dated Jan 26,

ND NO.	Date	Nature of disallowance	Amount	Status
				2016 on account of Decision No. 2003-071 dated Apr 8, 2003.
2001-025-05-(00)	Mar 19, 2001	Mid-year FA 2000	2,128,780.40	Legal and Adjudication Office-Corporate Decision No. 2002-012 dated November 2, 2002, COA Decision 2009-072 dated September 1, 2009 COA (Resolution) Decision No. 2010-145 dated December 30, 2010 were issued. Notice of Finality of Decision dated March 24, 2011 and COA Order of Execution No. 2015-174 dated August 6, 2015 were issued.
2001-006-05-(00)	Feb 28, 2001	Mid-year FA 2000	601,919.70	-do-
2001-024-05-(00)	Mar 9, 2001	Year-end FA 2000	1,929,610.60	-do-
2001-022-05-(00)	Mar 6, 2001	Year-end FA 2000	735,243.34	-do-
2001-021-05-(00)	Mar 6, 2001	Bigay Pala Anniversary Bonus	742,573.90	-do-
2001-023-05-(00)	Mar 8, 2001	PIB	2,157,932.65	-do-
2001-019-05-(00)	Mar 6, 2001	Medical Allowance	287,500.00	-do-
2001-018-05-(00)	Mar 5, 2001	RATA	179,387.72	-do-
10-026-05-(09)	Jul 28, 2010	Cash Token- Jim G. Fondevilla	200,000.00	Notice of Finality of Decision and COA Order of Execution for failure to appeal within the six months appeal period. Motion for Reconsideration and To Stay the COE were filed at the Cluster 3 Corporate Government Sector by Mr. Jim Fondevilla and Ms. Jocelyn Toledo. Recall of Notice of Finality of Decision dated Mar 17, 2015 was issued for Alberto Agra in compliance with the memorandum dated February 27, 2015 of the Director, Commission Secretary to the Cluster Director, Public Utilities,

ND NO.	Date	Nature of disallowance	Amount	Status
				CGS.
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 for failure to appeal within the six months appeal period. Recall of Notice of Finality of Decision dated Mar 17, 2015 were issued for Alberto Agra in compliance with the memorandum dated February 27, 2015 of the Director, Commission Secretary to the Cluster Director, Public Utilities, CGS
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 for failure to appeal the Notice of Disallowance within the six months period Recall of Notice of Finality of Decision dated Mar 17, 2015 was furnished for Alberto Agra in compliance with the memorandum dated February 27, 2015 of the Director, Commission Secretary to the Cluster Director, Public Utilities, CGS.
Disallowances which are final and executory – Corporate Office			**14,373,371.91**	

MWSS Corporate Office
Audit Disallowances and Charges for Prior Years Transactions Issued in CY 2016

ND NO.	Date	Nature of disallowance and charges	Amount	Status
16-001-05-(14)	Jan 26, 2016	Rice Allowance	1,085,745.81	Within Appeal Period
16-002-05-(14)	Jan 26, 2016	Meal Allowance	1,041,600.00	Within Appeal Period
16-003-05-(14)	Jan 26, 2016	Meal Allowance	1,132,567.09	Within Appeal Period
Total Disallowances for MWSS CO			**3,259,912.90**	