



CORPORATE GOVERNMENT SECTOR

Cluster 3 – Public Utilities

June 26, 2018

THE BOARD OF TRUSTEES

Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara
Diliman, Quezon City

Ladies and Gentlemen:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Metropolitan Waterworks and Sewerage System (MWSS) for the year ended December 31, 2017.

The report consists of three Parts: I – the Independent Auditor's Report and the Audited Financial Statements, II – the Audit Observations and Recommendations, and III – the Status of Implementation of Prior Year's Audit Recommendations.

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements of MWSS for calendar year 2017, for reasons stated below:

1. Recognition of the Appraisal Capital Stock with year-end balance of P28.428 billion due to revaluation of the MWSS properties in prior years and realization of Appraisal Capital Stock to Retained Earnings totaling P7.955 billion;
2. The reported year-end balance of the account Other Receivables amounting to P5.611 billion was unreliable due to the inclusion of disputed claims by MWSI consisting of borrowing cost amounting to P4.048 billion despite its uncertainty of collection;
3. Turned-over MWSS properties to the two Concessionaires amounting to P67.280 billion per Inventory Report, upon privatization in CY 1997, were not reclassified as Service Concession Assets. Further, subsequent construction, development, acquisition, and upgrade of the service concession assets were not accounted for in the books; and
4. The existence of unreconciled/unverified, abnormal/negative and dormant balances totaling P1.788 billion affects the reliability and accuracy of total asset and liability account balances contrary to Sections 111 and 114(2) of PD No. 1445.

In addition to the audit observations which were considered in rendering an adverse opinion, below are the other significant audit observations and recommendations that need immediate action as well:

MWSS Corporate Office

1. Material variance of P1.924 billion existed between the book balances of domestic and foreign loans payable and the confirmed balance by the Bureau of the Treasury (BTr).

The issue on the JBIC/OECF loan as a grant/equity from the National Government remained unresolved resulting to non-remittance to the BTr of the accumulated P2.014 billion collections from the two Concessionaires for the payment of the aforementioned loan.

Recommendations:

- a. *Require the Finance Department to reconcile the variances/discrepancies in the Loans Payable account with the BTr to present fairly the financial position of the agency and provide explanation on the non-repayment of IBRD 1272; and*
 - b. *Set a definite period to settle/reconcile with the BTr on the issue of the JBIC/OECF loan and if found that it is indeed a loan, remit immediately to the BTr the amount collected from the Concessionaires as payment for the loan.*
2. Unreconciled net variance of P1.002 billion on Property, Plant and Equipment – General Administrative Equipment (PPE-GAE) and P776.271 million on Land and Land Rights between the records of Accounting and Property Management Departments.

Recommendation:

Reconcile the noted variances between the records of Accounting and Property Management Departments in accordance with COA Circular No. 80-124 and effect necessary adjustments.

3. The Advances to Contractors account year-end balance totaling P851.809 million, P278.402 million (net) or 33 percent remained unrecouped/outstanding for more than four (4) years which deprived MWSS of additional funds for operation, contrary to Section 5.3 Annex E, RIRR of RA 9184.

Recommendations:

- a. *Analyze the advances to contractors account and determine the causes of the negative balances, and effect the necessary adjustments to reflect the correct and accurate book balances;*
- b. *Initiate legal action against the contractors to recoup the advances; and*
- c. *Blacklist the contractors who have outstanding advances from MWSS.*

MWSS Regulatory Office

1. Notices of Disallowance with issued Notice of Finality of Decision (NFD) amounting to P78,508,955.76 was not recorded in the books as of year-end, contrary to Section 22.6 of COA Circular No. 2009-006, dated September 15, 2009 re: Rules and Regulations on Settlement of Accounts (RRSA).

Recommendations:

- a. Record as Receivables the amount of P78,508,955.76 as of December 31, 2017; and*
 - b. Cause the immediate settlement and payment of the disallowances by persons found liable pursuant to Sections 7.1.1 and 7.1.3, Chapter II, of the RRSA.*
2. Loans amounting to P25 million granted to MWSS-RO Multi-Purpose Cooperative for land development and house construction remained with the Cooperative in spite the non-realization/accomplishment of the project, has incomplete documentation and fails the public purpose test as required under Sections 4 (6) and 4 (2) of PD 1445.

Recommendation:

Take legal action against the MWSS-RO Multipurpose Cooperative to collect or ensure the refund of the seed money including all accruing interest from CY 2005 up to the present.

3. Receivables totalling P1,091,209.26 from separated/retired officers/employees representing Motor Vehicle Loans remained outstanding for more than 10 years.

Recommendations:

Take the appropriate legal action to recover the unpaid receivables from the separated/retired employees in order to protect its interest and more importantly recover public funds.

4. Loan amortization arrears totalling P544,261.10 from six (6) former employees with receivable balance of P2,542,471.08 as of year-end have not been collected, in violation of the provision of the Loan Contract, thus depriving MWSS-RO of funds which can be used for other public purposes.

Recommendations:

- a. Take legal action to immediately collect the P544,261.10 arrears or the entire loan balance consistent with the loan contract and revisit its policy on any accommodation or arrangements in the payment amortizations thru post-dated checks; and*
 - b. Consider the immediate settlement of all loans from resigning employees since any half measure further exposes the agency from employees absconding from their obligation as evident in several cases on its loan receivables.*
5. Receivable amounting to P514,470.98 from a recently deceased employee representing Motor Vehicle Loan has no clear guideline for settlement resulting to lost initiative or opportunity to protect government assets.

Recommendations:

- a. Take appropriate action to transfer legal ownership of the motor vehicle from the deceased employee to MWSS-RO and consider all options to maximize the use of the asset and protect public interest; and*
 - b. Formulate guidelines to be adopted and implemented in similar circumstances.*

6. MPLP Loan amortization (Housing and Car Loan) of 21 current employees amounted to P17,500.00 or a measly .002% of the total amount due of P7,394,947.91 as of December 31, 2017, indicates a dismal and grossly disproportionate collection rate compared to their capacity to pay resulting to arrearages, contrary to the provisions of the Loan Contract and to the detriment of public interest.

Recommendations:

- a. Re-evaluate/revisit the paying capacity of concerned employees vis-a-vis their actual net pay to date so that loans are fully paid within the period stipulated in the contracts; and*
- b. Invoke the Deed of Assignment in case of Motor Vehicle loan defaults where the MWSS RO is authorized to collect the proceeds from the employees' salaries, bonuses, insurance, benefits and other emoluments to ensure the full payment of the loan.*

In letters of even date, we requested the Administrator, MWSS CO and the Chief Regulator, MWSS RO, to implement the recommendations contained in the report and to inform this Office of the actions taken thereon within 60 days from the date of receipt.

We acknowledge the support and cooperation that the Management extended to the Audit Teams, thus facilitating the completion of this report.

Very truly yours,

COMMISSION ON AUDIT

By:


LEILA S. PARAS
Director IV

Copy Furnished:

The President of the Republic of the Philippines
The Vice President
The President of the Senate
The Speaker of the House of Representatives
The Chairperson – Senate Finance Committee
The Chairperson – Appropriations Committee
The Secretary of the Department of Budget and Management
The Governance Commission for Government-Owned or Controlled Corporations
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COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

METRO MANILA WATERWORKS
& SEWERAGE SYSTEM
ADMINISTRATOR'S OFFICE

June 26, 2018

RECEIVED BY:
NAME: Sa 27 JUN 2018
DATE: 8424

PDDG REYNALDO V. VELASCO (Ret.)

Administrator
Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara
Diliman, Quezon City

Dear PDDG Velasco:

Pursuant to Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines, we transmit herewith our report on the results of the audit of the accounts and transactions of the Metropolitan Waterworks and Sewerage System (MWSS) for the year ended December 31, 2017.

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4. The existence of unreconciled/unverified, abnormal/negative and dormant balances totaling P1.788 billion affects the reliability and accuracy of total asset and liability account balances contrary to Sections 111 and 114(2) of PD No. 1445.

In addition to the audit observations which were considered in rendering an adverse opinion, below are the other significant audit observations and recommendations that need immediate action as well:

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Recommendations:

- a. Require the Finance Department to reconcile the variances/discrepancies in the Loans Payable account with the BTr to present fairly the financial position of the agency and provide explanation on the non-repayment of IBRD 1272; and*
 - b. Set a definite period to settle/reconcile with the BTr on the issue of the JBIC/OECF loan and if found that it is indeed a loan, remit immediately to the BTr the amount collected from the Concessionaires as payment for the loan.*
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- b. Initiate legal action against the contractors to recoup the advances; and*
- c. Blacklist the contractors who have outstanding advances from MWSS.*

We respectfully request that the recommendations contained in Parts II and III of the report be implemented and that this Commission be informed of the actions taken by accomplishing the Agency Action Plan and Status of Implementation Form (copy attached) and returning the same to us within 60 days from the date of receipt hereof.

We acknowledge the support and cooperation that the Management extended to the Audit Team, thus facilitating the completion of this report.

Very truly yours,

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Commonwealth Avenue, Quezon City, Philippines

CORPORATE GOVERNMENT SECTOR
Cluster 3 – Public Utilities

June 26, 2018

ATTY. PATRICK LESTER N. TY
Chief Regulator
Metropolitan Waterworks and Sewerage System
Katipunan Road, Balara
Diliman, Quezon City

MWSS Regulatory Office
OFFICE OF THE CHIEF REGULATOR

RECEIVED

By: AL
Date: JUN 27 2018
Time: 8:00am

Dear Atty. Ty:

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