

AUDIT OBSERVATIONS AND RECOMMENDATIONS

A. Financial Audit – Corporate Office

Non-adoption of the Accounting Standards for Service Concession Arrangement

1. A total of P156.884 billion in assets and its upgrades provided by the Concessionaires under the concession agreements with the MWSS were not recognized in the MWSS books, contrary to IPSAS 32 – Service Concession Arrangements: Grantor, thereby, understating the assets, liability and revenue accounts.

- 1.1. For the assets account, the provisions of IPSAS 32 – Service Concession Arrangements: Grantor, applies as it prescribes the accounting for service concession arrangements by the grantor. Under paragraph 8, definitions thereof, a service concession asset is defined as follows:

A service concession asset is an asset used to provide public services in a service concession arrangement that:

a. Is provided by the operator which

- i. The operator constructs, develops, or acquires from third party; or;*
- ii. Is an existing asset of the operator; or*

b. Is provided by the grantor which

- i. Is an existing asset of the grantor; or*
- ii. Is an upgrade to an existing asset of the grantor.*

- 1.2. Also, paragraph 9 of IPSAS 32 – Service Concession Arrangements: Grantor provide the criteria for the recognition and measurement of service concession asset, to wit:

The grantor shall recognize an asset provided by the operator and an upgrade to an existing asset of the grantor as a service concession asset if:

- a. The grantor controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price; and**
- b. The grantor controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the asset at the end of the term of the arrangement.**

1.3. As regards the liabilities account, paragraphs 14 and 15 of said IPSAS state the recognition and measurement criteria as follows:

14. **Where the grantor recognizes a service concession in accordance with paragraph 9, the grantor shall also recognize a liability. The grantor shall not recognize a liability when an existing asset of the grantor is reclassified as a service concession asset in accordance with paragraph 12 xxx.**

15. **The liability recognized in accordance with paragraph 14 shall be initially measured at the same amount as the service concession asset xxx. (Underscoring ours.)**

1.4. Moreover, as for the revenue part, the *Grant of a Right to the Operator Model* is one of the means to compensate the Concessionaires in exchange for the service concession asset. Paragraph 24 of IPSAS 32 provides that:

When the grantor does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the grantor shall account for the liability as the unearned portion of the revenue arising from the exchange of assets between the grantor and the operator.

The grantor shall recognize revenue and reduce the liability according to the economic substance of the service concession arrangement. (all underscoring supplied)

1.5. The concession agreements entered into by the MWSS on 21 February 1997, with the Manila Water Company, Inc. (MWCI) and the Maynilad Water Services, Inc. (MWSI), granted each Concessionaires, the right to manage, operate, repair, decommission and refurbish the Facilities in the Service Area including the right to bill and collect for water and sewerage services supplied in the Service Area.

1.6. In CY 2017, the Audit Team observed and recommended the reclassification to Service Concession Assets of all existing assets totaling P27 billion provided by the Grantor (the MWSS) to the concessionaire/operator, upon the privatization of MWSS in CY 1997. MWSS complied with the said recommendation in CY 2019. Upon verification, however, it was noted that a substantial amount of approximately P153 billion based on the CY 2018 Audited Financial Statements of the concessionaires were not recognized in the books. The still unrecognized assets pertain to those operator-provided assets which the operator constructs, develops, or acquires from a third party; or an existing asset of the operator; or an upgrade to an existing asset of the grantor.

1.7. These unrecorded Service Concession Assets resulted in the understatement of the Plant Property and Equipment (PPE) account which is equivalent to the total

cost of the subsequent changes, net of accumulated depreciation accounted under cost model. Likewise, no corresponding liability and revenue were recognized as prescribed under the *Grant of a Right to the Operator Model*.

- 1.8. The CY 2019 Notes to the Financial Statements (FS) of the MWSS however showed that there was Service Concession Assets in the total amount of P156.884 billion (MWCI P71.272 billion and MWSI P85.612 billion) provided by the concessionaires/operators and all upgrade to the existing assets of the grantor pertaining to the historical cost as recorded by the concessionaires. This amount does not include the General and Administrative Equipment (GAE) which the concessionaires recognized as regular PPE items and not as service concession assets. The details are shown below:

Manila Water Company Inc. (MWCI)

Particulars	Cost	Amortization	Net Book Value
a. Water Facilities and Transmission Lines			
House Service Connection (water)	271,181,135	(271,036,196)	144,939
Water Meters	2,573,881,552	(919,593,869)	1,654,287,683
Supply Mains	4,333,855,804	(1,190,040,499)	3,143,815,306
Transmission & Distribution Mains	27,467,192,871	(9,484,641,022)	17,982,551,849
Service Pipe Replacement	3,271,117,063	(1,588,817,855)	1,682,299,208
Distribution Reservoir and Booster	5,905,264,345	(1,790,859,169)	4,114,405,176
Wells and Facilities	495,874,903	(131,937,157)	363,937,746
Water Treatment Plant	6,834,475,623	(1,172,902,404)	5,661,573,219
b. Used Water Facilities and Transmission Lines			
House Service Connection (used water)	87,564,842	(35,422,499)	52,142,343
Transmission and Discharge Mains	7,475,743,327	(1,148,044,553)	6,327,698,775
Sewer Network Improvement	70,541,857	(13,712,080)	56,829,777
Sewer Treatment and Pumping Station	8,662,459,520	(1,128,395,823)	7,534,063,696
c. Land	712,083,696	(95,517,401)	616,566,295
d. Construction in Progress	21,842,955,322	0	21,842,955,322
e. General and Admin Building and Structure	580,459,679	(341,437,558)	239,022,121
TOTAL	90,584,651,539	(19,312,358,085)	71,272,293,454

The data above are based on the December 31, 2019 audited financial statements of the MWCI submitted to MWSS.

Maynilad Water Services Inc. (MWSI)

Particulars	Cost	Amortization	Net Book Value
a. Completed			
Water Utility Plant	59,181,514,118	(14,545,899,786)	44,635,614,332
Sewer Utility Plant	7,420,294,272	(1,823,793,434)	5,596,500,838
Concession Rehabilitated Facilities	4,274,492,707	(1,050,604,120)	3,223,888,587
Common Purpose Facilities	645,736,702	(158,712,083)	487,024,619
Improvements	913,335,397	(224,483,698)	688,851,699
Land	3,549,533,500	(872,420,372)	2,677,113,128
b. In-Progress			
Construction in Progress	27,770,749,729	0	27,770,749,729
Inventories	531,832,383	0	531,832,383

Particulars	Cost	Amortization	Net Book Value
TOTAL	104,287,488,808	(18,675,913,493)	85,611,575,315

The data above are based on the December 31, 2019 audited financial statements of the MWCI submitted to MWSS.

- 1.9. The disclosure of the said assets in the Notes to FS does not cure the non-recognition of the same as it is contrary to paragraph 6.9 re: Disclosure and Recognition of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities which provides that:

The failure to recognize items that meet the definition of an element and the recognition criteria is not rectified by the disclosure of accounting policies, notes or other explanatory detail. xxx

- 1.10. The criteria mentioned in paragraphs 1.1 to 1.4 above is clear that no amount of disclosure can correct the non-compliance with the financial reporting framework on recognition as well as the provisions of IPSAS 32 – Service Concession Arrangements: Grantor, specifically the recognition in the grantor's books of the assets provided by the operator and the upgrade to an existing assets of the grantor as a service concession asset.
- 1.11. MWSS sent a letter on November 7, 2019 to the Director of the Accounting Systems Development and Other Services Office, Government Accountancy Sector, Commission on Audit requesting for a four-year transition period in the implementation of IPSAS 32 – Service Concession Arrangements: Grantor. One of the issues raised by the MWSS is the recognition and measurement of Service Concession Assets, in particular, the provisions on the measurement basis for operator-provided assets as prescribed in paragraph 11 of IPSAS 32 – Service Concession Arrangements: Grantor, to wit -

*The grantor shall initially measure the service concession asset recognized in accordance with paragraph 9 (or paragraph 10 for a whole-of-life asset) at its **fair value**, except as noted in paragraph 12. (emphasis ours)*

- 1.12. The said letter stated that MWSS cannot yet recognized the amount as disclosed in the Notes to FS pending the appraisal of those assets which will be conducted in 2020 to 2022, if possible.
- 1.13. It rooted from the issue that no current fair value is available for the Service Concession Assets contrary to the requirement of paragraph 11 of IPSAS 32 – Service Concession Arrangements: Grantor, that the SCA should initially be recorded at its fair value. MWSS also added that the appraisal of SCAs of the two concessionaires all over Metropolitan Manila and in some parts of Rizal, Bulacan, Cavite and Laguna will be costly, time-consuming and impractical as of the moment.
- 1.14. The unavailability of the current fair value resulted in the delay of the recognition of the assets in the books until the appraised value is determined. In the aforementioned letter of the MWSS, it is apparent that the “fair value” being referred to was taken as synonymous to the “appraised value”. To this, the Audit

Team contends to the contrary since paragraph 7 of the Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities provides the objective of measurement of assets and liabilities in the financial statements which states –

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7.2 *To select those measurement bases that most **fairly reflect** the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account, and for decision-making purposes. (emphasis ours)*

xxx

7.6 *The following measurement bases for assets are identified and discussed in terms of the information they provide about the cost of services delivered by an entity, the operating capacity of an entity and the financial capacity of an entity, and the extent to which they provide information that meets the qualitative characteristics:*

- *Historical cost;*
- *Market value;*
- *Replacement cost;*
- *Net selling price; and*
- *Value in use.*

xxx

7.13 *Historical cost for an asset is:*

The consideration given to acquire or develop an asset, which is the cash or cash equivalents or the value of the other consideration given, at the time of its acquisition or development.

xxx

7.24 *Market value for assets is:*

The amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

7.25 *At acquisition market value and historical cost will be the same, if transaction costs are ignored and the transaction is an exchange transaction. The extent to which market value meets the objectives of financial reporting and the information needs of users partially depends on the quality of the market evidence. xxx (underscoring supplied)*

1.15. It can be inferred from the above provisions that the fair value as indicated in paragraph 11 of IPSAS 32 – Service Concession Arrangements: Grantor does not mean appraised value since the term “Appraised Value” as used by the Management technically falls under the definition of the market value which is

formula based computation at a specific point in time while the term “Fair value” pertains only to the measurement basis that would harmonize the qualitative characteristics set forth in the Conceptual Framework that items of assets and liabilities to be recognized must be relevant and faithfully represented. Also, it is stated in the Conceptual Framework that the Fair value is a model to represent a specific measurement outcome, thus, as discussed above, at initial measurement, the historical cost and the market value will be the same and be used as the fair value in measuring the service concession assets.

1.16. Further, in the IPSAS Philippine Application Guidance for PPE, the Cost Model is prescribed for the subsequent measurement of the PPE. Thus, recognition of those assets into the books using the appraised amount would be tantamount to a violation of the accounting standards set by the Commission on Audit.

1.17. **We recommended that Management:**

- a. **Account the service concession assets provided by the Concessionaires and subsequent costs incurred for the upgrade of all service concession assets, and recognize the same in the MWSS books under the cost model; and**
- b. **Recognize the corresponding liability and revenue under the Grant of Right to the Operator Model.**

1.18. Management agreed with our recommendations but explained further that with regard to the first recommendation, it shall comply as soon as it receives the updated data from the Concessionaires. Management however stressed that it is faced with the dilemma on the depreciation of subject assets, as the Concessionaires do not maintain records on a per asset basis. They recognize service concession assets in lump amount or per project. Further, the Concessionaires amortize service concession assets over the life of the concession agreement. Hence, MWSS would not be able to initially recognize the corresponding accumulated depreciation of the assets having no basis for the same.

1.19. We contended otherwise, considering that there is available information with the concessionaire for the assets recorded as intangible assets and subsequent amortization related thereto which the MWSS may use as basis in recording the assets and accumulated depreciation. Also, it emphasized that depreciation is a form of accounting estimate, wherein the capitalized cost is being recognized on a piecemeal basis as expense wherein depreciation of such assets will begin only when the assets are ready to be used/utilized. Thus, although the various asset component were acquired on different dates, the depreciation of those will begin on the same period the collective asset/ lumped assets were used. Considering further that since the depreciation is an accounting estimate, Management is not precluded to adjust the depreciation as soon as an objective evidence becomes available, which will provide basis in recording depreciation more accurately.

Property, Plant and Equipment

2. The validity and accuracy of the Property, Plant and Equipment (PPE) account balance of P46.094 billion remained doubtful due to: a) absence of proof of ownership over the 175 land assets totaling 3,784,012.70 sq. m. with net book value of P4.912 billion and unrecorded 23 land titles; b) Improperly recorded transactions totaling P1.013 billion; c) unreconciled net variance of P3.247 billion on Land, Office Building and Other Structures between the records of Finance Department and Inventory Report of the Asset Management Department; and d) inexistent, dilapidated, non-operational and/or abandoned various Office Building and Other Structures totaling P5.117 billion, hence, contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements and Section 58 of P.D. No 1445. Moreover, unserviceable properties totaling P266.553 million remained undisposed, while the Physical Inventory Report as of December 31, 2019 was not submitted.

2.1. Paragraph 27 of IPSAS 1 – Presentation of Financial Statements, provides 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 definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in the IPSAS.

2.2. Also, Section 58 of P.D. No 1445 provides that:

The examination and audit of assets shall be performed with a view to ascertaining their existence, ownership, valuation and encumbrances as well as the propriety of items composing the respective asset accounts, determining their agreement with records; proving the accuracy of such records; ascertaining if the assets were utilized economically, efficiently and effectively, and evaluating the adequacy of controls over the accounts.

2.3. The MWSS is an asset-based agency, wherein its total assets is 123.64 percent of its Equity and its Property, Plant and Equipment is 78.80 percent of its total assets. For CY 2019, the PPE has a gross balance of P92.453 billion and a net book value of P46.094 billion, as shown in the table below. The net book value is equivalent to almost 80 percent of its total assets of P57.839 billion. The PPE account consists of small-value General and Administrative Equipment (GAE) to complex and high-value government resources such as land and land rights, buildings and other structures. The largest of which is the service concession assets assigned to the concessionaires MWSI and MWCI by virtue of the Concession Agreement entered into by the MWSS with them.

Account Title	Cost	Accumulated Depreciation	Net Book Value
Land	P 13,421,611,542	-	P 13,421,611,542
Building and Other Structures	5,674,773,377	P 3,056,413,327	2,618,360,050
Machinery and Equipment	302,708,440	267,943,677	34,764,763

Transportation Equipment	22,966,428	13,872,904	9,093,524
Furniture, Fixtures and Books	1,621,676	1,402,062	219,614
Service Concession Assets	69,214,926,360	43,019,277,554	26,195,648,806
Construction in Progress	3,814,206,009	-	3,814,206,009
Heritage Assets	40,000	36,000	4,000
Total	P 92,452,853,832	P 46,358,945,524	P 46,093,908,308

- 2.4. In the analysis of the PPE account, we noted the following:
- a. **The absence of proof of ownership over the 175 land assets totaling 3,784,012.70 sq. m. with net book value of P4.912 billion; and the unrecorded 23 land titles, casting doubt on the propriety and completeness of recognition of assets into the books, hence, not in consonance with the Conceptual Framework for General Purpose Financial Reporting by Public Sector.**
 - a.1. The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities define asset as *a resource presently controlled by the entity as a result of past event*.
 - a.2. Since MWSS is claiming rights over the subject land items, it is imperative therefor that the Asset Management Department (AMD), as the custodian and repository of proof of ownership, has in its safekeeping all the Certificate of Titles of MWSS properties. Land title is the evidence of the right of ownership or extent of interest over the property, and by which control can be exercised and maintained as well as to assert the right to the exclusive possession and enjoyment of the property.
 - a.3. During the last inventory and inspection conducted by the Audit Team, of the MWSS land titles in the safekeeping of the AMD in a secured vault, it was noted that there are 104 missing land titles as indicated in the Inventory Report. The report covers land titles for lands with total area of 1,369,437.90 sq. m. and a net book value of P2.047 billion.
 - a.4. Likewise, also missing are the land titles of 71 land items in the AMD inventory listing with total lot area of 2,404,574.80 sq.m. with no corresponding land title numbers valued at P2,864,323,184.
 - a.5. In addition, there are 23 land titles in the custody of the AMD with total area of 3,542,562.65 sq. m. which are not included in the Physical Inventory Report and not recorded in the Accounting records.
 - a.6. These deficiencies pose doubt on the validity of the ownership claims of MWSS over these lands and on the adequacy of record-keeping and monitoring of all MWSS land titles. Thus, the assets as presented in the Financial Statements may be overstated.

- a.7. The AMD however, averred that the MWSS had already filed the applications/petitions for the registration of titles in the name of the MWSS for lands without registered titles and follow up will be made to the appropriate government agency for the issuance of the decree of registration. It was also mentioned that the titling of San Juan Stockyard and Tondo Pumping Station is on-going.

b. Improperly recorded transactions

- b.1. **Thirteen lots reported as not-in-service valued at P853.253 million remained recorded under the PPE-Land account instead of as Investment Property account, thus, contrary to IPSAS 16 – Investment Property.**

- a. The IPSAS 16 – Investment Property, define Investment Property as a property *held to earn rentals or for capital appreciation rather than for use in the ordinary course of business or for administrative purposes*. It also prescribes the cost model to be used for subsequent measurement of an Investment Property.
- b. To date, various items of land with total area of 309,463 sq. m. remain erroneously recorded in the books as PPE-Land instead of as Investment Property for several years already resulting in the misclassification of asset accounts in the financial statements. These are the property shown below:

Location	No. of Lots	Amount
Marikina City	2	P 20,685,080
Muntinlupa City	1	80,000,000
Pasig City	1	291,000
Quezon City	2	735,000,000
San Mateo, Rizal	7	17,276,960
Total	13	P 853,253,040

- b.2. **Six completed projects with accumulated cost of P159.654 million remained recorded in the CIP account instead of the appropriate asset account, contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements.**

- a. Paragraph 27 of IPSAS 1 – Presentation of Financial Statements, provides 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 definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. xxx.

- b. Verification of the MWSS Report on Programs/Projects/Activities showed that the following projects were no longer included among the on-going projects since these were already completed in CY 2002 to 2009, to wit:

Fund No.	Project Name	Balance
Fund 77	Angat Water Supply Optimization Project	P 82,574,731
Fund 78	Manila Water South Distribution Project	3,103,585
Fund 82	Umiray Angat Transbasin Project	10,002,973
Fund 84	Manila Second Sewerage Project	2,478,440
Fund 90	New Water Sources Development Project	10,817,117
Fund 91	Manila Third Sewerage Project	50,677,422
Total		P 159,654,268

- c. The completed projects remain recorded as CIP and are still subject for reclassification to its appropriate PPE account. As a result of the non-reclassification, the assets were not depreciated accordingly, and thus, it overstated the total assets and Retained Earnings for the unrecognized depreciation expenses.
- d. Inquiry with the Finance Department (FD), disclosed that the FD are still awaiting submission of documents from the Engineering Department to support the reclassification.
- c. **Unserviceable properties totaling P266.553 million remain undisposed, contrary to National Budget Circular (NBC) No. 425 or the Manual on Disposal of Government Property.**

- c.1. Section A, Part I of NBC No. 425 or the Manual on Disposal of Government Property provides that-

xxx the disposal proceedings on the unserviceable property should be immediately initiated to avoid further deterioration of the property and consequent depreciation in its value.

- c.2. Although Management has increased its efforts to dispose unserviceable GAEs for CY 2018 and CY 2019, a significant balance of P266.553 million unserviceable GAEs remain undisposed and which may further deteriorate and lost its value. The details are as follows:

Unserviceable GAEs	Net Book Value
Turned Over old GAE by MWSI	P 213,395
Turned Over old GAE by MWCI	1,077,000
MWSS Unserviceable old GAE	1,300,000
Turned Over Project GAE by MWSI	133,280,689
Turned Over Project GAE by MWCI	236,187,874
Total Unserviceable GAE as of CY 2016	372,058,958
Disposed in CY 2017	(7,896,621)
Disposed thru transfer in CY 2018	(23,180,321)
Disposed thru public bidding in CY 2019	(74,428,915)

Total Undisposed Unserviceable GAE as of December 31, 2019	P 266,553,101
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- c.3. From the CY 2016 year-end balance of P372.059 million of the unserviceable properties, analysis of the reduction thru disposal proceedings from CY 2017 to CY 2019, are shown below:

Period Covered	Net Book Value	Percentage of Disposal
CY 2017	P 7,896,621	2.12%
CY 2018	23,180,321	6.23%
CY 2019	74,428,915	20.00%
Total	P 105,505,857	28.36%

- c.4. In CY 2019, the MWSS generated P22.530 million from the proceeds of the disposal of various unserviceable properties thru public bidding such as 16 trucks, scrap metals and copper materials. Consequently, P74,428,915 net book value of unserviceable GAE were dropped from the books, leaving a net balance of P266,553,101 of the undisposed unserviceable GAE as of CY 2016.
- c.5. The table above does not include the still unaccounted MWSS GAE that became unserviceable from CY 2017 to 2019, since the last monitoring report submitted by the AMD was only as of CY 2016. Further, the CY 2016 report did not include all assets other than the GAE that became unserviceable to the MWSS. Thus, MWSS unserviceable properties amounting to P259,171,787 dropped from the books pertain to items of Other Structures which are also part of the proceeds from the disposal in CY 2019.
- d. Variance between accounting records and CY 2018 inventory report continue to exist and remained unreconciled because Physical Inventory Report as of December 31, 2019 was not submitted, in violation of COA Circular No. 80-124 dated January 18, 1980, thus, affecting the fairness of presentation of the account in the Financial Statements of CY 2019.**

- d.1. COA Circular No. 80-124 dated January 18, 1980 provides that –

Physical inventory-taking is an indispensable procedure for checking the integrity of property custodianship which has to be regularly enforced and that the inventory reports shall be submitted to the Auditor not later than January 31 of each year, unless extended by the Chairman upon prior request of the concerned head of agency.

- d.2. It is worthy to note that inventory-taking is not only an indispensable procedure, but also a logical activity to perform, taking into account the materiality and significance of the MWSS properties in relation to its total assets.

- d.3. For CY 2019, it was noted that Office Order No. 2019-172 dated 8 July 2019 was issued by MWSS which requires: a) that the inventory reports shall be prepared based on the prescribed forms; b) to be properly reconciled with the accounting and inventory records not later than December 31, 2019; and c) that the inventory committee shall submit the final report on or before 20 January 2020 to the Administrator for approval duly noted by the COA Auditor.
- d.4. Management, however, was not able to complete the inventory of its PPE due to the volume of properties to physically count, compared to the manpower that were tasked to conduct the inventory-taking. As such, no physical inventory report was submitted to this Office in violation of the abovementioned Circular which require the submission of the inventory reports not later than January 31 of each year.
- d.5. The non-submission of the inventory report, further justified this continuing observation as it affects and greatly impact the fairness of presentation of the Financial statements of CY 2019 as follows:
- a. **Unreconciled net variance of P3.247 billion on Land, Office Building and Other Structures between the records of Finance Department and the Physical Inventory Report (PIR) of the Asset Management Department**
- a.1. COA Circular No. 80-124 re: Inventory of Fixed Assets of Government Owned and/or Controlled Corporations provides that the inventory report shall be properly reconciled with the accounting records.
- a.2. For the MWSS however, the Accounting records and PIR showed a net variance of P3.247 billion. The details are presented below.

Account Name	Net Book Value		
	Accounting Records	PIR	Variance
Land <i>(including SCA and Other Assets)</i>	P 20,566,733,876	P 19,645,529,227	P 921,204,649
Office Building	166,936,217	180,004,053	(13,067,836)
Other Structures	22,920,897,466	27,076,897,095	(4,155,999,629)
Total	P 43,654,567,559	P 46,902,430,375	P (3,247,862,816)

a.3. The variances were attributable to the following:

For Land:

- a. 69 parcel of land lots with book value of P931,524,049 and a land with property number "201-01-99-For recon 580tsqm" with a negative balance of P10,319,400 were

recognized in the Accounting records but not included in the CY 2018 Inventory report.

- b. Included in the Inventory Report are 75 lots with total area of 1,852,728 sq. m., of which 19 are with supporting documents in the custody of AMD and 56 are still for verification. These were not recognized in the Accounting records pending determination of the fair market value of the properties.

For Office Building:

- c. Four items of Office Building with net book value of P1,986 were not recorded in the accounting records. However, **three** of which valued at P1,225 have original cost which do not meet the capitalization threshold.
- d. 28 items of Office Buildings have a net book value of P117,126,156 in the PIR which is higher than the accounting books by P13,065,850.

For Other Structures:

- e. 14 Other Structures with net book value of P6,753,370 were recorded in the accounting books but not included in the last available Inventory Report. On the other hand, seven other structures costing P7,700,675 were included in the said Inventory Report but not recorded in the accounting books.
 - f. Other Structure with property No. 215-01-03-03-1-SPMN-03-00019 was presented both in the Inventory Report for CY 2018 and turned over Common Purpose Facility (CPF) but with different amounts. For the CPF, P2,848,891,432 was recorded while for the turned over assets to MWSI, P2,739,958,780 was recorded.
 - g. 485 Other Structures reported a balance of P21,096,403,465 per Inventory Report which is higher than the net book value per accounting books by P1,414,845,454.
 - h. P248,089.68 worth of other structures were undetermined reconciling items.
- b. **Inexistent, dilapidated, non-operational and/or abandoned Office Building and various Other Structures totaling P5.117 billion**

- b.1. Review of the CY 2018 Inventory Report showed that 76 items of Office Building and 428 items of Other Structures with net book value of P5,116,572,572 were non-existing/missing, abandoned, dilapidated or non-operational, thus, the existence of the PPE and the validity of the year-end account balance is doubtful, as follows:

Office Building

Status	No. of Items	Net Book Value
Not existing	66	P 786,911
Dilapidated	10	807,646
Total	76	P 1,594,557

Other Structures

Status	No. of Items	Net Book Value
Not existing	298	P 72,767,484
Abandoned	17	272,318,035
Dilapidated	8	1,428,496
Non-operational	105	4,768,464,000
Total	428	5,114,978,015

2.5. We reiterated our recommendations that Management:

- a. **On the land property titles:**
 - a.1. **Secure the land titles of the 175 land assets to support the MWSS claims of ownership over the lands recorded in the books;**
 - a.2. **Evaluate the unrecorded 23 land titles whether these should be included in the Inventory Report and taken up in the books of accounts; and**
 - a.3. **Ensure proper safekeeping of the land titles.**
- b. **Effect the necessary reclassification entries on the following:**
 - b.1. **Land reported as not-in-service recorded in the accounting books as PPE-Land to the appropriate Investment Property account pursuant to IPSAS 16 – Investment Property.**
 - b.2. **The cost of completed projects from CIP account to the appropriate PPE accounts duly supported with Certificate of Completion and Acceptance and the depreciation computed from the year of the project completion.**
- c. **Expedite the disposal through public auction, of all unserviceable properties and prioritize those assets still recorded in the books to**

avoid further deterioration and decline in value of the subject assets and to generate additional funds for the Agency.

d. Comply with the following:

d.1. Submit the Physical Inventory Report as of December 31, 2019 with proper analysis and reconciliation with the Accounting records to establish the accuracy of the recorded balances of the PPE accounts;

d.2. Provide a specific status on the properties reported as not-in-service and abandoned together with a Management plan for the utilization of these properties; and

d.3. Account for the various items of PPE which cannot be located/missing.

2.6. Management informed that the applications/petitions for lands without registered titles are to be followed up to the appropriate government agency for the issuance of the decree of registration.

2.7. With regard to the reclassification of lands, the Finance Department will review the available physical inventory report to determine the intended use of the lots and make the necessary reclassification to investment property in CY 2020 Financial Statements; while for the CIP, reclassification will be effected upon verification of supporting documents.

2.8. Management also averred that the Asset Management Department is conducting an on-going reconciliation and ocular inspection of Other Structures/Office Building turned over to the Concessionaires to determine the present status of those assets which may be recommended for proper disposal.

<i>Other Assets</i>

3. The Other Assets account balance of P724.425 million is not reliable due to absence of objective evidence of existence as evident in the: (a) undocumented garnished, dormant and unreconciled accounts totaling P685.609 million; and (b) unmonitored and undisposed non-operational assets amounting to P38.816 million, thus, contrary to the qualitative characteristic of faithful representation provided in paragraph 27 of the IPSAS 1 – Presentation of Financial Statements.

3.1. Paragraph 27 of IPSAS 1 – Presentation of Financial Statements, as stated in paragraph 2.4.b.2.a of this report, is used as criteria for this observation.

3.2. Also, Sections 111 and 114 (2) of Presidential Decree No. 1445 state that:

Section 111. Keeping of accounts

- (1) *The accounts of an agency shall be kept 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.*
- (2) *The highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information."*

Section 114. The general ledger

xxx

- (1) *Subsidiary record shall be kept where necessary.*

3.3. Analysis of the Other Assets account with a year-end balance of P724,425,299 revealed the following recurring inclusions:

a. **Undocumented garnished, dormant and unreconciled accounts totaling P685.609 million**

- a.1. Various items under Other Assets remained not supported with sufficient and relevant documents thereby affecting the reliability of the account. Details are as follows:

Particulars	Amount
Garnished Accounts	P 10,613,512.00
Dormant Accounts	688,359,479.00
Allowance for Impairment	(519,000,421.23)
Unallocated cost of consultancy and other services	6,212,055.00
Unreconciled Accounts	499,424,638.42
Total	P 685,609,263.19

- a.2. The Notes to the 2019 Financial Statements disclosed that the above balances were carried forward since the implementation of the eNGAS in CY 2007. Some of the accounts are subject for reconciliation while others are to be requested for write off, like the dormant receivable accounts which has a high probability of uncertainty of collection.

- a.3. To date, the Audit Team have not received any request for write-off from the MWSS Corporate Office.

b. **Unmonitored/undisposed various non-operational assets amounting to P38.816 million**

- b.1. Non-operational assets which remain undisposed for more than 10 years totaled P38,816,036, details below:

Non-operational Assets	Amount
------------------------	--------

Pipes	P 18,951,055
Structures and Improvement	1,304,866
Distribution, Reservoir and Standpipes	146,068
Buildings and Improvement	14,252,070
Wells and Facilities	3,734,777
Sewer Treatment Equipment	427,200
Total	P 38,816,036

- b.2. Verification of the disposal records/documents showed that, except for the sale of pipes in CYs 2011 to 2013 to several MWSS employees amounting to P177,260 or a mere 0.46 percent of the P38.816 million, there was no disposal of these non-operational assets for more than 10 years.
 - b.3. Further, these assets are not being monitored by the AMD as disclosed by the AMD personnel that the whereabouts and status of these non-operational assets are uncertain/doubtful.
- 3.4. The above factors casts doubt on the veracity of the balance of the Other Asset account as reflected in the financial statements including its disclosure in the Notes to FS.
- 3.5. **We reiterated our previous years' recommendation and Management agreed to require the Finance and the Asset Management Departments to:**
 - a. **Analyze the composition of all garnished, dormant and unreconciled assets totaling P685.609 million based on the available data /records and to submit the details/schedules and other supporting documents;**
 - b. **Submit schedule and status of the physical existence of the various non-operational assets amounting P38.816 million which remain undisposed for more than 10 years; and**
 - c. **Conduct regular monitoring of these non-operational assets and prepare the necessary monitoring report thereon.**
- 3.6. Management explained that it poses a big challenge on their part in locating the documents to support the corresponding amount since the accounts pertain to prior years and there was no turnover of documents from the previous employees handling the accounts. However, Management stated that they will abide with the recommendation; exert the necessary efforts to reconcile the accounts; and submit the supporting documents relative thereto.
- 3.7. Management further stated that the disposal of items by the disposal committee is currently on going. There were items already disposed but are still unrecorded in the book. This is due to the absence of details that will enable to match the disposed items with the Finance records. Due to the impossibility of matching the same with the available data, the proceeds from the sale were already recorded as income without derecognition of the items from the Other Assets account.

Unreconciled/Unverified Accounts

4. Incomplete reconciliation and unavailability of documents to support the beginning balances of various asset and liability accounts amounting to P574.475 million and P884.548 million, respectively, rendered the balances of the affected accounts doubtful, contrary to the qualitative characteristics of financial reporting on reliability and faithful representation, in accordance with IPSAS 1 – Presentation of Financial Statements.

- 4.1. IPSAS 1 – Presentation of Financial Statements, states that –

Reliability

Reliable information is free from material error and bias and can be depended on by users to represent faithfully that which it purports to represent or could reasonably be expected to represent.

Faithful Representation

For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, xxx.

- 4.2. These qualitative characteristics are in keeping with the fair presentation of the financial statements (FS). Sections 111 and 114 (2) of Presidential Decree No.1445 as cited in paragraph 3.2 of this report is also used as criteria for this observation.
- 4.3. As of December 31, 2019, the MWSS have total assets of P57.839 billion and total liabilities of P10.814 billion, which included unreconciled/unverified assets and liability accounts amounting to P574.475 million (equivalent to one per cent of total assets) and P884.548 million (equivalent to eight percent of the total liabilities), respectively. The details are:

Account	Balance
Asset Accounts	
Loans and Receivable Accounts	P 21,596,858
Other Receivables	1,108,354
Other Current Assets	96,513,125
Property, Plant and Equipment, net	474,832,332
Other Non-Current Assets	(19,575,783)
Total Unreconciled Assets	574,474,886
Liability Accounts	
Financial Liabilities	533,802,867
Trust Liabilities	171,961,336

Account	Balance
Other Payables	156,151,332
Deferred Credits	22,632,720
Total Unreconciled Liabilities	P 884,548,255

- 4.4. The Notes to FS disclosed that these unreconciled balances refer to the carryforward balances of prior years and mostly from transactions before the privatization in 1997. It was noted that previously there were reconciliation efforts conducted by the Finance, but such reconciliation is still incomplete to date.
- 4.5. Supporting documents that will substantiate these amounts are not yet available and hence, to date, it remain unsubmitted to the Audit Team. Also, Management avers that there is difficulty in locating the documents to support the transactions that comprise the above stated unreconciled accounts and that there is lack of manpower complement that will conduct the reconciliation of the accounts affected.
- 4.6. The long existence of these unreconciled/unverified accounts affects the accuracy and reliability of the account balances since these are just lodged/recorded without details and corresponding subsidiary ledgers when the e-NGAS was implemented in CY 2007.
- 4.7. **We reiterated our recommendation and Management agreed to: (a) conduct continuous and regular reconciliation of the unreconciled/unverified accounts to establish the accuracy of the affected account balances; and (b) provide the details/schedule and other supporting documents relating thereto.**
- 4.8. Management also stated that continuous effort is being exerted to locate necessary documents that will be used to reconcile the accounts. However, due to the lack of enough manpower, the task of locating documents could not be done on a regular basis. In previous years, a team was formed solely to conduct reconciliation of the accounts, however, in view of the absence of documents, the current amounts reflected in the books of accounts remained unreconciled. Nevertheless, Management committed to do their best to clean the accounts pursuant to the recommendation.

Due from Officers and Employees and Loans Receivable – Others

5. **The Loans Receivable Others account of retired/separated MWSS and Non-MWSS employees granted under the Multi-Purpose Loans Program (MPLP) totaling P13.856 million as of December 31, 2019 has been long outstanding in the books for several years already due to lapses in the monitoring of the uncollected/dormant accounts, contrary to Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016. Its non-collection deprived MWSS of funds for its operations.**

- 5.1. Section 6.1 of COA Circular No. 2016-005, states that:

*All government entities shall **conduct regular monitoring and analysis of receivable accounts to ensure that these are collected when these become due and demandable** and that cash advances and fund transfers are liquidated within the prescribed period depending upon their nature and purpose. (Emphasis ours)*

- 5.2. Likewise, Section 2 of P.D. No. 1445 provides the declared policy of the State that :

xxx all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

- 5.3. Review of the submitted Status Report of Other Receivables as of December 31, 2019, submitted semi-annually to the Commission on Audit, showed long outstanding receivables from retired/separated MWSS and non-MWSS employees totaling P13,856,013.78.
- 5.4. Moreover, it was also noted that these MWSS personnel and non-personnel are no longer connected with the MWSS for several years already and analysis showed that the loans were already way past due its maturity. In addition, out of these 109 receivable accounts (Housing=10; Car=19, Housing-La Mesa=50; HMO-Medicard=30) consisting of 94 borrowers, 95 accounts are with remarks "for reconciliation". These are indications that monitoring, and analysis of the outstanding loans and other receivables accounts were not regularly performed contrary to Section 6.1 of COA Circular No. 2016-005.
- 5.5. In response to our Audit Query Memorandum No. 2020-02 dated January 27, 2020, relative to the status of the above loans receivable, the Finance Department (FD), disclosed that they have already forwarded a copy of the receivables to the respective MWSS and non-MWSS employees for their acceptance and acknowledgement and the other accounts are still in the process of reconciliation. However, there are no documents submitted to the COA to support these assertions. Also, our inquiry from them disclosed that to date, no demand letters were sent to the concerned borrowers/debtors.
- 5.6. The non-reconciliation/non-collection of the subject past due account receivables deprives the agency the cash that should have been collected, to use for its operations and programs, and/or invest in some high-yielding placements allowed under existing rules and regulations.
- 5.7. Furthermore, a Notice of Disallowance No. 2019-03-05 (PYs) dated August 30, 2019 and a Notice of Finality of Decision dated June 9, 2020 were already issued which include the above balances.

5.8. **We recommended that Management:**

- a. **Conduct regular monitoring, analysis and reconciliation of the loans receivable account; and**
- b. **Send demand letters to the respective MWSS and non-MWSS personnel to collect and recover the loans and submit the same to this Office together with the proof of receipt and/or explanation of the recipient.**

6. **Non-reconciliation of the Due from Officers and Employees accounts resulted in the negative housing/car loan balances of four employees totaling to P437,523.20, thus, it understated the affected asset and liability accounts, contrary to Section 7 of COA Circular No. 2016-005 and paragraph 27 of IPSAS 1 – Presentation of Financial Statements.**

6.1. Section 7 of COA Circular No. 2016-005, states that:

The Accountant shall:

7.1 Conduct regular and periodic verification, analysis, and validation of the existence of the receivables, unliquidated cash advances, and fund transfers, and determine the concerned debtors, accountable officers (Regular and Special Disbursing Officers, Collecting Officers, Cashiers) and the source and implementing government entities concerned.(emphasis supplied)

6.2. Paragraph 27 of IPSAS 1 – Presentation of Financial Statements, provides that it shall present fairly the financial position which requires faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, to wit –

xxx for information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.

6.3. Audit of the Due from Officers and Employees disclosed that there are four individual subsidiary ledger accounts of employees which reflects a negative housing/car loan balance totaling P437,523.20 as at December 31, 2019, due to the continuous deduction of amortization from their salaries.

6.4. Section 7 of COA Circular No. 2016-005 prescribed the periodic verification, analysis and validation of the existence of the receivable account to ensure that all receivables are correctly reported in the book. The non-reconciliation of the account resulted to the negative balance of the account due to the over deduction from the salaries of the concerned employees and thus, it understated the Due from Officers and Employees account.

- 6.5. Likewise, the negative balance of the housing and car loan are items for reclassification from the asset account to a liability account and shall not have been offset from the total balance of the account. Here, it was noted that since the balance is negative, it reduced the total balance of the Housing and Car Loan account.
- 6.6. **We recommended that Management: (a) analyze the negative loan balances; (b) make the necessary adjustment/reclassification entries; and (c) stop the deduction of the loan amortization from the concerned employees and refund the excess amount collected.**

Cash Equivalent, Time Deposits - Local Currency

7. **Funds received in Calendar Years (CYs) 2010 and 2015 by MWSS for specific purposes totaling P60.930 million remain recorded in the books as Cash in Bank account instead of in the Restricted Fund/Cash account, thus, misstating the said accounts, and thereby contrary to IPSAS 1 – Presentation of Financial Statements and 2 – Cash Flow Statements.**

7.1. The guidelines for the Presentation of Financial Statements under paragraph 27 of IPSAS 1 – Presentation of Financial Statements, provides that it shall present fairly the financial position which requires faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets.

7.2. Also, IPSAS 2 – Cash Flow Statements, provides the criteria of Cash and Cash Equivalents as follows:

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. xxx.

- 7.3. Audit of the Cash in Bank – Time Deposits, Local Currency account disclosed that out of the P1.009 billion year-end balance of the LBP Time Deposits, Local Currency account, P60.930 million funds were received by MWSS from: (a) a lessee for the lease of MWSS property in Quezon City which is under dispute; and (b) the Bureau of Treasury-NG Advances for the Angat Dam and Dyke Strengthening Project. The details are as follows:

Particulars	Account /Bank	Amount
1. Funds received from a lessee as payment for the lease of MWSS property	In an account with Land Bank of the Philippines (LBP) – Katipunan Branch	P 37,067,944.92

2. Funds received from BTr-National Government and held-in-trust by MWSS as agreed in the MOA executed by and between MWSS and NPC for the Angat Dam and Dyke Strengthening Project	In an account with LBP – Katipunan Branch	23,862,644.96
Total		P 60,930,589.88

7.4. As shown above, it is clear that the nature and specific purpose of the cash/funds received by MWSS do not meet the criteria of cash and cash equivalent under IPSAS 2 – Cash Flow Statements.

7.5. It was also noted that **for several years, the funds remain recorded under the Cash in Bank account and has not been reclassified to its proper account**, which is the Restricted Fund/Cash account. The erroneous recording does not reflect the true intention and nature of the funds, hence, contrary to IPSAS 1 – Presentation of Financial Statements on faithful representation.

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

- a. **Evaluate the status of the funds received from the Lessee and from the BTr amounting to P 37,067,944.92 and P 23,862,644.96, respectively; and**
- b. **Reclassify the funds to its appropriate accounts in accordance with IPSAS 1 – Presentation of Financial Statements and 2 – Cash Flow Statements, as disclosed by the nature and purpose of the funds.**

8. **Lapses in the monitoring and conduct of periodic reconciliation of short-term investments/time deposits accounts resulted in a discrepancy of P310.098 million between the bank confirmed balance and the book balance as of December 31, 2019. Moreover, subsidiary ledgers were not maintained for ten time deposit accounts totaling P947.818 million. These cast doubt on the accuracy of the balance per books, and are contrary to paragraph 27 of IPSAS 1 – Presentation of Financial Statements, Section 114(2) of P.D. 1445 and runs counter to sound internal control.**

8.1. The presentation of financial statements under paragraph 27 of IPSAS 1 – Presentation of Financial Statements, as mentioned earlier, provides that it shall present fairly the financial position which requires faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets.

8.2. Also, internal control dictates that in order to safeguard the Agency's funds, one of the required procedures is the conduct of a regular/periodic reconciliation not only of the cash in bank account but also of the highly liquid investments such as short-term investments. Regular or periodic reconciliation aids in the identification of

errors, irregularities and serves as the basis for adjustment, as necessary, to reflect the correct balance of the account.

- 8.3. Audit of the short-term investments/time deposit accounts revealed discrepancies between the book balance and the bank confirmed balance, as presented in the following table:

Bank Name	Account Code	Balance per Book	Balance per Bank	Variance
Land Bank of the Philippines (LBP)	113-000-000-000-101	P 1,008,084,129.92	P 1,008,738,529.54	P 654,399.62
Development Bank of the Philippines (DBP)	113-000-000-000-382	675,867,267.23	366,912,076.36	308,955,190.88
Philippine National Bank (PNB)	113-000-188-209-185	(488,502.91)	0.00	488,502.91
Total (absolute values except for the Book Balance)		P 1,683,462,894.24	P 1,375,650,605.90	P 310,098,093.41

- 8.4. The lapses in the monitoring of the aforesaid accounts affects the reliability of the balance and thus, transgress the requirement in IPSAS 1 – Presentation of Financial Statements, that *for information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.*
- 8.5. Moreover, it was noted that the PNB account was already closed when they transferred their accounts from PNB to LBP in CY 2015, in compliance with DOF Circular Nos. 001-2015 and 002-2015, but the book still reflects a balance of P488,502.91. The negative balance in effect reduced and understated the Cash in Bank account. A negative balance in an asset account is a proper item for reclassification to a liability or other appropriate account. Thus, offsetting here is considered inappropriate and not permitted under IPSAS 1 – Presentation of Financial Statements, which states that –

Assets and liabilities xxx may not be offset unless offsetting is permitted or required by another IPSAS.

- 8.6. Furthermore, it was noted that as of the reporting date, the bank reconciliation statements (BRS) for CY 2019 of the following accounts were not yet submitted to the COA as shown in the table below:

Bank and Type of Account	Account Number
BSP account (managed by BTr)	0108-XXXX
LBP – Current Account	1462-10XX-XX
LBP – Savings Account (managed by BTr)	1133XX-XX
LBP – Savings Account (Foreign currency)	1464-0XXX-XX
PNB – Current Account	1165-21XX-XXXX
PNB – Savings account (Combo Account)	1165-21XX-XXXX
PNB – Current Account	1165-21XX-XXXX

- 8.7. Meanwhile, verification of the MWSS time deposit accounts at Land Bank of the Philippines-Katipunan Branch disclosed that there are no separate subsidiary ledgers maintained for the ten high yielding savings accounts, totaling P 948 million, thus, contrary to Sections 111(1) and 114(2) of P.D. No. 1445 stated in paragraph 3.2 of this report. The details are presented in the table below.

Account No	Amount
1	P 100,488,595.20
2	81,005,678.61
3	3,621,810.08
4	17,311,874.83
5	91,304,555.61
6	100,860,817.56
7	230,489,298.04
8	5,025,309.73
9	137,200,000.00
10	180,500,000.00
Total	P 947,807,939.66

- 8.8. Needless to say, the conduct of periodic bank reconciliation and the preparation of BRS are indispensable tools of a sound internal control system over cash and cash equivalents as it will help not only in the identification and detection of errors/discrepancies between the book and bank balance and to come up with the correct book balance, but it also aids in the detection and prevention of fraud.
- 8.9. On the other hand, the keeping of subsidiary ledgers will provide: (1) support to the general ledger balances to prevent inaccuracies and misleading information, which will be reflected in the financial statements or other financial reports of MWSS; (2) the necessary details which may be needed in the decision-making of the MWSS through its officials; and (3) information that may be required by oversight bodies of the government.
- 8.10. **We recommended and Management agreed to:**
- Conduct regular monitoring and/or periodic reconciliation of cash and cash equivalents to reflect the correct book balance;**
 - Investigate/analyze the discrepancy between the balance per bank as against the book balance and effect the necessary adjustment(s) for the LBP and PNB accounts amounting to P654,399.62 and P488,502.91, respectively;**
 - Prepare regularly the BRS of all cash and cash equivalents accounts; and**
 - Maintain and update regularly the subsidiary ledgers of the ten LBP time deposit accounts to support the detailed balances in the general ledger and to have an available data for decision-making purposes.**

Other Deferred Credits

9. **Cash receipts from the sale of scrap materials amounting to P16.688 million for CY 2019 was recorded in the books as liability under the Other Deferred Credits account which is not in conformity with IPSAS 9 – Revenue from Exchange Transactions.**

- 9.1. The definition of liabilities and income as provided in paragraph 7 of IPSAS 1 – Presentation of Financial Statements, states:

Liability - present obligations 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 or service potential.

Income - increases in the economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases in liabilities that result in increases in equity other than those contributions from equity participants.

- 9.2. Also, IPSAS 9 – Revenue from Exchange Transactions paragraph 11 defines revenue as –

Revenue - the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

- 9.3. Moreover, it is emphasized that the criteria set forth in paragraph 28 of IPSAS 9 – Revenue from Exchange Transactions must be first satisfied before a revenue is recognized in the books, to wit -

- a. Risks and rewards of ownership have been transferred from the seller to the buyer.
- b. The seller does not have control any longer over the goods sold.
- c. The collection of payment from goods or services is reasonably assured.
- d. The amount of revenue can be reasonably measured.
- e. Costs of revenue can be reasonably measured.

- 9.4. Examination of the covered transactions vis-à-vis the above criteria, resulted in the following: (a) the ownership of the scrap materials is transferred to the bidders or buyers; (b) once the subject matter of the disposal of the scrap materials is awarded to the bidder, MWSS no longer has control of the said items; (c) the collection of payment is certain as it is already published in the bidding documents; (d) the revenue is reasonably measurable as there is already an established cost per unit and estimated weight measurements; and (e) the costs of revenue can be measured reliably.

- 9.5. Hence, with the aforesaid criteria, the sale of scrap materials by the MWSS falls within the purview of revenue recognition under paragraph 28 of IPSAS 9 – Revenue from Exchange Transactions.
- 9.6. Analysis of the transactions in the subject account revealed that for CY 2019, the MWSS recorded the sale of scrap materials initially in the Other Deferred Credit account instead of recognizing the proceeds of the sale directly to the *Miscellaneous Income* account. This liability account is used to recognize other income/revenue received in advance not falling under any of the specific unearned revenue/income accounts. At year-end however, the MWSS prepares an adjusting entry to the Retained Earnings. The details of which are shown below:

Particulars	SL Code	Beginning Balance	Total Debits	Total Credit	Year-end Balance
Metalbank Inc.,	455-01-02-349	P 5,194,017.86	P6,265,446.45	P1,071,428.59	-
Disposal of Assets	455-01-10-01	282,405.40	364,484.66	82,079.26	-
Undistributed Collection- Disposed Construction Materials	455-02-02-03	22,437,514.83	10,269,062.58	14,974,419.80	27,142,872.05
Undistributed Collection- Disposed/ Loss of fixed asset/equipment	455-02-02-04	66,538.25	585,548.24	560,267.87	41,257.88
Total		P27,980,476.34	P17,484,541.93	P16,688,195.52	P27,184,129.93

- 9.7. The proceeds from the sale of scrap materials, equipment, steel pipes, salvage materials in the amount of P16,688,196.52 was credited to the liability accounts instead of Miscellaneous Income.
- 9.8. Furthermore the amount debited for the *Undistributed Collection – Disposed Construction Materials* amounting to P10,269,062.58 representing the contract awarded to a buyer of scrap materials (winning bidder) was not equal to the actual collections in the Disposal Report of P11,501,335.00 prepared by the Disposal Committee resulting in an understatement of Gain/Loss on Sale of Disposed Assets, an income account, amounting to P1,232,272.42.
- 9.9. **We recommended that Management:**
- Analyze the Other Deferred Credits account pertaining to cash received from the sale of scrap materials and reclassify to proper income or retained earnings account; and**
 - Ensure that the amount of the actual proceeds from sale of scrap materials or from the salvaged materials out of the disposed properties as reported in the Disposal Report prepared by the Disposal Committee is equal to the cash collected and reported; and**

c. Recognize as income the corresponding amount of the carrying values of the properties to be dropped from the books.

- 9.10. The Management explained that the discrepancy between the loss actually recorded in the books and the loss computed as per COA findings was due to the recognition of VAT Payable at the time of receipt of cash from the sale of disposed assets by presenting illustrative entries which is subject to the audit team's validation.

10. Non-compliance of the provisions of paragraph 8 of IPSAS 17 – Property, Plant and Equipment resulted in the overstatement of loss on sale of disposed assets by P1.232 million.

- 10.1. Verification of the records revealed that the amount of P1,234,833.34 was recognized as loss on sale of disposed asset per JEV No. JEV-2019-12-007308 dated December 1, 2019 contrary to paragraph 8 of IPSAS 17 – Property, Plant and Equipment which states that:

The gain or loss arising from the derecognition of an item of property, plant and equipment shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

- 10.2. Based on the standards, the loss on sale of disposal of the MWSS properties/asset is computed by deducting the carrying amount of the asset derecognized (cost less accumulated depreciation) from the net disposal proceeds shown as follows:

Net disposal proceeds		P 11,501,335.00
Carrying amount		
Cost	P230,077,918.40	
Accumulated depreciation	<u>218,574,022.48</u>	<u>11,503,895.92</u>
Gain/(Loss) on Sale of Disposed Asset (that should have been recognized)		(P 2,560.92)
Gain/(Loss) on Sale of Disposed Asset, per books		<u>(1,234,833.34)</u>
Overstatement of Loss on Sale of Disposed Assets		<u>P 1,232,272.42</u>

- 10.3. Thus, the reported loss on sale of disposal of properties is overstated by **P1,232,272.42.**
- 10.4. **We recommended that Management comply with IPSAS 17 – Property, Plant and Equipment on the recognition of gain or loss arising from the derecognition of an item of property, plant and equipment which shall be included in the surplus or deficit when the item is derecognized using the difference between the net disposal proceeds, if any, and the carrying amount of the item.**

10.5. The Management agreed that the proceeds from the sale of assets do not qualify in the recognition criteria under the Other Deferred Credits account, which is a liability account. However, Management explained that they are encountering difficulty in matching the list of items disposed contained in the Disposal Report with the Finance Records, since the record of PPE items maintained by the previous employees handling the same was not detailed, and thus, the challenge in identifying the items to be dropped. As such, the proceeds are temporarily parked in Other Deferred Credits awaiting matching of the disposed items with the Finance Records.

11. Proceeds from sale of bidding documents totaling P0.844 million was improperly carried in the books as liability under the Other Deferred Credits despite the non-refundable nature of the cash received from the sale of bidding documents, hence contrary to paragraph 28 of IPSAS 9 – Revenue from Exchange Transactions.

11.1. Upon the receipt of cash from the sale of the bidding documents from the prospective bidders, the MWSS is not under any obligation to render some future service nor is required to make an outflow of its resources. The payments received from the sale of the bid documents constitutes realized income. As such, outright recognition in the books are required by paragraph 1, IPSA 9 which defines income as –

increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

11.2. Analysis of the subsidiary ledger of the Other Deferred Credits accounts revealed that a total of P843,741.17 representing payments received from prospective bidders for the bidding documents for various procurement during the CY 2019 were credited to Other Deferred Credits - Miscellaneous - Cash Bond and Others which is a liability account instead of recognizing it outright as miscellaneous income reckoned upon receipt of the payment at the time of sale of the bid documents.

11.3. The practice of the MWSS is to debit the amount of cash received from the sale of the bidding documents and credit it to the *Other Deferred Credits* which is a liability account. Thereafter, an entry shall be made at year-end to reflect the adjustment from the *Other Deferred Credit* account to the *Miscellaneous Income* account for the current period and/or credit to the *Retained Earnings* account for the receipt pertaining to the prior year. This practice of creating adjusting entry could be avoided if Management records the amount of cash received from the sale of bid documents directly to the Miscellaneous income.

11.4. **We recommended that Management: a) recognize as earned the cash collected from the bidders for the payment of bidding documents and record the same as part of the Miscellaneous Income account to correctly**

reflect the transaction in accordance with IPSAS 9; and (b) prepare the adjusting entries to reflect the correct balance of liability account for CY 2019.

- 11.5. Management commented that it shall assess the current practice of crediting the Other Deferred Credits instead of Miscellaneous Income for the receipt from the sale of bidding documents and will make the necessary changes.

12. Cash Receipts from Bonds amounting P26,124.76 which serve as security for the use of the various MWSS Properties were not refunded after the use of such properties, leaving the amounts lodged in the Other Deferred Credits account, contrary to the faithful representation under the Qualitative Characteristics of Financial Reporting under IPSAS 1 – Presentation of Financial Statements.

- 12.1. Faithful representation, as one of the qualitative characteristics of financial reporting under IPSAS 1 – Presentation of Financial Statements states that *for information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and not merely their legal form.*
- 12.2. MWSS requires the payment of a cash bond for the use of various MWSS properties including, but not limited to the Multi-purposes hall, roof top, guest houses, Carriedo space, watershed area, MWSS grounds and other leased areas. The cash bond represents the security which shall answer in case of damages or breakage after the use of the MWSS facility. Said cash bond is returned to the renter/payor upon the completion of activity or the actual use of the property.
- 12.3. Analysis of the records disclosed that there are still balances of the cash bond which were not refunded despite the accomplishment of the purpose or use of the property. Hence, the said amounts are still recorded in in the books under the Other Deferred Credit account.
- 12.4. The amounts received as bond remained unreturned to the payor despite the accomplishment of the activity or the completion of the use of the said MWSS properties. The non-refund/return of the bond deposited by the payors overstates the long-term liability account (Other Deferred Credit account).
- 12.5. Further, the nature of the cash bond collected are realizable within the 12-month period or shorter, thus, the proper classification is under the current liability account.
- 12.6. **We recommended and Management agreed to require the Accounting Department to: (a) evaluate, notify and process the refund, if warranted, of the cash bond collected which is still under the Other Deferred Credits account considering that the reason for its recognition in the books as a liability is no longer applicable; and (b) determine the proper classification of the cash bond payments received taking into consideration the nature and the purpose of the cash bond collected.**

B. Financial Audit – Regulatory Office

Cash in Bank

13. The former PNB Regular and MVFP accounts remained unreconciled by P1.271 million as of December 31, 2019, contrary to Section 74 of P.D. 1445 resulting in the overstatement of cash in bank balance in the financial statements.

13.1. Section 74 of P.D. 1445 states that *“At the close of each month, depositories shall report to the agency head, in such form as he may direct, the condition of the agency account standing on their books. The head of the agency shall see to it that a reconciliation is made between the balance shown in the reports and the balance found in the books of the agency.”*

13.2. Verification showed that the PNB accounts were closed and transferred to an LBP account on April 7, 2016, however, to date management still failed to fully reconcile the difference between the book and bank balances, detailed are presented on the table in the succeeding page.

Account Name	Account Code	Remaining Unreconciled Balance
CASH CIB-LC, C/A- PNB Regular	111-PNB1	P 1,242,351.30
CASH CIB-LC, C/A- PNB MVFP	111-PNB2	28,622.45
		P 1,270,973.75

13.3. Therefore, there is an overstatement of cash in bank balance by P1,270,973.75 in the financial statements since there really is no existing cash deposit with the PNB.

13.4. We reiterated our previous years' recommendation for Management to comply with Section 74 of P.D. 1445 to analyze and verify the unreconciled balance, then make the necessary adjusting entries.

13.5. Management cited the lack of manpower in their finance section as the reason for their inability to address the audit observation. In view thereof, The MWSS RO is considering the engagement of Contract of Service (COS), preferably knowledgeable in accounting work, to assist in the bank reconciliation, analyze and recommend adjusting entries of the above-mentioned accounts.

13.6. As a rejoinder, the observation has been outstanding since CY 2016, and Management have continually committed to inspect the prior year vouchers under

the custody of COA. However, no accounting personnel have inspected the same which resulted in the accumulation of unreconciled amount.

- 13.7. Furthermore, hiring of COS for an existing regular function is contrary to Section 7.2 (sic) of CSC-COA-DBM Joint Circular No. 1 s. 2017 which prescribed the rules and regulations governing contract of service and job order workers in the government, to wit:

“Contract of service and job order works should not, in any case, be made to perform functions which are part of the job description of the agency’s existing regular employees.”

Trust Liabilities

- 14. Bidding document fees collected in the amount of P2.032 million were recorded as Trust Liabilities-BAC instead of revenue for CY 2019 and retained earnings for prior period collections as provided under IPSAS 9 – Revenue for Exchange Transactions.**

- 14.1. Section 17.4 of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) 9184, otherwise known as the Government Procurement Reform Act, allows the Agency to collect from bidders a fee to recover the cost of the preparation of Bidding Documents.
- 14.2. Collections thereof were initially recorded as liabilities under the account Trust Liabilities – BAC. Other authorized collections under the 2016 Revised IRR of RA 9184 are also lodged under this account, namely:
- a. Bid Security (Section 27);
 - b. Performance and Warranty Securities (Section 39, Section 54.5);
 - c. Protest Fee (Section 55.3); and
 - d. Liquidated Damages (Section 67).
- 14.3. The account is also regarded as the source of fund for payment of honoraria to the chair, members of the Bids and Awards Committee (BAC) and Technical Working Group, as required under Section 6.1 of Department of Budget and Management (DBM) Circular No. 2004, to wit:

“6.1 The amount necessary for the payment of the honoraria and overtime pay authorized herein shall be sourced only from the following:

- *Proceeds from sale of bid documents;*
- *Fees from contractor/supplier registry;*
- *Fees charged for copies of minutes of bid openings, BAC resolutions and other BAC documents;*
- *Protest fees;*
- *Liquidated damages; and*

- *Proceeds from bid/performance security forfeiture.*

14.4. The nature of the collection of the fee for bidding documents as well as its utilization fits the definition of an exchange transaction under IPSAS 9 – Revenue from Exchange Transactions, which states that:

“11. xxx. . . Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.”

14.5. The same accounting standard also defined income as:

*“increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or **decreases of liabilities** that result in increases in equity, other than those relating to contributions from equity participants.” (emphasis ours)*

14.6. Analysis of the account Trust Liabilities – BAC revealed that the ending balance of the account Trust Liabilities – BAC as of year-end amounting to P2,032,234.18 actually pertains to the following calendar years as shown in the table below.

Calendar Year	Amount
2019	P 154,000.00
2018	380,500.00
2017 and earlier	1,497,734.18
TOTAL	P 2,032,234.18

14.7. There are no ongoing procurement activities, nor any outstanding performance/bid/warranty securities as of year ended December 31, 2019. Therefore, it is not probable that an outflow of resource embodying future economic benefits or service potential will be required to settle the obligation recognized, hence the following adjusting entry must be made:

Trust Liabilities - BAC	2,032,234.18	
Miscellaneous Income		154,000.00
Retained Earnings		1,878,234.18

14.8. **We recommended and Management agreed to prepare the necessary adjusting entry to recognize the revenue from the trust liabilities in compliance with IPSAS 9.**

C. Other Audit – Corporate Office

Programs, Project and Activities – Kaliwa Dam Project

15. Notice to Proceed (NTP) for the Detailed Engineering and Design and Construction of the New Centennial Water Source - Kaliwa Dam Project (NCWS-KDP) or the Commercial Contract was issued by the MWSS despite the non-compliance with the requirements provided for under the Loan Agreement, thus preventing the effectivity of the Commercial Contract.

15.1. Section 4 of RA 9184 or the Government Procurement Reform Act states:

SEC. 4. Scope and Application. *This Act shall apply to the Procurement of Infrastructure Projects, Goods, and Consulting Services, regardless of source of funds, whether local or foreign, by all branches and instrumentalities of government, its departments, offices and agencies, including government-owned and/or -controlled corporations and local government units, subject to the provisions of Commonwealth Act No. 138. Any treaty or international or executive agreement affecting the subject matter of this Act to which the Philippine government is a signatory shall be observed. (Emphasis supplied)*

- 15.2. Accordingly, unless there is a treaty, international or executive agreement dealing with government procurement, the provisions of RA 9184 shall govern.
- 15.3. The Note Verbale No.17-1049 dated March 03, 2017, Section 3, states that the Implementing Agency (IA) shall commence the procurement process following RA 9184. In addition, Section 4 of the Clarificatory Procedures for the Implementation of the Note Verbale which of the same import, states that the IA shall commence the procurement process and undertake the Limited Competitive Bidding (LCB) following the applicable procedures and documents under RA 9184.
- 15.4. In applying therefor the provisions of RA 9184, specifically Section 37.4.1 of its 2016 Revised Implementing Rules and Regulations, the NTP must be issued together with a copy of the approved contract ("Commercial Contract") to the successful bidder within seven calendar days from the date of approval of the contract by the appropriate government approving authority. Unless otherwise specified in the contract, a contract is effective upon receipt of the NTP. If an effectivity date is provided in the NTP by the Procuring Entity concerned, all notices called for by the terms of the approved contract shall be effective only from such effectivity date, but such effectivity date should not be later than seven calendar days from the issuance of the NTP as provided in the Manual of Procedures for the Procurement of Infrastructure Projects.
- 15.5. It was noted that the Contract Agreement (which also refers to Commercial Contract as mentioned in the Loan Agreement), entered into by and between the MWSS and the China Energy Engineering Company Inc., (the winning bidder-contractor), explicitly states under Section 5 thereof that the effectivity of the contract is *contingent upon the effectivity of the loan agreement* for the project. On the other hand, Section 9.2 of the Preferential Buyer's Credit Loan Agreement ('Loan Agreement') provides that the effectiveness of the loan agreement shall be the date specified in the *Notice of Effectiveness of the Loan Agreement* sent by the Lender to the Borrower after all the conditions precedent to the effectivity of

the loan agreement has been satisfied. The *Notice of Effectiveness of the Loan Agreement* document readily shows on its face that it is effective on November 1, 2019.

- 15.6. Moreover, included in the preconditions of the Loan Agreement is the receipt of the copy of the Environmental Compliance Certificate (ECC) issued by the authorized governmental agency of the Borrower's Country.
- 15.7. Examination of the records disclosed that the ECC No. ECC-CO-1907-0017 issued by the Environment Management Bureau (EMB) of the Department of Environment and Natural Resources (DENR) on October 11, 2019 contain stipulations for compliance by the MWSS. The ECC has: (a) 21 conditions consisting of 17 - Environment Management and four - General Conditions; and (b) four restrictions all set forth in Annex A of the ECC. It also provides a sanction for non-compliance of any of the provisions of the ECC. Being conditional in nature, it therefor follows that the requisites stated in the ECC must be complied first before the pursuit of the project implementation.
- 15.8. Furthermore, it was emphasized in the ECC that no activity shall commence until the proponent has complied with the requirements of the National Integrated Protected Areas System (NIPAS) Act, as Amended (RA 7586 as amended by RA 11038); other relevant laws and issuances; and the necessary certifications from the National Commission of Indigenous Peoples (NCIP) including the Certificate of Precondition after the Free and Prior Informed Consent (FPIC) is obtained from the affected Indigenous Cultural Communities (ICCs) or Indigenous Peoples (IPs).
- 15.9. During the attendance of the Audit Team in the hearing conducted by the Committee on Cultural Communities, the Team was able to obtain a copy of the petition filed by various NGOs and private groups before the Office of the Secretary, DENR against the MWSS Administrator and EMB Director dated November 4, 2019. The petitioners asserted as grounds for their opposition, the violation of Department Administrative Order No. (DAO) 2017-15; lack of procedural requirements; and the absence of Protected Area Management Board (PAMB) clearance under the NIPAS Act of 2018 and the social acceptability of the project. They appealed to the DENR Secretary to suspend the ECC pending the resolution of the appeal and cancel the same after due process. As of date, we have not received update on the petition.
- 15.10. Relative to the various conditions and requirements prior to the commencement of the project, the Audit Team sent a letter-inquiry dated November 4, 2019, to the Undersecretary (USec), Disaster Risk Reduction and Climate Change Adaptation, Department of Science and Technology, and Director, Philippine Institute of Volcanology and Seismology (PhiVolcs) as regards the following issues on the construction of the Kaliwa Dam Project: (1) earthquake faults on Gen. Nakar and Infanta, Quezon Province; (2) possible earthquake scenarios in the areas; and the (3) effects when said scenario occurs not only on the Kaliwa Dam Project but also within the surrounding areas that may be affected.

- 15.11. Information was also requested whether the location of the Project is within the areas being monitored by PHIVOLCS and DOST as part of the nation's resiliency plan on disaster risk-reduction and management and the measures to be implemented in the said areas, considering that it is included in the conditions in the ECC which states among others that the proponent must:
- a. Institute and strictly implement an Information, Education and Communication Program to inform stakeholders of measures to mitigate the project's effects on the environment, including measures for environmental disaster risk reduction;
 - b. Develop an Integrated Watershed Management Plan and ensure the structural soundness/stability of the dam through compliance with internationally accepted structural dam design standards;
 - c. Implement mitigating measures to protect and preserve Tinipak Spring and Tinipak White Rocks, which are sacred to the IP communities that live along the river; and
 - d. As stated in the ECC, 424 households in Barangay Magsaysay in Infanta and Pagsangahan in General Nakar will be directly affected by the Project and will indirectly impact 56 IP households and will place around 284 IP households at risk of flooding and other effects of possible dam failure or dam break.
- 15.12. In his letter dated November 26, 2019, the Under Secretary DOST and Director PhilVolcs stated that since the safety of the dam is a major national concern, PhilVolcs' assessment is that the project site is surrounded by active faults, nevertheless, the dam is safe from ground rupture, it is however important that the structure should not be built on top of an active fault to avoid ground rupture hazard. The site may experience strong ground shaking of intensity VIII and above should the Infanta Fault segment of the Philippine Fault and other nearby faults generate a large magnitude earthquake. Thus, it is important that the structure of the dam is designed to withstand deformations due to ground shaking to avoid collapse, and considering that the project site is prone to earthquake-induce landslides as a result of strong ground shaking, and site specific geo-technical studies should be determined as to its susceptibility to landslide and that appropriate engineering intervention should be employed to mitigate the problem of landslides.
- 15.13. The Audit Team have furnished the MWSS Administrator a copy of the above letter-reply and requested the submission of documents that would sufficiently address: (1) the issues raised by USec-DOST and Director-PhilVolcs has been addressed by the MWSS; (2) copy of the Certificate of Pre-condition by the NCIP; and (3) corroborating evidence of the compliance by the MWSS of the conditions set forth in the ECC.
- 15.14. Management replied that: (1) the project, which is under a Design and Build scheme, is currently (at that time) in the design phase with the issuance of the NTP on November 13, 2019; (2) the structure shall be designed in compliance

with the requirements of prevailing industry standards, including but not limited to the Minimum Performance Standards and Specifications. Said design shall also be reviewed by the Project Consultant prior to approval by the MWSS to ensure that all design deliverables were met - (a) Seismic Hazard - as part of the deliverables for the detailed design of the dam, the Contractor is required to submit among others, the following: (i) Seismology Report; and the (ii) Detailed Design Analysis (subject to flood and earthquake; (b) Landslide Susceptibility – in order to establish relevant data for the site, the Contractor shall conduct investigations on: (i) hydrological; (ii) meteorological; (iii) geological; (iv) seismic, (v) soil mechanical; (vi) geo-technical; (vii) geo-hydrological; and (viii) geomorphological, all shall form part of the detailed design analysis.

- 15.15. In the said letter, Management also disclosed that: (1) the Certificate of Precondition attesting to the FPIC, is still a work-in-progress and the MOA which is between the concerned ICCs/IPs of Quezon and Rizal are under way; and (2) the MWSS has formed an Environmental Unit (EU) to ensure compliance with the conditions in Environment Impact Statement (EIS) and ECC with the primary duty of preparation and submission of the Compliance Monitoring Report to the EMB semi-annually (all status were as of the date of the subject letter). These disclosures of Management support our observations on the status of compliance of the conditions in the ECC.
- 15.16. To date, there were neither documents that will show proof of compliance with the requisites stated in the conditional ECC, nor reports on the status of compliance with the documentary requirements were submitted or made available to the Audit Team. Such failure of the agency to produce proofs that it has satisfied all the requirements under the ECC renders the issuance of the NTP questionable.
- 15.17. **We recommended that Management prioritize the completion of the requirements including the conditions and restrictions set forth in the Environmental Compliance Certificate by compelling the Consultant to fulfill its obligations under the Consultancy Services Contract. Compliance with the requirements shall facilitate the implementation of the provisions of the Commercial Contract.**
- 15.18. Management informed that the project is still in its Design Phase, with detailed engineering design activities still on-going and the FPIC activities are still on-going in coordination with the NCIP, subject to audit team's validation
16. **The Resolution ng Pagpayag, allegedly executed by the members of the tribal groups/indigenous peoples (IPs) living within the MWSS Kaliwa Dam project site, is a requirement for the Free and Prior Informed Consent (FPIC) and a condition precedent to the issuance of the Environmental Compliance Certificate (ECC), is not compliant with the guidelines under NCIP Administrative Order No. 3, s. 2012. Hence, renders the project proponent non-compliant with the ECC, and thus, affects the effectivity of the Loan Agreement and the Commercial Contract.**

- 16.1. Before the commencement of the construction works of the dam and the conveyance tunnel outlet, the Indigenous Peoples Rights Act (IPRA) of 1997 (RA 8371) mandates the project proponent to secure the necessary FPIC from the affected IPs. The FPIC adopted under the IPRA is a specific right that pertains to IPs which allows them to give or withhold consent to a project that may affect them or their territories. Once consent was secured, the IPs can withdraw the same, at any stage. Furthermore, the FPIC enables the IPs to negotiate the conditions under which the project will be designed, implemented, monitored and evaluated.
- 16.2. The NCIP through Administrative Order No.3 series of 2012 promulgated the Revised Guidelines on FPIC and Related Processes. The Administrative Order defined the Resolution of Consent or the *Resolusyon ng Pagpayag* (RP) as the written resolution adopted by the affected ICCs/IPs among themselves or through their duly authorized elders/leaders expressing their acceptance of the plan, program, project or activity.
- 16.3. Cursory review of the Consultancy Services Contract disclosed that the Consultant is obliged to obtain, in behalf of the MWSS the following: (1) FPIC from the concerned IPs (as manifested in the RP and the MOA); and (2) Certificate of Precondition from the NCIP. The FPIC is also part of the environmental and social management requirement under the Commercial Contract which affects the effectivity of the latter. Thus, it is incumbent upon the Consultant, as stated in the Consultancy Services Contract, to conduct four community assemblies in each cluster: six clusters in the municipality of Gen. Nakar, Quezon; and three clusters in Tanay, Rizal. The Progress Report ending December 31, 2019 disclosed that all the clusters in Gen. Nakar have completed the four community assemblies while the three clusters in Tanay, Rizal have not yet completed the 4th community assembly requirement.
- 16.4. Examination of the *Resolusyon ng Pagpayag* (RP) of the Dumagat/Remontado tribe of General Nakar, Quezon submitted by Management revealed the following deficiencies which cast doubts on the validity of the Resolution as well as the acceptability and legitimacy of the signatures gathered:
 - a. The RP does not mention the tribal leaders or elders who would recognize or attest to the identity of the IP member who signed the resolution;
 - b. The RP does not bear any date when the purported IPs affixed their signature. The date of signing is significant since it must be within the date of assemblies held or a reasonable period thereafter and not earlier or prior to the date of the execution of the document;
 - c. The Resolution does not state the number of pages that the document contains; there is no attestation at the back of the document or after all the signatures; and that the signatories were properly informed of the legal effects of the resolution. Thus, we cannot determine whether these are only the contents of the Resolution or the signature sheets were only attached to the main document;

- d. As per Report on the Government Projects, Programs and Activities (PPAs) of the MWSS as of December 31, 2019, the IPs and ICCs of Rizal and Quezon Provinces adopted the resolution of consent during the final consensus building last *December 9 and 17, 2019*. However, the attached listing of signatures of the RP is dated *December 19, 2019*; and
 - e. The RP was not notarized. The notarization by a notary public converts a private document into a public document, making it admissible in evidence without further proof of its authenticity. A notarial document is, by law, entitled to full faith and credit upon its face.
- 16.5. Further, Section 31 of the Administrative Order provides that when the consent of the concerned community is obtained, the terms and conditions agreed upon shall be embodied in a MOA to be executed between and among the ICCs and IPs, the applicant/proponent, the NCIP and any other party which may necessarily be involved. The signing of the MOA shall be done within the affected ancestral domain by those duly authorized, during a general assembly called for the purpose, after its contents is fully read aloud and explained by the FPIC Team (composed of representatives from MWSS and the Consultant), and understood and affirmed by the community.
 - 16.6. The abovementioned MOA shall include, among others: the list of responsibilities of the company (the Contractor); the detailed measures to protect IPs' rights and value systems; redress mechanisms; and provisions to render assistance in the event of calamities and disasters in the community. Inquiry from the Head, Project Management Division, Engineering and Technical Operations Group disclosed that as of year-end, while the three community assemblies were already completed, the proposed MOA and the RP were yet to be presented to the MWSS as required by the NCIP Administrative Order. The failure to produce a valid Resolution of Consent and the corresponding MOA renders the consent defective and doubtful. This is without regard to the fact that no RP was submitted for the IPs in the Tanay, Rizal area.
 - 16.7. It should be noted that as early as October 12, 2018, the MWSS has already released a total of P 413,310.00 for the payment of the FPIC fee to the NCIP which includes: (a) expenses for the MOA negotiation, drafting and review amounting to P244,910.00 evidenced by Check No. 002765 dated October 04, 2018, (b) P168,400.00 evidenced by Check No. 002764 dated October 02, 2018 for the areas located in Teresa Rizal alone based on the approved voucher of NCIP.
 - 16.8. The dubious/questionable character of the consent of the IP members is bolstered by the fact that during the Senate hearing headed by the Chair, Committee on Cultural Communities, last January 22, 2020 where several stakeholders and groups from various sectors including the tribal groups located in the affected areas were invited, issues were raised concerning the legitimacy of the leadership and representation of the indigenous were disputed. Within these groups include residents who argued that they were neither consulted nor informed on the implementation of the project. The same group also claimed that they were disregarded in the dialogues conducted during the community

assemblies conducted. They even questioned the eligibility of the members who signed the RP.

- 16.9. **We recommended that Management require the FPIC Team to craft a valid and proper Resolusyon ng Pagpayag that complies with the requirements under the NCIP Administrative Order No. 3, series of 2012 and other pertinent laws.**
- 16.10. Management replied that the Free and Prior Informed Consent (FPIC) for the NCWS-KDP was hampered by the protest staged by different interest groups. The MWSS and the NCIP are in the process of securing the Certification Precondition (CP) through the conduct of two FPICs among IP communities grouped in General Nakar, Quezon and Tanay, Rizal. The MWSS added that the schedule of activities for the FPIC process is not within the control of the project proponent MWSS. The schedules are determined by the ICCs/IPs with the concurrence of the NCIP.
- 16.11. Further, Management explained that it requested the NCIP for the Draft MOA which was acted upon by the later. Thus, the NCIP facilitated teleconferencing with project proponents with pending FPIC applications to map out plans, formulate position papers as basis for the issuance of guidelines/mechanics on how to proceed with FPIC-related activities taking into consideration the COVID-19 pandemic.
- 16.12. The belated submission of this Management comments precluded the Audit Team from conducting validation thereof.
17. **The expropriation of lots particularly for the right of way affected by the Kaliwa Dam Project is still pending, hence considered a ground for the termination of the contract under Section 17.6 of the Revised Implementing Rules and Regulations of the Republic Act 9184 also known as the Government Procurement Reform Law.**
- 17.1. Under Section 17.6 of the 2016 Revised IRR of RA 9184, “No bidding and award of contract shall be made unless the detailed engineering investigations, surveys and designs ***including the acquisition of the Right of Way for the project have been sufficiently carried out.*** These investigations must then be duly approved in accordance with the standards and specifications prescribed by the Head of the Procuring Entity concerned or his duly authorized representative, and in accordance with the provisions of Annex “A” of IRR-A. The only exception to this, are design and build schemes wherein bidders are allowed to submit detailed engineering designs as part of their bids.”
- 17.2. As early as December 2018, there were already negotiations by the concessionaires with the lot owners for the acquisition of lots required for the Tunnel Outlet Portal area. Admittedly, from September 20, 2018 until December 31, 2019, the East Zone Concessionaire Manila Water Company, Inc. (MWCI) and the West Zone Concessionaire Maynilad Water Services, Inc. (MWSI) had already advanced a total of **P54,335,975.00** which serve as the trust fund for the

payment of FPIC expenses, appraisal fees for the determination of market values of the parcel of lands affected by the Kaliwa Dam and ***acquisition price of the lots*** as part of the right of way acquisitions. Details are shown on the table in the below.

Particulars	Date	Reference	Amount
MWSI Payment for NCIP Work and Financial Plan	9/20/2018	JEV-2018-9-5768	P 1,768,737.50
MWCI Payment for NCIP Work and Financial Plan	9/24/2018	JEV-2018-9-5773	1,768,737.50
MWSI Payment for Appraisal fee for parcels of land	7/26/2019	JEV-2019-7-4523	235,000.00
MWCI Payment for Appraisal fee for parcels of land	7/26/2019	JEV-2019-7-4521	235,000.00
MWCI Final payment for appraisal of Kaliwa Dam	9/18/2019	JEV-2019-9-5239	255,750.00
MWSI Payment for Appraisal fee	9/19/2019	JEV-2019-9-5262	72,750.00
MWCI Payment of initial fund for acquisition of lots	10/16/2019	JEV-2019-10-5790	25,000,000.00
MWSI Payment of initial fund for acquisition of lots	10/17/2019	JEV-2019-10-5799	25,000,000.00
Total			P 54,335,975.00

**As of December 31, 2019, the MWSS has paid a total of P4,160,740.00 for 12 parcels of lots.*

- 17.3. As a subsequent procedure, on February 24, 2020, the Audit Team requested submission of the current status and updates on the expropriation proceedings for the lots affected by the NCWS-KDP pursuant to RA 10752, or the Right-of-Way Act, per Board Resolution No. 2019-181-CO dated November 14, 2019. The Board Resolution disclosed that the project is currently in its pre-construction and design stage which includes the preparation of Land Acquisition and Resettlement Plan (LARP) for the affected areas.
- 17.4. Moreover, in the 4th Quarter 2019 Progress Report prepared by the consultant, Management averred that the expropriation of the outlet portal lots is expected to be completed by the end of January 2020 and even mentioned as “very high chance of success for expropriation of lots”. However, to date, the Audit Team cannot validate said assertion since, the report requested has not been submitted to the Audit Team.
- 17.5. Review of the Board Resolution No.2019-181-CO, revealed that the BOT approved the authority of the MWSS Administrator to file complaints for the expropriation of the lots affected by the NCWS-KDP such as, but not limited to the “*eighty-nine (89) lots*” listed or mentioned in the Board Resolution. On the other hand, the Subsidiary Ledger (SL) for the Trust Liabilities-NCIP Work and Financial Plan (FPIC-Kaliwa Dam Project) disclosed that there were payments for appraisal services amounting to P419,642.86 for *fifty-four (54) parcels* of land on July 26, 2019 and P328,500.00 for *seventy-three (73) parcels* of land on September 19, 2019, both located in Teresa, Rizal. It is apparent therefor that there are still parcels of land to be utilized in the project which are not yet brought to expropriation proceedings especially those located in General Nakar, Quezon.
- 17.6. Further, the Minimum Performance and Specification Standards (MPSS) which forms as integral part of the Design and Build Contract establishes the minimum

requirements that the Contractor should comply for the design and construction of the Kaliwa Dam project. It creates certainty in the standards of performance of the Contractor. Under Part III of the MPSS, Section 1, the total project duration shall be 60 calendar months. The design phase shall be completed within *six months* from the issuance of NTP and the construction shall not exceed *fifty-four months* from the receipt of Notice to Commence Construction (NTCC). Therefore, counting from the issuance of NTP on November 13, 2019, the contractor has until 13 May 2020 only to finish the detailed engineering and design and to issue the NTCC.

- 17.7. The pending status of the right of way acquisitions and court proceedings for the expropriation of lots to be utilized for the damsite, treatment plants, tunnel conveyance outlet, access roads and other permanent structures can adversely affect the duration of the project. Worse, the Manual on the Procurement of Infrastructure Projects enumerated under the conditions when may the Contractor terminate the construction contract with the Procuring Entity, which includes the failure of the Procuring Entity to deliver, within a reasonable time, supplies, materials, ***necessary right-of-way***, or other items it is obligated to furnish under the terms of the contract. This is without prejudice to the fines and penalties imposable against the defaulting party.
- 17.8. **We recommended that Management require the Legal Department to:**
 - a. **Expedite the application and processing of existing and pending right of way acquisitions in accordance with RA 10752 as stated in the Board Resolution No. 2019-181-CO;**
 - b. **Compel the Engineering and Technical Operations Group to coordinate with the Legal Department on the status of the project accomplishment in relation to their participation in the expropriation of right of way; and**
 - c. **Submit the complete inventory of the lots or parcel of land to be utilized in the project, including areas of the affected ICCs and IPs territories and the information regarding the status of the expropriation proceeding of private lots already commenced which are to be used or utilized in the construction of the Kaliwa dam, the conveyance tunnel, access roads and housing camps in the project areas to the Project Management Office.**
- 17.9. Management reiterated the nature of the contract being a *Design-and Build Contract* which, under *Section 17.6* of the *2016 RIRR*, that it is expressly exempted from the requirement of prior acquisition, through expropriation or other mode of conveyance/transfer, of the subject properties. Moreover, Management averred that the final determination of the lots and properties for acquisition cannot be subjected to the requirement for pre-emptive acquisition, thus, there is no legal basis or justification for the possible termination of the subject contract.
- 17.10. The imperative need for submission of pertinent documents as recommended by COA has been communicated to our Legal Department which submission will be

convey to the Office of the Government Corporate Counsel (OGCC). It reasoned out that the delays in the expropriation proceedings are attributed to the imposition of Enhance Community Quarantine due to the pandemic.

17.11. The Audit Team will still validate the Management comments.

18. The MWSS already paid the Management Fees amounting to P32.446 million and availed drawdown from the Loan Facility without compliance with the specific contractual provisions and legal requirements set under the Preferential Buyer's Credit Loan Agreement, thereby, depriving the MWSS to use in its operations the funds advanced from the time it was released until the actual effectivity of the Loan Agreement.

18.1. The Preferential Buyer's Credit Loan Agreement (Loan Agreement) on the NCSW-KDP between the MWSS and the Exim Bank of China was signed on 20 November 2018. As discussed earlier, the effectivity of the Loan Agreement shall be dependent upon the satisfaction of the conditions set forth under Section 9.1 of the Loan Agreement. These conditions include the certified true copy of the ECC issued by the EMB of the DENR. Also, as previously discussed, the necessary Certificate of Precondition has not been obtained due to the defective FPIC of the affected ICCs and IPs.

18.2. Since the ECC issued by the EMB on October 11, 2019 is subject to various conditions and restrictions, hence, it is a mere provisional authority and thus, cannot be considered as the final ECC as intended by the Loan Agreement. Absent such final ECC bearing full compliance of the conditions and restrictions, the MWSS in the technical sense, cannot be said to have performed its obligations required of it to make the Loan Agreement effective. This is clear from Section 9.2 of the Loan Agreement which states that the effective date of the Agreement shall be the date specified in the Notice of Effectiveness of the Loan Agreement sent by the lender to the borrower **"after all the conditions precedent to the effectiveness of the Agreement have been fully satisfied"**. It follows therefore that the provisions of the Loan Agreement cannot be enforced, and no rights and obligations can arise therefrom.

18.3. Despite the ineffectivity of the provisions of the Loan Agreement, the Borrower (MWSS) still paid the Lender (China Exim Bank) the Management Fee of **P32,445,831.69** on November 26, 2019 as evidenced by JEV Number 2019-11-006872. The applicable provision on the payment of Management fee is found under Section 2.5 of the Preferential Buyer Credit Loan Agreement quoted as follows:

Management Fee. *The rate applicable to the Management Fee shall be zero-point three percent (0.3%). The Borrower shall pay the Lender a Management Fee in the aggregate amount of the Facility equal to the US Dollar Six Hundred and Thirty-Three Thousand Six Hundred and Forty-Three and Ninety-Four Cents (USD 633,643.94) in one lump sum within thirty days (30) days after this Agreement becomes effective but not later than the First Disbursement Date. The*

*Management Fee shall be paid to the account designated in Article 4.5.
(Emphasis supplied)*

- 18.4. Relative thereto, the Loan Agreement specifies the Conditions Precedent to the First Disbursement enumerated under Appendix 1 before the Lender can make its initial drawdown from the loan facility unless these requirements are waived in writing by the Lender. It also provides that the Lender shall not be obliged to make any disbursement under the Agreement unless it has received all the documents set forth and after examination that the conditions precedent to the drawdown of the Facility by the Borrower have been satisfied. Verification of the year-end balances of the liability accounts showed that no availments were made as of the December 31, 2019.
- 18.5. Per inquiries with the Finance Department, the first drawdown under the Loan Facility was made in March 12, 2020 for the amount **USD 31,682,392.76** or equivalent to **P1,617,227,738.43** applying the closing rate as of March 12, 2020. The Audit Team also requested for the supporting vouchers and records, but it was not available as the Finance is still in the process of recording the corresponding entries. As of writing, the MWSS has not furnished the COA with the copy of complete documentary requirements mentioned in Appendix 1.
- 18.6. The Appendix 1 of the Loan Agreement entitled Condition Precedent to the First Disbursement enumerated 19 documents which must be received to the satisfaction of the Lender before it can be obliged to make disbursement to the Borrower. According to the Management, except for the Legal Opinion on the Agreement set forth in Appendix 7-1 or in the form and substance otherwise approved by the Lender in writing issued by the Office of the Government Corporate Counsel (OGCC), all other documents were submitted to the China Exim Bank. However, the Audit Team have not received copies of these documents.
- 18.7. In view of the foregoing, the MWSS should not have fully settled the Management Fee considering that the Loan Agreement is not yet enforceable pending compliance of the documentary requirements and non-satisfaction of conditions and restrictions imposed under the ECC.
- 18.8. **We recommended that Management make representation with the EximBank of China to recover the Management Fee of P32,445,831.69 which is considered as advance payment since the Loan Agreement is not yet effective.**
- 18.9. Management avers that the Export-Import Bank of China transmitted the Notice of the Effectiveness of Loan Agreement dated November 01, 2019, conveying its satisfaction on the conditions set forth under Article 9.1, which have been duly complied with by the MWSS. The MWSS Finance Department explained that the Management Fee was already paid by MWSS because of the effectivity of the loan and all the conditions were already present.
- 18.10. We contend to the contrary on Management's comments that the payment of the Management Fee was proper and in order. As noted during the exit conference,

Management admitted that the Free and Prior Informed Consent, which must be manifested through the MOA, is yet to be finalized. This FPIC is a requisite to the Certification of Precondition (which will be issued by the NCIP) required in the ECC and will thus trigger/set off the effectiveness of the Loan Agreement.

- 18.11. Moreover, as of date, there was no submission to the COA Audit Team of the documentary requirements set forth in the Loan Agreement and the Conditions Precedent to the Initial Disbursement for the first drawdown out of the loan facility, hence, validation cannot be made on the Management assertion on the Effectiveness of the Loan Agreement.

Internal Audit Functions

- 19. The MWSS Internal Audit Department (IAD) is not fully functioning as mandated by existing laws, rules and regulations, and covered only the audit of MWSS Corporate Office. This was due to IAD's lack of manpower to fully perform its function. Hence, the MWSS is deprived of the opportunities to appropriately address the issues that can be identified in the management and operations audit of the IAD and to improve/enhance existing policies and procedures including internal controls.**

- 19.1. As early as 1962, laws were already promulgated for the creation of internal audit and its function through Republic Act (RA) No. 3456, otherwise known as The Internal Auditing Act of 1962, as amended by RA No. 4177. The Internal Auditing was however abolished under Presidential Decree No. 1. Subsequent thereto, authority was provided to government agencies, including government corporations to establish an Internal Audit Services (IAS)/Internal Audit Unit (IAU) pursuant to Administrative Order (AO) No. 278 and 70, and DBM-CSC Joint Resolution No. 1, s. 2006. Thereafter, the DBM Budget Circular 2004-4 and DBM Circular Letter No. 2008-5 highlighted the policy guidelines in the organization, staffing, positions and salary grades of the IAS which provides that the IAS would be composed of a Management Audit Division, and an Operations Audit Division, and specified the IAS/IAU's functions related to internal control.
- 19.2. The MWSS Internal Audit Department (IAD) was created in CY 2004 but it was only in CY 2018 when the IAD started performing its internal audit functions in compliance with the requirements of the Philippine National Standard (PNS) ISO 9001:2015, as disclosed in the CY 2018 MWSS Audit Plans and Procedures the purpose and scope of the internal audits is –

xxx to provide information on whether the quality management system covering the scope defined by MWSS, pursuant to the International Requirements in ISO9001:2015

- 19.3. However, in Section 2.4.b of DBM Circular Letter No. 2008-5 dated April 14, 2008, as well as in Item 3.2. b of the Philippine Government Internal Audit Manual (PGIAM), one of the functions of the IAS/IAU is to:

Conduct **management and operations audits** of xxx functions, programs, projects, activities with outputs and determine the degree of compliance with their mandate, policies, government regulations, established objectives, systems and procedures/processes and contractual obligations; (emphasis ours)

19.4. From the aforesaid audit plans and procedures, IAD's primary purpose in the conduct of internal audit is to meet the requirements of ISO9001:2015 and not in compliance with its mandated functions particularly the conduct of management and operations audit.

19.5. Moreover, the CY 2019 Internal Audit Plans and Procedures states that the IAD shall conduct an audit of the core processes with the MWSS-CO at defined schedules and intervals. Section 3.2 thereof state the Audit Objective as follows:

*The organization shall conduct internal audits at planned intervals to provide information on the **Operations Audit** covering the scope defined by MWSS pursuant to the requirements prescribed by the PGIAM, PIAS, ISPPIA and NGICS. xxx*

19.6. Thus, in relation thereto, we find proper the definition of management and operations audits in Items 4.2 and 4.3 of the PGIAM, respectively, to wit –

Management audit is a separate evaluation of the effectiveness of internal controls adapted in the operating and support services units/systems to determine whether they achieve the control objectives over a period of time or as of a specific date. It includes the determination of the degree of compliance with laws, regulations, managerial policies, accountability measures, ethical standards and contractual obligations covering specific timeframes. It is a review and appraisal of the systems and processes, organizational and staffing structures, operations and management practices, records, reports and performance standards of the agencies/units covered. xxx

Operations audit is a separate evaluation of the outcome, output, process and input to determine whether government operations, programs and projects are effective, efficient, ethical, economical, including compliance with laws, regulations, managerial policies, accountability measures and contractual obligations. xxx involves an evaluation of whether or not performance targets and expected results were achieved. (emphasis ours)

19.7. Inferred from the above provisions, the audits that were conducted by the IAD were more of a management audit than that of an operations audit.

19.8. Interview with the IAD Head and personnel disclosed that due to manpower constraint, their department cannot perform fully their mandated functions. Presently, IAD's manpower complement is only three including their head, the Department Manager and one contract of service worker.

- 19.9. As regards the Organizational Structure and Staffing, Sections 2.7, 2.8 and 2.9, of the DBM Circular Letter No. 2008-5 states that –

2.7 In the case of GOCCs/GFIs, the IAU shall be a Department or its equivalent organizational unit, which shall be headed by a Department Manager with a Salary Grade of 26 or its equivalent position. It shall have two (2) divisions, an Operations Audit division and a Financial Audit Division, each to be headed by an Internal Auditor V (SG 24).

The IAS/IAU of GOCCs/GFIs shall report to the respective Audit committee of the Governing Board of the corporation.

2.8 Each division of the IAS xxx shall be staffed by Internal Auditor and Internal Auditing Assistant positions which shall not exceed seven (7) positions. xxx

2.9 For GOCCs/GFIs, the appropriate staffing shall be determined on the bases of the magnitude and complexity of operations. They are enjoined however to follow the guidelines set forth for national government agencies

- 19.10. The IAD has functions which are critical in an independent assessment of management control and operations. As such, the organizational structure as well as the staffing/manning complement are contributory to the attainment of the purposes of the establishment of IAD such as the: a) strengthening of the internal control systems; b) improvement of existing systems and procedures; and c) promotion of transparency and accountability in various aspects of the operations of the MWSS.
- 19.11. The MWSS is a government agency created by Republic Act (R.A.) No. 6234, which primary mandate is the proper operation and maintenance of waterworks system to ensure an uninterrupted and adequate supply and distribution of potable water for domestic and other purposes and the proper operation and maintenance of sewerage systems in its service areas which includes the whole of Metro Manila and parts of Cavite and Rizal.
- 19.12. The Board of Trustees (BOT) as its governing body is on top of the organizational structure of the MWSS. Then, below the BOT are the Corporate Office (CO) and the Regulatory Office (RO) of equal level. The Board Secretary and the Internal Audit on a lateral level just above the CO and the RO. Meaning, the IAD reports directly to the BOT thru the Audit and Risk Management Committee (ARMC) created by the BOT. This is in compliance with Section 2.7 of DBM Circular 2008-5.
- 19.13. The same organizational structure also grants authority to IAD to conduct audit of both the CO and the RO's management and operations in accordance with established standards, laws, rules and regulations, since the creation of the IAD was made by the BOT of MWSS and this is in compliance with the laws and issuances by the DBM.

- 19.14. Review of the IAD's CY 2019 report showed that they have not conducted audit of the management and operations of the RO. Likewise, the IAD Audit Plans and Procedure for CY 2018 and 2019 did not bear any audit plan and/or procedure for the RO. Clearly, there is inadequacy of audit scope by the IAD for not including in their audits the RO.
- 19.15. Since no audits were conducted on the management and operations of the Regulatory Office (RO), MWSS did not benefit for any improvement or enhancement on policies, systems and procedures as a results of such audit; and to thwart any fraudulent machinations, abuse of authority or connivance in view of the IAD's purposes as stated in the DBM Circular Letter No. 2008-5, which include: a) strengthening of the internal control systems; b) improvement of existing systems and procedures; and c) promotion of transparency and accountability in various aspects of the operations of the MWSS
- 19.16. **We recommended that the: (a) Board of Trustees consider increasing the present manpower complement of the IAD for the latter to fully operate in accordance with its mandated functions; and (b) Internal Audit Department (IAD) conduct both management and operations audit of the CO and the RO.**

Results of Physical Inventory-taking and Inspection

Ocular inspection by the Team of selected MWSS property as witness in the conduct of physical inventory-taking and inspection by the composite team created by the MWSS revealed the following:

- 20. Various MWSS property used to be sites of its deep well operations were occupied by private individuals or taken back by the donors. There are also issues in the ownership titles and deed of donations covering said property. Thus, hindering the possession and control by MWSS of said property for its use. Obviously, MWSS did not monitor the status of said property for a long time.**

Marikina City Area

- 20.1. Permanent structures were built on the MWSS property and these structures were made as dwellings with some portions leased to others, thus, depriving the MWSS of its right to use the facility.**

a. Tangerine corner Cream St. SSS Village (Lot 89-B-2), Marikina City

- a.1.** During the inventory taking and inspection, it was observed that permanent structures were built on the MWSS property and these

structures were made as dwellings while a portion of which were leased to others, thus, depriving the MWSS of its right to use the facility.

- a.2.** Inquiry from the tenants and the alleged claimant disclosed that the family were living in the premises since 1970s. The head of the family who claims rights over the property was a former deep well custodian or caretaker who lives within the facility even after the cessation of operation of deep wells. He also disclosed that the two-story structure was completed in CY 2018 and continuously occupies the facility as their own permanent residence while the other rooms were leased to and being occupied by tenants. Sample photos taken are shown below:

Exhibit 20.1.A.2 - View of the permanent structure from the outside.



- a.3.** The composite team searched within the area and found the original deep well inside in one of the rooms of the structure being considered as apartment for lease. There were no other traces of the deep well except for the hole drilled covered with concrete panel. Neither metal pipes, water pumps and scrap metals were recovered. As of the inspection date, the room is being repaired and prepared for occupancy.

Exhibit 20.1.A.3 -The deep well site inside the two-storey residential structure



b. Azure corner Aquamarine St. SSS Village, Marikina City

- b.1.** The MWSS property in this area consists of deep well and pumping house/room with a centrifugal pump. Inspection showed that the facility is no longer in use as intended since the water operation has long been abandoned. For this reason, the occupants consisting of three families partitioned into rooms the MWSS property and use as their dwellings.

Exhibit 20.1.B.1 - The deep well site inside the structure.



- b.2. Notwithstanding the stoppage of the deep well operations, the composite team explained to the occupants that the MWSS as the government arm, retains the title over the property and it still has the full control thereof. Hence, it can take possession of the property at any time, without reservation, as the need arises. The occupants were also informed that an action for ejectment is on-going as a legal process to eject all illegal occupants on the MWSS properties. Moreover, interview also revealed that the occupants are aware that they have no legal title over the property, and they may be ordered anytime to vacate the premises.

Exhibit 20.1.B.2 - View from the outside of the abandone deep well site.



c. Sienna St. corner Scarlet St. SSS Village, Marikina City

- c.1. During the inspection, the team was not allowed to enter the premises to validate the existence of the MWSS structures inside the residential building since the owner of the house was not around.

- c.2. It was disclosed, however, by the representatives from the MWCI that the alleged owner of the residential house where the deep well is located was a former MWSS employee who was then absorbed by the concessionaire as pump operator during the transfer to the concessionaire of the operations and properties of the MWSS.

Exhibit 20.1.C.2 - A view from the outside of the abandone deep well site.



20.2. Deep wells constructed in the LGU-donated lots or on a privately-owned donated lot were already decommissioned and possession is restored to the donor without proper documentation.

- a. San Roque Elementary School, M. Roxas St.
- a.1. The MWSS list of properties disclosed that the area as shown in Exhibit 6 below, was assigned by MWSS to MWCI. The property was donated by the local government with the condition that the lot donated must be actually used in supplying water supply in the area.
- a.2. Inquiry with the MWSS -AMD revealed that there was no copy of the Deed of Donation in their safekeeping that will support the grant by the LGU for the usufructuary rights over the lot in favor of the MWSS.

Exhibit 20.2.A.2 - Deep well site converted into a waiting shed by the LGU.



- b. Malanday Elementary School, Malaya corner Visayas St., Marikina City
- b.1. The deep well was formerly located in this site, shown in Exhibit B.2.b-1. The physical structures were demolished, and the deep well was already decommissioned. It was observed that there were no more visible traces of the deep well.

- b.2. The lot was donated by the LGU, however upon the abandonment of the water pumping operations, the property was reverted to the control and possession of the LGU-donor. The MWSS has likewise no copy of the deed of donation pertaining to their usufructuary right over the property.

Exhibit 20.2.B.2 - The site of the demolished deep well now used by the LGU.



- b.3. As mentioned above, the lots upon which the deep wells were built were not covered by a Deed of Donation. There were no documents available that would support the actual delivery of the lot to the donee (MWSS) as well as the actual turnover of the property to the LGU-donor upon the termination or cessation of operation of the deep well.
- b.4. As shown in Exhibit B.2.d-1 below, a public school was already built on the property previously used for the deep well operation. Moreover, the AMD was not able to present any documents from the concessionaire and the LGU on the decommissioning of the deep well.

Exhibit 20.2.B.4 - The LGU recovered the lot for the use of the public school



- c. Russet corner Scarlet St., SSS Village 49-C-3A-3C-3A-1A

- c.1. This MWSS property consists of a deep well with water reservoir and control house. Interview disclosed that after the facility ceased

operation, the former caretakers have occupied the property and have permanently reside therein with their families. They allegedly claimed that their parents were former workers of the MWSS and they have been occupying the area for more than 24 years.

Exhibit 20.2.C.1A - The water tank reservoir being used as dwelling by the occupants



Exhibit 20.2.C.1B - The location of the property which is a corner lot



d. J. Molina near Corner Puffin St., SSS Village (Lot 6-A)

- d.1. The MWSS property in J. Molina is located beside a subdivision road. It is a property donated by the Tuazon Enterprises when the deep well operation was taken over by the MWSS. Since the water pumping operations of the deep well has already ceased, the structures were demolished, and the deep well was no longer used for practical reasons. No instrument over the usufructuary rights issued in favor of the MWSS was presented during the inspection. The law requires donation involving real rights over an immovable and its acceptance shall be in public instrument otherwise, it shall be null and void.

Exhibit 20.2.D.1 - Molina deep well decommissioned and remained idle



20.3. Deeds of Donation over the Right of Way (ROW) and title to the lots used for the deep well operations which will support the rights over the real property were not kept or in possession of the MWSS.

- a. Examination of the list of the deep well pumping station submitted by the MWSS for inspection, disclosed that some of these properties have no Transfer Certificate of Titles (TCTs) or Deeds of Donation and Acceptance (DODA). Out of the nine items inventoried, only five have data as to the title number, while for the remaining four areas, indicated was “No TCT”.
- b. The other properties have no detail descriptions which makes it difficult or impossible to identify what is included in the specific asset account. Consequently, the MWSS has to rely on the identification and declaration made by the concessionaires. All of the deep wells installed in the properties are no longer operational and were mostly decommissioned. There were no data and/or documents that would show the date of the stoppage of operation and the subsequent decommissioning.
- c. In the Inspection Report prepared by the Physical Inventory Team as of October 16, 2019, scanned copies of the mentioned TCTs with memorandum of encumbrances were submitted. However, there were no Deeds of Donation and Acceptance or any private deeds or instruments that will prove the conveyance of real rights between the donor and the donee. Thus, we cannot establish that the real properties were indeed donated.
- d. For the remaining properties, the AMD cannot, however, commit to produce the other titles or/and deed of donation allegedly because there was no proper turnover of the documents and records from the previous officers in charged over the subject properties.
- e. Section 101 of PD 1445 states that –

Every officer of government, whose duties permits or requires the possession or custody of funds and property is accountable and responsible for the safekeeping thereof. He is liable for all losses resulting in the unlawful, improper deposit, use or application thereof and attributable to negligence in the keeping of the same.

- f. Moreover, Section 102 thereof provides that –

The head of any agency of the government is immediately and primarily responsible for all government funds and property pertaining to his agency. Persons entrusted with the possession or custody of the funds or property under the agency head shall be immediately responsible to him without prejudice to the liability of either party to the government.

20.4. We recommended that Management require the:

- a. **Asset Management Department (AMD) and the Legal Department to evaluate the MWSS rights over the subject properties and to take appropriate action to enforce said rights against the unlawful/unauthorized use of said properties.**
- b. **Require the AMD and other concerned department/s to ensure the documentation and safekeeping of the documents such as the deed of donation, certificate of titles and other papers/documents, including on proofs of receipt and return of the property to the donors. The officer/officers in-charge in the safekeeping must make available these documents especially during inventory and inspection.**

21. Some deep wells (DWs) remained non-operational due to: unresolved water quality; uninstalled machineries/equipment, accessories and other appurtenances; outdated yet being used as storage or other than its intended purpose; and abandoned but not yet dismantled. Also, evidence of ownership is not available with the AMD. These issues prevent to optimize the use of the DWs which can augment the water supply in Metropolitan Manila.

- 21.1. Summarized in the table below is the results of the physical inventory-taking and ocular inspection of the MWSS deep well facilities in Quezon City areas showing their status:

Facility Name	Location	Description	Status
1. Tivoli Royale	Tivoli Royale Subd. Batasan, Balara, Quezon City	Elevated tank with concrete control house and control room	Non-operational
2. Pag-Asa	Road 10, Brgy. Plaza, Pag-asa, Quezon City	Pumping station with control room, chlorinator, new pipes	Operational; Newly rehabilitated in April 2019
3. Sto. Cristo	Sto. Cristo ES, Nueva Vizcaya St. Bago Bantay, Quezon City	Pumping station with control room chlorinator, new pipes	Operational; Newly rehabilitated in April 2019
4. Escopa DW	P. Burgos St. Escopa Project 4, Quezon City	Deep well, control room and new pipes to be installed	Non-operational; undergoing rehabilitation

Facility Name	Location	Description	Status
5. Maria Clara	Josephine Bracken corner JP Rizal St., Proj. 4, Quezon City	Deep well, control room and new pipes installed	Operational; Newly rehabilitated in April 2019
6. Temple Drive DW	Temple Drive, Green Meadows Subd., Quezon City.	Decommissioned deep well and unserviceable elevated water tank	Non-operational
7. Green Meadows #3	Lot 12, Block 11, Green Meadows Subd., Quezon City	Abandoned deep well enclosed in a small control room; donated by Ortigas & Co.	Non-operational
8. Blue Ridge DW	Hillside Loop cor. Hillside Drive, Blue Ridge Subd. Quezon City	Control house, water tanks, chlorinator	Operations temporarily suspended in August due to water quality issues
9. White Plains #1	Poolside, Nathan Road cor Derby St. White Plains Subd., Quezon City	Deep well, functional control room, chlorinators and water pipes repaired	Operational since February 2019
10. White Plains #2	Queensville cor. Kingsville St., White Plains Subd., Quezon City	Existing pump house only	Non-operational
11. St. Ignatius DW	Riverdale cor. Astoria St., St. Ignatius Village, Quezon City	Abandoned deep well and control room; padlocked	Non-operational
12. Don Antonio DW	Jackson St., Don Antonio, Royale Subd., Quezon City	Deep well and control room	We were not permitted to enter the premises

- 21.2. The circumstances surrounding the above status of operation of the deep wells as revealed in the inspection of the Team are discussed in detail in the following paragraphs.

Quezon City Area

- 21.3. Temporary **suspension of operations of deep well pumping stations due to water quality issues remain unresolved.**
- a. Pag-asa Pumping Station, Road 10, Brgy. Plaza, Brgy. Pag-asa, Quezon City
 - a.1. During the inspection, it was learned that the operation of this deep well pumping station was temporality suspended due to the water quality problems. Allegedly, as disclosed by the representative of the MWCI, it is currently finding solutions for the water treatment and improvement of the overall water quality.
 - a.2. Inside the structure is a Generator Set recently installed which will be readily available after the water quality issues are resolved.

Exhibit 21.3.A.2A - View from the outside of the pumping station



Exhibit 21.3.A.2B - The Generator set and new metal pipes



Exhibit 21.3.A.2C - New metal pipes and chlorinators.



- b. Sto. Cristo Deep Well, Sto. Cristo ES, Nueva Vizcaya St. Bago Bantay, Quezon City.

- b.1. This MWSS Property located adjacent to a school and is composed of deep well pumping station/pump house and control room with control panel. According to the MWCI, the facility started operations at the later part of May 2019, but the operations were also suspended on August 2019 due to water quality issues.

Exhibit 21.3.B.1A - The Deep well pumping station building.



Exhibit 21.3.B.1B - Control room with the rehabilitated control panels and pipes.



21.4. Various **observations on non-operational/abandoned/under rehabilitation deep wells.**

a. Escopa Deep Well, P. Burgos St. Escopa Project 4, Quezon City.

- a.1. This MWSS property is currently **non-operational**. This pumping station facility is **undergoing rehabilitation**. The **control panel is not yet working**, the **water pipes are not yet installed** and **chlorinator is not yet placed** and there is **no available supply of electricity for the motor to be used**. The pump house is properly fenced and locked.

Exhibit 21.4.A.1A - The pump house as viewed from the outside.



Exhibit 21.4.A.1B - The control panel not yet installed and set up.



b. Tivoli Royale Subd. Batasan, Balara, Quezon City

- b.1. This property is located within a private residential subdivision. It consists of an elevated water tank which is **no longer operational**, it has an empty control room, pipelines, circuit breaker system and electric meters. The deep well where this water tank gets water is still intact although already covered with grasses. Since the use of the deep well was abandoned indefinitely, the deep well and the elevated water tank remains non-operational.

Exhibit 21.4.B.1 - The elevated water tank (Non-operational)



- c. Green Meadows #3, Lot 12, Block 11, Green Meadows Subd., Quezon City
- c.1. The MWSS property which is less than six square meters is **non-operational**. The area is **insufficient to house a control panel and other appurtenances**. The **pump house is already outdated**. Inside this small structure is an existing stainless pressure tank and circuit breaker. The **pump house is being used as a storage** for materials, other stockpiles and lamp or light posts.

Exhibit 21.4.C.1A - View from the outside of the small pump house.



Exhibit 21.4.C.1B - Inside the pump house is a water tank and other stored materials.



d. Temple Drive, Green Meadows Subdivision, Quezon City.

- d.1. The physical concrete structures were already **demolished**. The **water pumping operations is totally abandoned**. The elevated metal **water tank is no longer serviceable and hence, available for dismantling**. The deep well is **identifiable only through an opening pipe which is covered by a plastic**. Only the well casing is available.
- d.2. According to the AMD, the property was donated by the Ortigas Company, but the **AMD did not present any document for verification**. There is no apparent intention or plans to use the facility for the meantime, since there is sufficient supply of water in the area. There are no more traces of the pump house.

Exhibit 21.4.D.2A - The elevated metal water tank which is no longer serviceable.



Exhibit 21.4.D.2B - The basement of the elevated water tank used as a canal of wastewater



Exhibit 21.4.D.2C - The opening of the deep well which not covered by a plastic.



- e. St. Ignatius DW, Riverdale cor. Astoria St. St. Ignatius Village
 - e.1. This MWSS Property is an existing pumping station with an electric motors and newly replaced metal pipes. There were **no control panels and chlorinators** observed. This property is **non-operational** as of the date of inspection. Per inquiry from the MWCI representative, the property is scheduled for the installation of treatment facility.

Exhibit 21.4.E.1 - The pump house



f. White Plains #2, Queensville cor. Kingsville, Quezon City

- f.1. The Team was not able to inspect inside the property since the keys were not available and the caretaker designated by the homeowners was not around. The Team is not sure whether there is an existing control panel, electric motor and other appurtenances inside the structure however, there was no disagreement that the property is **not operational**.

Exhibit 21.4.F.1 - Non-operational, with existing pump house as seen from the outside.



21.5. **Evidence of ownership over the property is not available**

- a. The MWSS – CO does not have any copy of title evidencing real rights over the subject properties.
- b. Most of these items/PPEs inventoried are in possession by the MWSS by virtue of donation from private entities when the operations of deep wells were taken over by the government. However, no copies of Memorandum of Agreement (MOA) or Deed of Donation and Acceptance (DODA) were presented. Hence, it was challenging for the MWSS to determine to what extent the right to use the properties is covered, the area and boundaries involved, and the conditions or undertakings attached to the donation.

21.6. **Operational deep wells**

- a. Maria Clara, Deep well Josephine Bracken corner JP Rizal, Project 4, Quezon City

a.1. This MWSS property is operational and is in good condition. This pumping station has recently undergone rehabilitation and new appurtenances were installed. New control panel with submersible water pump and discharge valves were also upgraded. Outside the pump house is a newly constructed additional Water Treatment Facilities with available supply of electricity.

Exhibit 21.6.A.1A - The pump viewed from the outside



Exhibit 21.6.A.1B - Newly replaced metal pipes and appurtenances.



Exhibit 21.6.A.1C - Newly installed control panel inside the pump house.



Exhibit 21.6.A.1D - The newly constructed Water Treatment Facility beside the pump house.



- b. Blue Ridge DW, Hillside Loop cor. Hillside Drive, Blue Ridge Subd., Quezon City
 - b.1. The Blue Ridge deep well is operational as inspected. The facility is newly rehabilitated, and appurtenances were all upgraded. New additional static tanks (2.3 cubic meters) were provided by the concessionaire. According to the MWCI representatives, the tanks shall be used as an addition to the Water Treatment Facility.

Exhibit 21.6.B.1A - The pump house viewed from the outside with the two static tanks.



Exhibit 21.6.B.1B - The control panel inside the pump house which is upgraded.



Exhibit 21.6.B.1C - The metal pipes newly installed.



- c. White Plains #1, Poolside, Nathan Rd. corner Derby St. White Plains Subd., Quezon City
 - c.1. The pumping station is operational. It has a newly rehabilitated and upgraded appurtenances with existing pump house and standby electricity supply.

Exhibit 21.6.C.1 - The premises





21.7. For the deep well in Don Antonio, Jackson St., Don Antonio, Royale Subdivision, Quezon City, the Team was not able to inspect the property after the security guards refused entry to the private subdivision. The MWCI and MWSS representatives (composite team) attempted to ask permission from the homeowners' association to allow the Team to inspect and take photos of the deep well, however, the homeowners' association require a written request in order to enter the subdivision premises where the deep well pumping station is located. Hence, the Team was not able to inspect the Don Antonio deep well as scheduled during that day.

21.8. **We recommended that Management:**

- a. **Address the cause or causes of the temporary stoppage of the deep well operation by coordinating with the concessionaire, the issue on water quality in Barangays Pag-asa and Bago-Bantay, Quezon City, in order to alleviate the impact of the water supply concerns in Metropolitan Manila.**
- b. **(i) Formulate an overall strategy on the properties of MWSS relative to the deep well that have already ceased operations; (ii) install security measures in the areas where the deep well operations were stopped or suspended or abandoned, in order to protect and safeguard the remaining properties of MWSS including the deep well appurtenances; and (iii) recover the salvage value of the metal pipes, equipment and other items for disposal.**
- c. **Evaluate and update as necessary the existing policies of the MWSS in the safekeeping of titles, deeds and proof of ownership or right to use the property and other related transactions pertaining to its properties used in the deep well operations, with imposition of sanctions to officials and employees who erred in their duties and responsibilities pertaining to the custody and safekeeping of these records/documents. This is to prevent doubt on the rights and ownership of MWSS over the subject properties.**

22. Several deep wells (DWs) can no longer be located since structures were already erected on the DW sites. There are also MWSS properties which are being used other than for the deep well operations and the records of the AMD differs from that of the concessionaire's. These are indications of lapses of the AMD in updating its records and in monitoring the MWSS properties for DW operations, hence, render the records of MWSS properties unreliable.

Rizal Areas

22.1. Twenty-three deep well pumping stations of MWSS assigned to MWCI (the concessionaire) located at Cainta, Taytay, Binangonan and Antipolo, Province of Rizal were visited for inventory-taking and at the same time inspection. The composite team consists of AMD personnel and two MWCI representatives to guide the team in locating the deep well pumping stations in Rizal Province.

22.2. **There is a discrepancy between the record/list of inventory items of the MWSS-CO as against the record/list of the MWCI.**

a. Cainta and Taytay, Rizal

a.1. During the inventory and inspection, copy of the list of PPEs with their locations was provided by the concessionaire. It shows the **23** deep well pumping stations in the province of Rizal. On the other hand, inventory list submitted by the MWSS-CO as extracted from the E-NGAS consists only of **11** turned-over deep wells, hence a discrepancy of 12 items.

a.2. Based on the inventory list of the PPEs provided by the concessioner, the Table 1 as presented below shows the status of the 23 turned-over deep well pumping stations:

Table 1 – Status of Turned-over Deep Well Pumping Stations			
	Quantity	Status	Remarks
A - 1	3	Demolished	The Barangay issued a Certification because there are no traces can be seen which shows that a deep well pump station was built on the place
A – 2	2	Demolished	The Barangay will submit the Certification to the Branch Office of MWCI - Cainta
A - 3	4	Demolished	No Certification issued. Need to locate its barangay zonal place for the Certification.
B	1	Demolished	No traces of the deep well pumping station but as to the list copy given by the MWCI in their remark states "MWSS verbal agreement only"
C	1	Not included in the listing of PPE of MWSS-CO	Presumed to be a private deep well pump. Remark by the MWCI "scheduled for ocular inspection by next year"
D	1	Cannot be located	No information in the PPE book of MWSS-CO
E	6	Stand-by	Serve as back-up as the need arises

	Quantity	Status	Remarks
		ready for operation	
F	2	Upgraded appurtenances	On-going rehabilitation
G	3	Operational	On service
Total	23		

b. Esguerra Street Brgy. San Juan, Taytay

- b.1. The demolished Esguerra Compound deep well pump station located at Esguerra Street Brgy. San Juan, Taytay was **not included in the inventory list** of the AMD of MWSS.

c. Duavit Street, Barangay Lunsad, Binangonan

- c.1. The Lunsad deep well pump station located at Duavit Street, Barangay Lunsad, Binangonan was **not included in the inventory list** of MWSS – AMD and **presumed as a private deep well pump since it is not listed** in the MWCI, but planning that by next year they will schedule an ocular inspection thereof

d. Isagani deep well pumping station located at Taytay and City of Pasig

- d.1. There was **no information or record** from MWSS – AMD and hence, the **deep well pumping station cannot be located**.

22.3. **Upgrading works were left unfinished and various deficiencies were noted during inventory-taking and inspection**

a. San Fabian, Cainta

- a.1. The upgrading appurtenance of the deep well pump located at San Fabian St. Robles Subdivision, Cainta, Rizal was **left unfinished**, hence, it **has already deteriorated**, and the deep well **pump casing was missing as it was allegedly stolen**.
- a.2. It was noted that although there was a signage/standee displayed as “Project under Construction” which inform the public at large that the area is restricted, however, there is still a risk of theft and pilferage considering the laxity in security of the area.



- a.3. It was also noted that the Monitoring Control Pump (MCP) voltage is **still for rehabilitation and no updating was made** thereon



- 22.4. **Deep well pumping stations cannot be located due to either it was covered with debris from on-going construction within the premises or a structure was already built on top of the site.**

- a. P. Burgos corner Circumferential Road, San Roque Antipolo City

- a.1. The deep well site was covered with debris of rocks and soil coming from the private construction on-going at corners P. Burgos and Circumferential Road, hence, it **can no longer be located** as shown below:



- b. Road to Teresa Street, Cainta.

- b.1. A cemented **structure** that houses a small videoke leisure corner and sari-sari store storage **was built on top of the deep well site**. Thus, the deep well **cannot be located** anymore as shown in the photo on the next page.



- b.2. The deep well pumping station located at the back of Felix Memorial High School, now the One Cainta Municipal Hospital, **cannot be traced anymore** as the said pumping station is **being used as storage/bodega for the said hospital**.



c. Esguerra Street Barangay,, San Juan, Taytay

- c.1. As discussed earlier, this demolished deep well pumping station at Esguerra Compound was **not included in the inventory list** of the AMD.
- c.2. Said Esguerra Compound pump station is **now being used as the terminal station** of Taytay – Crossing Terminal and Office Jeepney Operators and Drivers Association (TAC-JODA) **and a canteen/eatery was built** on the other side of the terminal station.



- c.3. Moreover, a blue pipe post in front of the eatery was seen during the inventory and inspection and the composite team presumed that the post was part of the deep well pump. The elderly drivers of the TAC-TODA disclosed that several years back there was a water pump where the eatery was located but the **water pump cannot be found**.



d. Gruar Subdivision, Barangay Sto. Domingo, Cainta, Rizal

- d.1. The Table 1 Table 1 – Status of Turned-over Deep Well Pumping Stations shown above provides the status of the three deep well pumping stations which were **no longer operational and has already been demolished**.
- d.2. It was noted that these deep well pumping stations were issued with Certification from the Barangay to attest that there were no more visible traces of the deep well pumping station including its appurtenances.
- d.3. This certification was issued by the Punong Barangay in the area.



e. Gloria and Irma Street Marick Subdivision, Barangay Sto. Domingo, Cainta, Rizal

- e.1. The deep well pump located at Gloria and Irma Street Marick Subdivision, is **no longer operational and has already been demolished**. Presently, the site where the deep well is located is being used as a parking space.
- e.2. Similarly, a certification was issued by the Punong Barangay, stating among others that the deep well was already demolished, and the appurtenance can no longer be located.



f. Barangay Dolores, Taytay, Rizal

- f.1. A certification was issued by the Secretary of Barangay Dolores, Taytay, Rizal, stating that the deep well pump along Sumulong St. besides Fire Station and St. John the Baptist Church is **no longer operational and has already been demolished**. The site where the deep well pumping station was built is now being occupied by a restaurant, the Zack and Gab Grill Resto.



g. San Juan L. Santos corner A. Bonifacio Ave., Barangay San Juan, Taytay

- g.1. In this area, the deep well pumping station was **already demolished** and the Barangay that has jurisdiction over the place has yet to issue the Certification as to the status/condition of the said pumping station.
- g.2. The site where the deep well pumping station was located is **now being used as Office of the Barangay Lupon Annex Building**.



h. J. P. Rizal Street, Sitio Bangiad, Taytay

- h.1. The deep well pumping station located at J.P. Rizal Street, Sitio Bangiad, Taytay was already demolished. Noted in the remarks column of the inventory list states that per “MWSS verbal agreement only.” Such remark was not clear even to the inventory team.
- h.2. It was noted that the Bangiad deep well pump station which was located at the back of Sea Oil Gasoline Station and the 711 Convenient Store, is **presently used as a dump pit**; and **no traces can be seen that there was once a deep well pumping station** on the said site .



- h.3. It was also noted that the kitchen of a canteen/eatery was built where the Bangiad deep well pump station was located. Inquiry from the AMD representative disclosed that previously, the practice was to simply ask the permission of the owner of the property that a deep well will be installed on their property. Hence, there was not proof that the former site of the deep well pumping station is owned by MWSS.



22.5. Other observations

a. Taytay

- a.1. The MWCI informed the team that there was a Cardona Water Treatment Plant, a private entity that can supply water in almost the whole area of Taytay.
- a.2. There are six deep well pumping stations in this area which are considered on a stand-by status, ready for operation and complete with its appurtenances. The MWCI representative disclosed that the six deep well stations shall operate as the need arises.
- a.3. These six deep well pumping stations are as follows:
 1. Rosario deep well pumping station located at Rosario Street, Barangay San Juan, Taytay, Rizal
 2. Cantaco deep well pumping station located at Velasquez Street, Sitio Bangiad, Barangay San Juan, Taytay, Rizal
 3. Zapanta deep well pumping station located at Velasquez Street, Sitio Bangiad Barangay San Juan, Taytay, Rizal
 4. Ciudad Grande deep well pumping station located at Ciudad Grande Subdivision Barangay Muzon, Taytay, Rizal
- a.4. The appurtenance of the two deep well pumping stations enumerated below have been upgraded and its rehabilitation were on –going:
 1. Mapandan deep well pump station located at Hunters ROTC Ave. Barangay San Juan, near One Cainta Gym, Cainta, Rizal

2. San Victores deep well pump station located at San Victores Elementary School, E. Rodriguez Ave., Barangay San Isidro, Taytay, Rizal
- a.5. Moreover, the following three deep well pumping stations are operational, complete with its upgraded appurtenances, electric lines, testing machines and the MCP:
1. The Taytay Elementary School deep well pumping station located inside Taytay Elementary School, L. Wood Street, Barangay Dolores, Taytay, Rizal
 2. The Nursery deep well pumping station located inside Ynares Stadium Circumferential Road, Antipolo, Rizal
 3. The San Isidro deep well pumping station located besides the Taytay Doctor's Hospital, Rizal Ave., Barangay San Isidro boundary of Cainta and Taytay, Rizal
 4. Binhi ng Pag-asa deep well pumping station located at Binhi ng Pag-asa, Barangay Sta. Ana, Taytay, Rizal
- a.6. The deep well pump station located inside the premises of the school near the entrance gate of Sta. Ana Elementary School at BA Cruz St. Barangay Sta Ana, Taytay, Rizal. It is inside the Sta. Ana Elementary School.

22.6. We recommended that Management:

- a. **Require the AMD to: (i) explain the discrepancies of the recorded PPE items (deep well pumping stations and appurtenances etc.) as against the inventory list of the concessionaire MWCI; and (ii) prepare the correct and updated record of MWSS;**
- b. **Conduct investigation on the unfinished upgrading of the deep well appurtenances in San Fabian St. Robles Subdivision, Cainta, Rizal and also determine who shall be made liable for the unfinished work which resulted to the deterioration of the appurtenance and for the missing pump casing;**
- c. **Ensure that: (i) the MWSS properties are safeguarded from any intrusion or any unauthorized use thereof; (ii) there is proper safekeeping of the records that will show the MWSS ownership of the deep well pumping stations and the sites to where these stations where built, and documentation that the same were transferred or donated to the LGU or some private entity performing governmental functions like the operation and maintenance of deep well pumping stations; and (iii) for Legal Department to evaluate the appropriate**

action to be filed against the unlawful/unauthorized use of the MWSS properties.

Gender and Development (GAD)

23. The allocated GAD budget of the MWSS Corporate Office for CY 2019 of P8.850 million represents only 0.18 per cent of the DBM - approved Corporate Operating Budget (COB) of P4.906 billion, way below the required minimum five per cent (5%) of the total agency's budget as required under Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Out of the allotted amount, only P827,001.00 or 9.34 percent was actually expended for GAD activities, hence, the purpose of the law on women empowerment and gender equality was not addressed.

23.1. From the CY 2019 COB, the MWSS allotted an amount of **P8,850,000.00** for the GAD fund as approved by Philippine Commission for Women (PCW). This amount is equivalent only to **0.18 percent** of the Agency's DBM-approved COB for CY 2019 amounting to **P4,905,631.000.00**. Out of the allotted amount, only P827,001.00 or 9.34 percent was actually expended for GAD activities.

23.2. Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01 provides that *"At least five per cent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs."* This requirement is also embodied in Section 36 of RA 9710 which mandates that:

All departments, including their attached agencies, offices, bureaus, state universities and colleges, government-owned and controlled corporations, xxx shall adopt gender mainstreaming as a strategy to promote women's human rights and eliminate gender discrimination in their systems, structures, policies, programs, processes and procedures which shall include, but not limited to planning, budgeting, monitoring and evaluation of GAD programs, which shall be at least five per cent of their budgets.

23.3. In the CY 2018 GAD Plan and Budget (GPB), which is the first PCW-approved GAD plan, the MWSS-CO activities focused primarily on: GAD orientations and planning which are carried out through the conduct of gender sensitivity trainings; GAD planning workshops; and GAD orientation among the executives.

23.4. Moreover, Section 6.4 of the same Joint Circular, states that

Attribution to the GAD budget of a portion or the whole of the budget of an agency's major programs is a means toward gradually increasing the gender responsiveness of government programs and budgets."

23.5. Based on the said provision of the subject joint circular, the MWSS-CO may, however, allot budget for programs other than the typical PAPs for as long as the

activities or programs address the gender issues within the concerned unit and the fulfilment of the GAD objectives.

- 23.6. Under the COA Circular 2014-001 or the Revised Guidelines in the Audit of GAD Funds and Activities in Government Agencies, the agency may use the GAD fund for PAPs for gender issues which are already provided and authorized under EO 273 and Magna Carta for Women (MCW), PAPs identified or those authorized in specific laws for gender and development, PAPs included in the PCW-endorsed GAD plan, personnel services and maintenance and operating expenses.
- 23.7. In CY 2018, the PCW-approved GAD Plan and Budget (GPB) of the MWSS-CO consisted only of four Gender Issues and also four GAD activities that address the GAD issues. Out of the four PAPs in the GPB: only two were implemented; one partially implemented; and one was not implemented.
- 23.8. Furthermore, the GAD allocation represents only **.003%** of the MWSS-CO total budget and with only **19.64%** utilization.
- 23.9. For CY2019, the MWSS-CO proposed five PAPs in the GPB, three were not implemented, and two were partially implemented. Details are shown below.

GAD PAPs	Actual Result	Approved Budget	Actual Cost	Unexpended Balance	Remarks
Acquaintances / General Assembly including the presentation of respective traditions and cultural beliefs of the clients MWSS is dealing with.	None	P1,500,000.00	P 0.00	P 1,500,000.00	Not implemented.
Conduct of Gender Sensitivity Training to MWSS Bantay Gubat Partners.	None	50,000.00	0.00	50,000.00	Not implemented.
Conduct of GAD Learning Session for all MWSS-CO employees. Review and updating learning session relevant to the Gender Sensitivity Training.					Partially implemented.
• Training / Learning intervention	Conducted "Integrating Gender in the Environment in the Nature Walk Activity" in celebration of the Environment Month at La Mesa	500,000.00	111,320.00	388,680.00	

GAD PAPs	Actual Result	Approved Budget	Actual Cost	Unexpended Balance	Remarks
	Watershed and MWSS Fun Run in celebration of the International Women's Month on March 13, 2019.				
• Team Building	Conducted the 2019 GAD Mainstream Planning Sessions and	800,000.00	675,031.00	124,969.00	
• Orientation / Seminar	MWSS Team Building on June 20-21, 2019 per Office Order Number 2019-138	540,000.00	0.00	540,000.00	
Establishment of GAD Office and updating of GAD Corner/bulletin:					Not implemented.
• Renovation of Room		800,000.00	0.00	800,000.00	
• Procurement of Office furniture and fixtures including office equipment		1,400,000.00	0.00	1,400,000.00	
• Procurement of Office Supplies		220,000.00	0.00	220,000.00	
Thirty (30) male and female employees trained / oriented of Gender Sensitivity and Awareness for each of the three (3) trainings conducted.		540,000.00		540,000.00	Not implemented.
Eighty (80) male and twenty (20) female participants in the Bantay Gubat Program know about the GAD twenty (20) male and ten (10) females were engaged to plant 1500 seedlings in the watershed.	Per Officer Order No. 2019-143, fifty-seven (57) persons attended and participated the Tree Planting and other activities at the IPO Watershed, Norzagaray, Bulacan	1,600,000.00	40,650.00	1,559,350.00	Partially implemented
Twenty (20) male and		900,000.00	0.00	900,000.00	Not

GAD PAPs	Actual Result	Approved Budget	Actual Cost	Unexpended Balance	Remarks
ten (10) female were engaged to plant 150,000 seedlings in the watershed. Thirty (30) male and (50) women of the Dumagats were trained in livelihood activities based on the available resource in the area. Team Building Activities and Seminars for the MWSS-Co joined by the MWSS partners, consultants and contractors.					implemented
		P8,850,000.00	P827,001.00	P8,022,999.00	

- 23.10. The table above shows that out of the **P8,850,000.00** allocated GAD budget, only **9.34%** or **P827,001.00** was expended for the GAD activities. This can be attributed to the poor planning and execution of the proposed GAD activities and the monitoring of the utilization of the GAD funds. The minimal utilization rate of the GAD budget is a manifestation of an organization's ineffective internal practices and related support systems for gender mainstreaming including poor execution of the PAPs.
- 23.11. On February 13, 2020, the Audit Team requested for documents including the report on the Result of the Conduct of the Gender Audit in accordance with the NEDA-DBM Joint Circular No. 2012-01. However, the Team did not receive copy of requested documents/report.
- 23.12. Relative thereto, Management in its reply dated February 16, 2020, averred that *"As MWSS was able to secure the approval from the aforementioned agencies, it is to be presumed that we passed the evaluation and audit of the subjected agencies. Anent the fact that there was no negative finding of the GAD audit."*
- 23.13. This we content to the contrary, considering that our review of the prior year's audit of GAD funds disclosed that Management was not able to submit the same report of the Result of Conduct of Gender Audit for CY2018 in its letter dated January 16, 2019. Thus, the absence of the results of the gender audit, which is a basis of capacity development programs in enhancing the gender-responsiveness of agency policies and PAPs, the Audit Team was constrained from assessing the extent of the gender-responsiveness of the MWSS' policies, programs and projects, the level of gender awareness and competence of its personnel and the presence or absence of enabling mechanisms that support gender mainstreaming.
- 23.14. **We recommended and Management agreed to:**

- a. Strictly allocate at least 5% of the total amount of the MWSS-CO appropriation for the implementation of GAD-related programs and activities as required under Section 36 (a) of RA 7610 or the Magna Carta of Women and Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01;
- b. Maximize the utilization of the funds allocated for GAD through the implementation of GAD-related programs and projects which address gender and development issues in order to attain the objective for which the funds were provided; and
- c. Require the Heads of the Implementing Departments or Offices to ensure that GAD Programs, Activities and Projects (PAPs) are implemented as planned to attain the GAD objectives and to regularly assess the gender-responsiveness of the Corporation's programs and projects.

D. Other Audit – Regulatory Office

Consultancy Services

24. Consultancy service contracts entered into by MWSS-RO totaling P88.192 million were for the conduct of regular functions of the MWSS-Regulatory Office contrary to COA-CSC-DBM Joint Circular No. 1 s. 2017 dated June 15, 2017 despite the existence of knowledge transfers from past similar consultancy service engagements as provided by Section 4.4, Annex H, of the IRR of RA 9184, resulting in excessive consultancy expenses and uneconomical operations of the Agency.

24.1. The MWSS-RO has the following ongoing contracts for consultancy services in CY 2019 as presented on the table below:

Consultant	Description	Contract Period	Contract Amount	Status of the Contract as of December 31, 2019
Joint Venture-A	Consultancy services for the 4 th rate rebasing exercises	October 2017 – June 2018	P64,555,904.00	Consultant's final report still pending
Consultant A	Consultancy services for the validation of concessionaires' ACR	May 20, 2019 – December 20, 2019	18,824,120.00	Ongoing

Consultant B	Consultancy services for the Regulatory Financial Audit	October 28, 2019 – January 28, 2020	4,811,960.00	Ongoing
TOTAL			P88,191,984.00	

24.2. Section 6.1 of COA-CSC-DBM Joint Circular No. 1 s. 2017 determined that the institutional contract of service covers lump sum work or services to perform janitorial, security, consultancy, and other support functions.

24.3. Section 7 of the aforementioned circular provides one of the limitations of the contract of service, to wit:

*“Hiring under contract of service shall be limited to consultants, learning service providers, and/or other technical experts to undertake special project or job within a specific period. **The project or job is not part of the regular functions of the agency, or the expertise is not available in the agency, or it is impractical or more expensive for the government agency to directly undertake the service provided by the individual or institutional contractor.**”* (emphasis ours)

24.4. The above-mentioned services are regular functions of the departments of the MWSS-RO as shown below:

Consultancy Service	Department Responsible	Responsibilities as per Agency's Functional Chart
Consultancy services for the 4 th rate rebasing exercises	Financial Audit and Assets Monitoring Department Tariff Monitoring Department	Monitors key economic indicators and occurrences relevant to the concessionaires' Appropriate Discount Rate (ADR) and rate adjustment proposals
Consultancy services for the Regulatory Financial Audit	Financial Audit and Assets Monitoring Department	Monitors and evaluates the financial performance and status of the concessionaires
Consultancy services for the validation of concessionaires' asset condition reports	Operations Monitoring Department	Validates and monitors the reported, audited condition of water and sewerage service infrastructure assets

24.5. While it is indicated in the Concession Agreement that these services can be outsourced to independent consultants, those provisions may be deemed as onerous or disadvantageous to the Government and to the public since the consultancy expenses are included in the budget of the MWSS-RO, which are charged to the Concessionaires through the Concession Fees, and are finally recovered by the Concessionaires from its customers.

24.6. Furthermore, Item 4.4 of Annex “B” of the 2016 Revised Implementing Rules and Regulations (IRR) of the R.A. 9184, otherwise known as the Government Procurement Reform Act provides the general principles on hiring of consultants, to wit:

“Technology and knowledge transfer to the procuring entity shall be required in the provision of consulting services, where applicable.”

- 24.7. The previous consultancy contract on Validation of Concessionaires' Asset Condition Report entered into by the Agency and Joint Venture-B on March 08, 2013, as well as the Consultancy contract for the 3rd rate rebasing exercises entered into by the Agency and Joint Venture-C on March 01, 2013, **included provisions on technology and knowledge transfers**. Therefore, it is expected that the agency should have been able to utilize the outputs from these contracts and avoid, or at least, minimize the scope of work of the current consultants.
- 24.8. Analysis of the professional and administrative/technical support staff under the recent consultancy contracts revealed that majority have existing comparable positions in MWSS-RO. Monthly salaries/rates, as well as the relevant job description of the position are shown as follows:

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
Consultancy Services for the 4th Rate Rebasing Exercises (P64,555,904.00)			
Project Manager P610,000.00	Shall act as team leader. Responsible for the development of a detailed framework/masterplan on the methodology/conduct of CAPEX Audit and Rate Rebasing exercise.	Chief Regulator P155,030.00	Coordinates overall planning and physical implementation of the projects and activities of the Regulatory Office
Economic Expert P600,000.00	Responsible for establishment of ADR, formulation of all economic projections and assumptions including, but not limited to, the CPI and Forex rates, and their effect on tariff, and all Sensitivity Analyses in relation to the foregoing.	Chief Economist P70,827	Evaluates the appropriateness of the discount rate used in computing the “E” and “R” values. Determines the relevant key economic indicators to be monitored and consolidate monthly monitoring reports of the same
Financial Expert P600,000.00	Validation of all actual and forecasted expenditures/costs including all relevant assumptions used in their determination.	Deputy Administrator (DA) for Financial Regulation P137,195.00 and	Monitors the assumptions and cash flows included in the rate adjustment process.
	Responsible for the application of the financial principles involved in the	Department Manager (DM) for Financial Audit and Assets	

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
	Rate Rebasing exercise.	Monitoring P107,444.00	
Financial Audit Manager P300,000.00	Responsible for application of the financial and accounting principles and parameters involved in the regulatory financial audit including interpretation and all analyses and assessment of Historical Cash Flows (HCF).	DM for Financial Audit and Assets Monitoring P107,444.00	Supervises financial audit activities and coordinate with the Technical Group as part of the Audit/Inspection Team. Administers the preparation and development of Audit Standard Operating Procedures and Guidelines
Technical Head who is also a Water Supply System Operations Expert P500,000.00	Asses reasonableness of all costs and capacities assumed, CAPEX, technical designs and standards that drive major CAPEX or cost items relating to water supply.	DA for Technical Regulation Area P137,195.00 And DM for Operations Monitoring P107,444.00	(Job description not available) Function of the Technical Regulation Area: Evaluates and monitors Concessionaires' CAPEX programs
Non-Revenue Water (NRW) Reduction Specialist P210,000.00	Recommend the appropriate manner or approach to measuring NRW in a way that will help track real efficiencies and enable the Concessionaires to measure their effectiveness in this area.	-do-	(Job description not available) Function of the Technical Regulation Area: Evaluates and monitors concessionaires NRW program
Water Supply Specialist P210,000.00	Evaluating and validating the Concessionaires compliance with their service obligations, specifically on water supply service area coverage and population, 24-hour water availability and pressure, water quality standards, and customer service standards.	DM for Water Quality Control P107,444.00 and DM for Operations Monitoring P107,444.00	Oversees the monitoring of the level of service (sufficiency of volume and pressure) the consumers are receiving from the Concessionaires Establishes and enforces

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
			guidelines and procedures in the evaluation of water quality and the proper treatment of wastewater
			Oversees the regular monitoring of the quality of water being supplied by the concessionaires
Sewerage/Sanitation Expert P500,000.00	Asses reasonableness of all costs and capacities assumed, CAPEX, technical designs and standards that drive major CAPEX or cost items relating to sewerage and sanitation.	DA for Technical Regulation Area P137,195.00	Responsible for the efficient monitoring of the reported and audited condition of water and sewerage infrastructure assets and enforcement of the Concession Agreement with respect to these
Sewerage/Sanitation Specialist P210,000.00	Evaluate cost estimates of CAPEX or cost items relating to sewerage and sanitation.	DM for Water Quality Control P107,444.00 And Senior Water Utilities Regulation Officer P41,140.00	Assess and evaluates all conditions of assets related to the provision of water supply and sewerage services through the conduct of field investigation
Legal Adviser P400,000.00	Review all current and long-standing issues relating to past interpretations of CA, as amended, and all accompanying historical MWSS BOT Resolutions for or against such interpretations or to current plans and financials submitted by the Concessionaires that will give rise to new issues	DM for Legal Affairs P107,444.00	Monitors compliance by the Concessionaires with the Concession Agreement, as well as any other document hereinafter approved and/or agreed upon. Monitors and reviews contracts

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
			between the Concessionaires and Customers, any legal document concerning the conduct of Concessionaires' business as well as compliance with the provision therein
Administrative Officer P120,000.00	No job description available	Technical Assistant P73,157.00	Provides efficient technical assistance to the Deputy Administrator
			Participates in research studies, committees, investigation and administrative activities needed/required by the Deputy Administrator or the Regulation area in reaching or implanting substantive decisions.
			Maintains effective communications and linkages with the Concessionaires, other Regulation areas, the MWSS Corporate Office and other government agencies having inter-related concerns.
Junior Engineer/Senior Researcher P70,000.00	No job description available	Senior Water Utilities Regulation Officer P41,140.00	Monitors physical and financial status of all water supply and sewerage related projects being

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
			implemented by the Concessionaires and recommends measures to ensure compliance of the project in meeting service Obligation Targets.
			Analyzes and evaluates reports submitted by the Concessionaires through field verification and investigation.
			Assess and evaluates all conditions of assets related to the provision of water supply and sewerage services through the conduct of field investigation.
Financial Auditor P80,000.00	No job description available.	Finance Officer C P46,008.00	Assists in the conduct of financial audit and analysis of the Concessionaires' financial performance.
Secretary/Encoder P40,000.00	No job description available.	Secretary P15,738.00	Handles encoding and other clerical works.
Utility/Messenger P30,000.00	No job description available.	Secretary P15,738.00	Supervises the systematic filing of records, communications and other documents.
Consultancy Services on the Validation of Concessionaires' Asset Condition Report (P18,824,120.00)			
Project Manager / Asset Management	Provide over-all direction, supervision and control of	Chief Regulator P155,030.00	Coordinates overall planning

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
Specialist P350,000.00	the project team towards the attainment of project- objectives Coordinate with MWSS- RO, MWSS-CO, Manila Water Company, Inc. (MWCI), and Maynilad Water Services, Inc. (MWSI).		and physical implementation of the projects and activities of the Regulatory Office
Water Supply & Sewerage Engineer P250,000.00	Conducts ACR field validation of above ground and below ground assets Conducts condition and performance evaluation and analysis of assigned facilities or asset groups and recommend improvements	Senior Water Utilities Regulation Officer P41,140.00	Analyzes and evaluates reports submitted by the Concessionaires through field verification and investigation. Assess and evaluates all conditions of assets related to the provision of water supply and sewerage services through the conduct of field investigation.
Electro-Mechanical Engineer P181,000.00	-do-	-do-	-do-
Administrative Officer P68,000.00	Coordinates the various tasks of the project team. Organizes meetings, discussions, conferences and other cooperative activities of the project team as directed by the project manager	Technical Assistant P73,157.00	Provides efficient technical assistance to the Deputy Administrator Participates in research studies, committees, investigation and administrative activities needed/required by the Deputy Administrator or the Regulation area in reaching or implanting substantive decisions. Maintains

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
			effective communications and linkages with the Concessionaires, other Regulation areas, the MWSS Corporate Office and other government agencies having inter0related concerns.
Junior Engineer/Researcher P67,500.00	Assist the consultant in the inspections, evaluation, and analysis of condition and performance of assets.	Senior Water Utilities Regulation Officer P41,140.00	Analyzes and evaluates reports submitted by the Concessionaires through field verification and investigation.
			Assess and evaluates all conditions of assets related to the provision of water supply and sewerage services through the conduct of field investigation.
Encoder P40,000.00	Encode data and other information into the computers as required by the project/ Perform other tasks assigned by the PM	Secretary P15,738.00	Handles encoding and other clerical works.
Secretary P30,000.00	Maintains records of all transactions undertaken by the project team. Attends all meetings of the team and prepares minutes of meetings	Secretary P15,738.00	Supervises the systematic filing of records, communications and other documents.
Consultancy Services for the Regulatory Financial Audit (P4,811,960.00)			
Audit Partner P630,000.00	Responsible for the development of detailed framework / masterplan on the methodology / conduct of the Regulatory Financial Audit	DA for Financial Regulation Area P137,195.00	Formulates appropriate policies, measures, and requirements.

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
Audit Manager P315,000.00	Responsible for the application of the financial and accounting principles and parameters involved in the regulatory financial audit including interpretation and all analyses and assessment of historical cash flows	DM for Financial Audit and Assets Monitoring P107,444.00	Supervises financial audit activities and coordinate with the Technical Group as part of the Audit/Inspection Team.
			Administers the preparation and development of Audit Standard Operating Procedures and Guidelines
Senior Auditor P160,000.00	Responsible for preparing preliminary evaluation of the existing internal controls, makes an assessment on the reliance thereto.	Supervising Financial Management Specialist P73,157.00	Audits and analyzes the financial performance of the Concessionaires
	Directly responsible for planning and supervision of the fieldwork being performed by an audit staff in the course of an audit engagement		Formulates / amends Standard Operating Procedures in the conduct of Financial Audit.
Audit Staff P85,000.00	Directly responsible to perform the audit fieldwork	Finance Officer C P46,008.00	Assists in the conduct of financial audit and analysis of the Concessionaires' financial performance.
Administrative Staff P60,000.00	Point person for the coordination of meetings and arrangement of facilities.	Technical Assistant P73,157.00	Provides efficient technical assistance to the Deputy Administrator
	Assist in the administration of working papers, files and reports.		Participates in research studies, committees, investigation and administrative activities needed/required by the Deputy Administrator or
	Perform other tasks to assist the team in meeting all tasks in a timely and organized manner		

Professional/Administrative Staff per contract		Comparable Position in MWSS-RO	
Position / monthly rate	Job Description	Position / monthly salary	Job Description
			the Regulation area in reaching or implanting substantive decisions.
			Maintains effective communications and linkages with the Concessionaires, other Regulation areas, the MWSS Corporate Office and other government agencies having inter-related concerns.

- 24.9. It should be emphasized that the Rate Rebasing Exercises are conducted on a 5-year interval which covered the monitoring of the Concessionaires' assets and regulatory financial audit. If such activities are embedded in the regular operations of the MWSS-RO, it could have been performed within that 5-year interval, instead of having all the 5-year worth of information dumped to the consultants for validation which then resulted for the need of 76 professional and administrative/technical staff who have to complete the contract within a limited period of time. This also resulted to a high contract price that could have been reduced if the Agency had maximized the functions of its existing personnel.
- 24.10. In addition, the contract price for all the aforementioned contracts include various reimbursable expenses such as meals, vehicle rental, etc. totaling P8,436,504.00. These additional charges could have also reduced or minimized the contract price if the activities were not outsourced. Details are as follows:

Contract	Amount of reimbursable expenses
Consultancy services for the 4 th rate rebasing exercises	P5,828,704.00
Consultancy services for the validation of concessionaires' asset condition reports	2,263,800.00
Consultancy services for the Regulatory Financial Audit	344,000.00
TOTAL	P8,436,504.00

24.11. **We recommended that Management:**

- a. **Ensure to maximize the functions of the financial and technical regulation areas, and utilize the previous reports of the consultants in the conduct of future rate rebasing exercises, validation of asset condition report, and regulatory financial audit; and**

b. Analyze the manpower requirements that will conduct its regular functions and consider it in its reorganization.

- 24.12. Management replied that by bringing in a consulting firm, RO fills in any talent gaps where it is needed, and to benefit from extensive and/or general knowledge of the industry since consultants often have extensive experience and knowledge about their chosen industries.
- 24.13. Furthermore, Management raised that MWSS-RO engages consultants to comply with the requirement of other stakeholder government agencies that an independent third-party examination be conducted such that RO examinations may be vetted.
- 24.14. As regards the amounts involved or the monthly rate of the professional/administrative staff of the consultants, we call your attention to the fact that the same were arrived at after strictly observing the provisions of existing laws on procurement using bidding as the primary mode. Moreover, it is improper to compare side by side the salary of the “comparable position in MWSS-RO” vis-à-vis the professional/administrative staff of the consultants. The comparison NOT apples to apples. The duties and responsibilities of the RO talents are far greater than the scope of work assigned to the consultants. Likewise, we should note that billing rates of consultants factor in one-time, high-risk and high-profile engagements in the price.
- 24.15. Finally, on specific instances, the Concession Agreement itself mandates RO to engage “independent” auditors, i.e., as to the Asset Condition Report and/or the Concessionaire’s compliance with service obligations (Sec. 6.5.3); and on audits of Concessionaire’s books and records (Sec. 13.2). Thus, there is a legal basis for the engagement of consultants.
- 24.16. As a rejoinder, we do not deny the necessity and the benefits of hiring of consultants by the MWSS-RO. especially in the performance of its highly technical functions such as the Rate Rebasing Exercises. However, Management failed to address our main issue which is, despite the existence of the requirement to transfer knowledge to MWSS-RO in every consultancy service hired in the past three rate rebasing exercises, the MWSS-RO still lacked the expertise.
- 24.17. Anent the comparison of the rate of the professional/administrative staff of the consultants with the rates of the regular staff and officers of the MWSS-RO, the Management also failed to address our concern that such functions could have been done by the existing employees within the 5-year period prior to the regular rate-rebasing exercises, rather than having the 5-year worth of information dumped to the consultants who have to hire more consultants to accomplish the service within a limited period of time resulting in higher contract prices that could have been avoided. Considering that the MWSS-RO utilize the knowledge supposedly transferred by prior consultants for similar service.

- 24.18. We are simply encouraging the MWSS-RO to integrate the knowledge transferred by the previously hired consultants in the conduct of its regular functions, since this is the intention of Item 4.4 of Annex “B” of the 2016 Implementing Rules and Regulations (IRR) of the R.A. 9184, otherwise known as the Government Procurement Reform Act. This will also translate as savings to the agency in the future which will ultimately result to lower water rates for the consumers.

Cash Advance to UP – National Engineering Center

- 25. The advances to UP National Engineering Center (UP-NEC) in the amount of P4.925 million as at year end for the Public Assessment of Water Services Project (PAWS) remained unliquidated despite the project completion in CY 2011, resulting in the overstatement in assets and retained earnings accounts.**

- 25.1. As of December 31, 2019, UP-NEC has an outstanding unliquidated cash advance in the amount of P4.925 million. MWSS-RO issued several demand letters to UP-NEC to compel remittance of the remaining 50 percent of the unexpended budget in the amount of P1.035 million and liquidation of the remaining P3.89 million.
- 25.2. As of to date, the cash advance in the amount of P4.925 remained unliquidated although the purpose for which it was granted was already served.
- 25.3. **We recommended and Management agreed to set a definite plan of action as to the settlement of the unliquidated cash advance considering the nine years that lapsed since the completion of the project.**

4th Rate Rebasing Exercises

- 26. The agreed-upon contract timeline was not strictly complied by the consultants, resulting in the overall delay in the completion of the contract. However, liquidated damages for delay totaling P1.324 million as provided for in Clause 54 of the General Conditions of the Contract RO-CS2017-01, were not deducted from the contract payments made, hence should be considered in the final payment.**

- 26.1. Article 9.4 of the Concession Agreement between MWSS-RO and the Concessionaires, Manila Water Company Inc., and Maynilad Water Services Inc. provides that *the Regulatory Office shall determine the Rebasing Adjustment to be used for the purposes of calculating the Rates Limit for each of the five Charging Years of each Rebasing Period.*
- 26.2. On September 28, 2017, the MWSS-RO engaged the services of the Joint Venture-A for the performance of the 4th rate rebasing exercises under contract no. RO-CS2017-01.

- 26.3. The total contract price is P64,555,904.00. Details of the contract price are presented below.

Description	Amount
Remuneration for Local Consultant & Support Staff	P58,727,200.00
Out-of-Pocket/Reimbursable Expenses	5,828,704.00
TOTAL	64,555,904.00

- 26.4. Contract payments are agreed to be in accordance with a schedule submission of deliverables subject to the acceptance by the MWSS RO.
- 26.5. The overall duration of the contract is for nine months, or until June 28, 2018. The consultants requested for the deadline to be adjusted to October 31, 2018, which the Management accepted. However, the certain deliverables/milestones were still delayed (details presented in the table in paragraph 26.7).
- 26.6. Clause 54 of the General Conditions of the Contract provided for the Liquidated Damages for Delay, to wit:

“If the Consultants fail to deliver any or all of the Services within the period(s) specified in this Contract and under the Applicable law, deduct from the contract price, as liquidated damages, a sum equivalent to one-tenth of one percent of the price of the unperformed portion of the Services for each day of delay based on the approved contract schedule up to a maximum deduction of ten percent (10%) of the contract price. Once the maximum is reached, the Procuring Entity may consider termination of this Contract pursuant to GCC Clause 27.” (emphasis ours).

- 26.7. A total of P1,324,298.36 was computed as liquidated damages due to the delays in meeting the deliverables/milestones of the contract as of December 31, 2019. For activities without deadline, we have set October 31, 2018 (see item 26.5). The details are as follows:

Deliverables/Milestone	Deadline per Contract	Date submitted	No. of days delayed (A)	Price of Activity (B)	Liquidated Damages (B x 1% x 1/10 x A) or 10% of (B) whichever is lower
e. Future Cash Flow	3/27/2018	7/20/2018	11 days	5,872,720.00	64,599.92.
i. Report on established KPIs/BEMs and other targets for 2018 and the corresponding rewards and penalties for exceeding or not meeting these	Management approved for the deadline be moved to 7/9/2018	12/06/2018	151 days	5,872,720.00	*587,272.00

Deliverables/Milestone	Deadline per Contract	Date submitted	No. of days delayed (A)	Price of Activity (B)	Liquidated Damages (B x 1% x 1/10 x A) or 10% of (B) whichever is lower
targets.					
ii. Report on the new Business Plan, specifically, the agreed service obligations and CAPEX for 2018 to 2022					
iii. Report on established FCF with details on macro-economic and other assumptions used and changes made to projections of Concessionaires.					
iv. Report on initial assessment concerning compliance with RORB requirement.					
h. Other items leading to	10/31/2018	11/29/2018	29 days	2,936,360.00	85,154.44
i. changes to the components of the customer bills, if any					
ii. Socio-political impact of proposed rebased tariff					
Public consultations					
i. Rate rebasing report	10/31/2018	01/29/2020	455 days	5,872,720.00	**587,272.00
i. First draft					
ii. Second draft					
iii. Final report					
TOTAL					P1,324,298.36

*computed liquidated damages as of December 31, 2019 is ₱886,780.72 which is higher than the limit amounting to 10% of the activity contract price or P587,272.00.

**computed liquidated damages as of December 31, 2019 is P2,672,087.60 which is higher than the limit amounting to 10% of the activity contract price or P587,272.00.

- 26.8. **We recommended that Management collect from Joint Venture A the liquidated damages amounting to P1,324,298.36, or to deduct the amount from the final contract payment to be made to Joint Venture A.**
- 26.9. The Management replied that the milestone payments are not the appropriate basis for the calculation of the liquidated damages. Instead, as quoted from General Conditions of the Contract or GCC Clause 54, the failure to deliver the “Services” within the period specified in the contract. The Services under this

contract, as summarized from the Terms of Reference, was to provide the recommendations for the Fourth Rate Rebasing.

- 26.10. Furthermore, the Management argued that for the final report, which is the Rate Rebasing Report for this contract, the periods that would govern after the submission of the first draft shall be the periods indicated in GCC Clause 54.1, to wit:

“54.1 The final payment shall be made only after the final report and a final statement, identified as such shall have been submitted by the consultant and approved as satisfactory by the Procuring Entity. The Services shall be deemed completed and finally accepted by the Procuring Entity as satisfactory ninety (90) calendar days after receipt of the final report or final statement. The Consultant shall thereupon promptly make any necessary corrections within a maximum period of ninety (90) calendar days, and upon completion of such corrections, the foregoing process shall be repeated.”

- 26.11. Given the foregoing discussions, the appropriate basis for the liquidated damages on the deliverables, including the first draft of the Rate Rebasing Report would be the end of the contract period, which is October 31, 2018 and for the subsequent drafts of the Rate Rebasing report, after 90 days upon the receipt of comments from Rate Rebasing Management Committee (RRMC). This translates to number of delays counted from November 1, 2018 up to the submission of first draft of report on November 7, 2018 or 7 days delay.

- 26.12. As a rejoinder, we stand by our computation of liquidated damages due to the following reasons:

- a. The milestone activities as per the consultancy contract clearly indicated “Submission to RO” and the specific dates for each activity. Therefore, the contract clearly stated a date in which specific reports should have been submitted to RO.
- b. The 90-day cycle on the review and revision of final report is onerous or disadvantageous to the government. It must be emphasized that despite having the contract due date extended to October 31, 2018, the first draft was only submitted on November 7, 2018. The repetitive 90-day period for the review and revision enabled the final report to be received only on 29 January 2020, which was more than a year delayed from its already extended deadline. It would be unsound to have the liquidated damages reflect that the consultants were only delayed by seven days.
- c. It must be emphasized that the total contract price of P64,555,904.00 is a significant amount. Considering that this is not the first time that the consultants were hired to perform consultancy services to the MWSS-RO, such delay in submitting outputs should not be allowed and appropriate penalties required under the contract should be imposed.

- 26.13. Overall, we stand by our initially computed liquidated damages amounting to P1,324,298.36. Also, it should be the responsibility of the RO to protect the interest of the government/agency and not that of the consultant.

Other Receivables

27. Receivables totaling P1.091 million from separated/retired officers/employees representing Motor Vehicle Loans and multi-purpose loans remained outstanding, contrary to Section 61 of the Government Accounting and Auditing Manual resulting in inefficiencies in the collection of outstanding loans.

- 27.1. Section 61 of the Government Accounting and Auditing Manual Volume II states that *“Final collection of receivables is also an operating responsibility.”*
- 27.2. As of year ended December 31, 2019, the balance of the outstanding loans from separated/retired officers/employees remained at P1,091,209.26. The details are follows:

Debtor	Date Granted	Loan Amount	Payments	Balance as of 12/ 31, 2019
Former RO Employee 1	03/29/1999	P 500,000.00	P 55,478.86	P 444,521.14
Former RO Employee 2	04/23/1999	800,000.00	203,235.44	596,764.56
Former RO Employee 3	06/18/2001	800,000.00	750,076.44	49,923.56
TOTAL		P2,100,000.00	P1,008,790.74	P1,091,209.26

- 27.3. Verification showed that Management sent demand letters dated May 22, 2017 to three (3) former employees for the settlement of their outstanding obligations to the MWSS-RO, amounting to P1,341,209.26 on even date.
- 27.4. In CY 2017, only one of the three employees with an outstanding obligation of P299,923.56 paid. There are no further collections, nor any demand made in CYs 2018 and 2019, hence, this reiteration of previous year’s audit finding.
- 27.5. **We reiterated our recommendation and management agreed to finally 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.**
- 28. Retired/separated employees were granted with clearance despite having outstanding multi-purpose loans totaling P3.543 million as of year ended December 31, 2019, contrary to Section 7.3.5 of DBM Budget Circular No. 2013-1 dated April 12, 2013 resulting in inefficient collection of receivables.**

- 28.1. Section 7.3.5 of DBM Budget Circular No. 2013-1 dated April 12, 2013 sets the specific guidelines on the settlement of the retiree’s outstanding accountabilities, to wit:

“7.3 The employer-agency shall:

xxx

7.3.5 Take charge of the settlement of the retiree's outstanding accountabilities with government institutions which shall be paid out of his/her Terminal Leave (TL)/Retirement Gratuity (RG) benefits. xxx." (emphasis ours).

- 28.2. There were seven employees who retired from CYs 2014 to 2019 but granted clearances despite having outstanding loans totaling P3,543,116.06.
- 28.3. It bears emphasizing that it would be more difficult to collect the amounts since they are already separated from office. It can be noted that the collections in CY 2019 in the amount of P242,452.49 is equivalent to only 6.40 percent of their outstanding balance.
- 28.4. **We recommended for Management to stop the issuance of clearance to employees with outstanding loan balances and held accountable/responsible the officer who cleared the separated/retired employees.**
- 28.5. Management commented that the MPLP loan contracts provides an option for resigning or retiring employees to amortize the loan balance through issuance of post-dated checks (PDCs) at a higher interest rate of six percent per annum.
- 28.6. The MWSS RO shall send demand letters to those former employees with arrears.
29. **The accuracy of various receivable accounts in the amount of P1.366 million were not ascertained due to lack of subsidiary records contrary to Section 114 of PD 1445 resulting in uncollected accounts.**
- 29.1. Section 114 of P.D. 1445, otherwise known as the Government Auditing Code of the Philippines, states that:
- "Section 114. The general ledger.*
- 1. The government accounting system shall be on a double entry basis with a general ledger in which all financial transactions are recorded.*
- 2. *Subsidiary records shall be kept where necessary.*" (emphasis ours).**
- 29.2. Section 111 of P.D. 1445 indicated the responsibility of the agencies in the maintenance of accounts, to wit:
- "Section 111. Keeping of accounts*
- 1. The accounts of an agency shall be kept 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... xxx."*

- 29.3. Verification of the accounts of MWSS-RO for CY 2019, subsidiary records for the following receivable accounts as presented on the table below were not maintained.

Account Name	Balance as of December 31, 2019 without subsidiary records
1 Due from Officers and Employees (OE) – Health Insurance	P 954,839.94
2 Due from OE – MVFP Insurance	75,614.55
3 Due from OE – Others	52,261.68
4 Other Receivables	283,004.27
TOTAL	P1,365,720.44

- 29.4. As per inquiry with the Chief Corporate Accountant, specific details as to the amount and name of the debtors are not maintained in their accounting system, peach tree, since majority of these amounts were recorded before the establishment of peach tree.
- 29.5. The absence of subsidiary ledgers for various receivable accounts results to the lack of monitoring of the debtors of the MWSS-RO. Hence, collections thereof were neglected.
- 29.6. Furthermore, the accounts could not be validated due to the absence of the subsidiary records that would support the balances of the individual account.
- 29.7. **We reiterated our recommendation for Management to maintain subsidiary records for all receivable accounts in conformity to Section 114(2) of P.D. 1445.**
- 29.8. The Management commented that their Finance Section lacks manpower to maintain a separate subsidiary ledger that will monitor all accounts receivable on a per transaction basis. However, the Management is hoping to resolve this deficiency through the proposed Rationalization Plan.

HR Biometric System

- 30. Non-monitoring of the change and/or activity logs of the Human Resource Information System's (HRIS) super-user casts doubt on the integrity of attendance and leave records, which likewise affect the computation of terminal leave benefits.**

- 30.1. The MWSS-RO procured and adopted a new HRIS that records their attendance and leave credits on a real-time basis in October 2019. The system also keeps record of the employees' and officers' leave credits and can track any changes made in the system

- 30.2. Walkthrough of the new process on January 22, 2020 showed that Management Information System (MIS) Design Specialist was authorized to have super-user access to address any bugs or errors that might be encountered in its usage. The super-user can change any time-entries, as well as any records such as leave credits in the database.
- 30.3. However, review of these changes or activities within the system, especially those made by the super-user, are not yet conducted by the HR Department.
- 30.4. The leave credits monitored by the new system affects the employees' and officers' computation of the monetization of leaves, as well as the accrual of terminal leave benefits. Hence, strong internal controls must be placed to ensure the integrity of the records maintained by the HR.
- 30.5. **We recommended for Management to:**
- a. **Assess the frequency of changes and/or activity of the super-user;**
 - b. **Require the Senior Industrial Relations Management (IRM) Officer to review the change/activity logs of HRIS on a monthly/quarterly/semi-annual basis, depending on the assessment of the frequency of the changes/activities of the super-user to ensure the integrity of the records maintained by the HRIS and the accuracy of the Terminal Leave Benefits; and**
 - c. **Require the Senior IRM Officer to also perform periodic access reviews of the HRIS, to ensure that proper access (user, administrator, and super-user access) were granted to current employees only.**
- 30.6. Management commented that supporting documents are required before the super-user can edit time entries in the system. Also, the HRIS is still on parallel testing and therefore leave credits were still monitored manually by the HR staff. Overall, the Management acknowledge the recommendation of COA and will develop necessary guidelines to have strong internal controls in the HRIS and to ensure the integrity of the records maintained by the HR unit.

Travel Expenses

31. **Conduct of various meeting and budgeting sessions of MWSS-RO outside the agency premises for CY 2019 with expenditures totaling P514,129.00 are deemed extravagant under Section 6 of COA Circular No. 2012-003 dated 29 October 2012.**
- 31.1. Section 6 of COA Circular No. 2012-003 dated October 29, 2012 described **"Extravagant Expenditures"**, to wit:

"The term "extravagant expenditure" signifies those incurred without restraint, judiciousness and economy. Extravagant expenditures

exceed the bounds of propriety. These expenditures are immoderate, prodigal, lavish, luxurious, grossly excessive, and injudicious.

- 31.2. Annex E of the same COA Circular enumerated cases that are considered “Extravagant” Expenditures, to wit:

“1. xxx...

3. Conduct of out-of-town meeting which can be made within the office premises.” (Emphasis ours).

- 31.3. For CY 2019, the MWSS-RO held numerous planning sessions which could be done within the office premises. Details are:

Activity	Period Covered	Venue	Expenditures (excluding the amounts noted in paragraph 32.4 of this Report)
Performance Management Team Planning Session and Workshop	April 15-18, 2019	Doña Jovita Garden Resort Calamba, Laguna	P101,655.00
Gender and Development (GAD) Planning Session and Workshop	June 3-5, 2019	Club Balai Isabel Talisay, Batangas	105,000.00
Management Committee Planning Session	July 22-23, 2019	Laresio Lakeside Resort and Spa, Inc. Los Baños, Laguna	107,332.00
GAD Planning & Budgeting	September 10-12, 2019	Hannah's Garden Event Place Calamba, Laguna	105,642.00
KPI+BEMs Annual Planning	December 3-6, 2019	Baguio City	94,500.00
TOTAL			P514,129.00

- 31.4. It can be noted that the venues indicated above are mostly in resorts or places of leisure which casts doubt as to the necessity of conducting planning sessions in these places.

- 31.5. **We recommended for Management to:**

- Stop the practice of conducting planning sessions outside the office premises, but instead, utilize the meeting rooms or halls within the MWSS compound; and**
- Refund the amount of P514,129.00 representing extravagant expenditures, otherwise, a Notice of Disallowance shall be issued.**

- 31.6. Management commented that the two GAD planning sessions conducted in CY 2019 are covered by their GAD Plan and Budget for CY 2019 which is approved by the Philippine Commission on Women (PCW).
- 31.7. The Management also highlighted that the Performance Management Team Planning Session/Workshop is authorized under Office Order No. 074, s. 20194. The said event was conducted for the following purposes:
- a. To professionalize/equip the members of the PMT in order to carry out its functions fairly, objectively, uniformly and consistently.
 - b. To review, improve, and standardize (if possible), the crafting of the Office Performance Commitment and Review (OPCR) and the Individual Performance Commitment and Review (IPCR) including the setting of targets and ratings.
 - c. To develop internal guidelines to be implemented by the Planning Office, in the conduct of its review, validation and evaluation of the initial performance assessment of the OPCR and IPCR based on accomplishments reported against success indicators, and budget against expenses.
- 31.8. The Management believes that the planning session will help them ensure the proper and efficient functioning of offices and hence, planning and training thereon is a critical activity for any government body.
- 31.9. As a rejoinder, it is nowhere in our observation that we question the necessity and importance of conducting planning sessions. However, we reiterate that it is clear that Annex E of COA Circular No. 2012-003 enumerated cases that are considered as “Extravagant” expenditures, to wit:
- “2. Payment for rent of expensive halls or rooms in luxury hotels or restaurants used for meetings/seminars and other official functions, except when such hotels or restaurant are used for government-sponsored international conventions, meetings and the like.*
- 3. Conduct of out-of-town meeting which can be made within the office premises”*
- 31.10. The activities noted in our observation were of such nature that could be conducted within the premises of the agency, but instead were conducted out-of-town in resorts and events places.
- 31.11. Also, despite the existence of an approval of the PCW for GAD related activities, such expenses are still subject to COA rules and regulations as clearly stated under COA Circular 2014-001, to wit:
- “1. Audit of specific accounts on GAD (salaries, wages, expenditures, etc.) shall be in accordance with existing guidelines on financial and compliance audit. In particular, the rules and regulations*

on irregular, unnecessary, excessive, extravagant and unconscionable expenditures shall be observed.”

Gender and Development (GAD)

32. The Projects/Activities/Programs (PAPs) in the GAD Plan and Budget were partially implemented resulting in failure to attribute at least five percent (5%) of the total agency budget, contrary to Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01.

- 32.1. Section 6.1 of the PCW-NEDA-DBM Joint Circular No. 2012-01 provides that *“At least five per cent (5%) of the total agency budget appropriations authorized under the annual GAA shall correspond to activities supporting GAD plans and programs.”*
- 32.2. The Philippine Commission for Women (PCW) approved the MWSS-RO’s GAD Plan and Budget (GPB) for CY 2019 with budgeted expenses amounting to P14,953,626.00, in which P9,141,616.98. This amount is equivalent only to 3.08% of the Agency’s DBM-approved Corporate Operating Budget (COB) for CY 2019 amounting to P296,566,000.00.
- 32.3. Out of the 19 PAPs in the GPB, two were not implemented, and one was partially implemented. Details are:

GAD PAPs	Actual Result	Approved Budget	Actual Cost	Remarks
Production and printing of Information Education Communication (IEC) materials that are gender sensitive and highlight the roles of women in management	None	600,000.00	0.00	Not done. No IEC has been produced and RO talents were focused in addressing the water shortage/crisis
Conduct lecture on “Work-life Balance” to increase level of understanding and appreciation of gender issues in the family/household	None	100,000.00	0.00	Not done. Due to conflict of schedules.
Conduct of advocacy activities on the roles of women in water and wastewater management	Conducted one advocacy/ gender responsive campus awareness drive	750,000.00	163,736.35	Partially done

- 32.4. Section 6.4 of the same joint circular states that ***“Attribution to the GAD budget of a portion or the whole of the budget of an agency’s major programs*** is a

means toward gradually increasing the gender responsiveness of government programs and budgets.” (Emphasis ours)

32.5. However, most of the items in the GPB of MWSS-RO for CY 2019 include activities which requires additional expenditure. In addition, the schedule of Maintenance and Other Operating Expenses (MOOE) in MWSS-RO’s COB for CY 2019 included an item for GAD activities. It must be emphasized that Section 3.3 of the same joint circular states that *“The GAD Budget, which is the cost of implementing the GAD Plan shall form part of and is **not an addition to the agencies’ approved budget.**”*

32.6. While GAD PAPs are incorporated in the agency’s regular operations, the Management may opt to attribute existing expenses as GAD responsive such as, but not limited to, the portion of personnel’s salary incurred while participating in GAD planning and other GAD-related activities, keeping in mind of the guidelines under Item IV (B), Financial and Compliance Audit of GAD, of COA Circular 2014-001, to wit:

*“1. Audit of specific accounts on GAD (salaries, wages, expenditures, etc.) shall be in accordance with existing guidelines on financial and compliance audit. In particular, **the rules and regulations on irregular, unnecessary, excessive, extravagant and unconscionable expenditures shall be observed.**”* (emphasis ours)

32.7. **We recommended that Management comply with Section 6.4 of PCW-NEDA-DBM Joint Circular No. 2012-01 in the process of attributing agency major programs to the GAD budget and COA Circular 2014-001.**

32.8. The Management assures that they shall revisit and review all relevant Projects, Activities, and Programs (PAPs) and take all the steps necessary in compliance with Sections 6.1 and 6.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01, with a view towards increased gender responsiveness. The Management also raised that over the past years, the MWSS RO has successfully increased the utilization of its GAD Budget, as follows:

Year	Amount	Percentage
2017	P 1,832,863.00	
2018	2,469,611.82	0.83%
2019	6,308,721.24	2.11%

32.9. In addition, the Management will continue to attribute related costs, such as the pertinent portion of the concerned personnel’s salaries while participating in GAD related activities, as GAD expenses, while strictly complying with the guidelines under Item IV (B), “Financial and Compliance Audit GAD”, of COA Circular 2014 001.

33. The GAD Database/Sex-disaggregated data was not institutionalized as required under Section 4.4 of PCW-NED-DBM Joint Circular No. 2012-001.

- 33.1. Management failed to provide a copy of the updated GAD Database/Sex-disaggregated data of the MWSS, however, only a list of employees categorized as female and male was submitted.
- 33.2. Institutionalizing GAD Database/Sex-disaggregated data is one of the essential elements in GAD Planning and Budgeting to more effectively plan and implement programs on GAD as provided under Section 4.4 of the same joint circular which states that:

“4.4 Institutionalizing GAD Database/Sex-disaggregated Data: The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming, and policy formulation”
- 33.3. Based on the above-mentioned guideline, the GAD Database/Sex-disaggregated data shall be the basis in identifying Gender issues existing within the Agency which have to be addressed by the GAD Activities as per GPB. Failure to provide these data puts question as to the validity of the Gender issues cited by the agency and the necessity of its corresponding Gender response activity.
- 33.4. Also, Management failed to provide complete / clear breakdown and supporting details to the amounts indicated in their GAD Accomplishment report, which likewise made it difficult to verify the accuracy of the amount reported.
- 33.5. **We recommended for Management to institutionalize the GAD Database/Sex-disaggregated data in compliance with Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-001 by way of a detailed Gender Survey.**
- 33.6. Management commented that they have recently conducted a GAD survey on October 21, 2019. Moreover, the MWSS-RO commits to the improvement of the accuracy and clarity of the GAD Accomplishment Report in terms of the amount relating to disbursement and journal vouchers.

E. Compliance with Tax Laws

34. For MWSS Corporate Office, the taxes withheld and due to the Bureau of Internal Revenue for CY 2019 were properly recorded and remitted within the prescribed period. All income taxes withheld on salaries in the amount of P10,748,947.54, were remitted in CY 2019.
35. For MWSS Regulatory Office, all income taxes withheld on salaries for January to November 2019 totaling P8,723,541.29 were remitted in CY 2019 while income taxes withheld in December 2019 amounting to P2,216,667.36 were remitted on January 10, 2020.

F. Compliance with Rules on the Government Mandatory Deductions

36. MWSS Corporate and Regulatory Office has complied with GSIS, Pag-IBIG and PhilHealth guidelines in the collection and remittance of the employer and employees' contributions and loan amortizations of employees from the said government corporations.
37. The amount withheld for GSIS, Pag-IBIG and PhilHealth contributions from employees from January to November 2019 of P9,721,690.12, P639,005.20 and P721,575.39, respectively, were all remitted in CY 2019. On the other hand, the amount withheld in December 2019 GSIS, Pag-IBIG and PhilHealth contributions of P1,701,393.45, P126,298.81 and P64, 378.43, respectively, were remitted in January 2020.
38. For MWSS Regulatory Office the amounts of P10,799,505.41, P817,094.20, and P657,348.92 withheld from employees for their GSIS, Pag-IBIG, and PhilHealth contributions, respectively, from January to November 2019 were all remitted in CY 2019, while the December 2019 GSIS, Pag-IBIG, and PhilHealth contributions amounting to P973,827.62, P73,047.90, and P65,654.19, respectively, were remitted on January 10, 2020.

G. Status of Audit Suspensions, Disallowances and Charges

A summary of audit disallowances issued for transactions ending December 31, 2019 is shown below:

Audit Action	Beginning Balance January 1, 2019	Issued	Settled	Ending Balance December 31, 2019
MWSS – Corporate Office				
Suspensions	0	0	0	0
Disallowances	330,863,234	28,917,781.00	268,990	359,512,025
Charges	0	0	0	0
Sub-total	330,863,234	28,917,781	268,990	359,512,025
MWSS – Regulatory Office				
Suspensions	0	0	0	
Disallowances	249,527,286	160,289	0	249,687,575
Charges	0	0	0	0
Sub-total	249,527,286	160,289	0	249,687,575
Grand Total	580,390,520	29,078,070	268,990	609,199,600

Tables showing the status of audit disallowances for transactions of the MWSS Corporate Office and Regulatory Office are as follows:

MWSS Corporate Office Notice of Disallowances which are Final and Executory

	ND No.	Date	Nature of Disallowance	Amount	Status
1	13-001-05-(12)	June 13, 2013	Amelioration Allowance	P 3,680,227.14	NFD No. 2019-012 dated January 17, 2019 issued by the COA-CPASSSS COA Decision No. 2016-384 dated November 21, 2016 (Motion for Reconsideration) COA Decision No. 2016-202 dated August 12, 2016 (Petition for Review)
2	13-002-05-(12)	June 14, 2013	COLA	14,720,328.21	-do-
3	13-003-05-(12)	July 1, 2013	RATA	6,001,992.84	-do-
4	13-004-05-(12)	July 1, 2013	RATA	2,704,617.28	-do-
5	2018-02-223-(16)	March 8, 2018	IT Equipment	119,940.00	No appeal filed with the Office of the Cluster Director NFD dated Sept 18, 2018
Total Unsettled Audit Disallowances which are final and executory – MWSS Corporate Office				P 27,227,105.47	

MWSS Corporate Office
Audit Disallowances with Pending Appeal with the COA Commission Proper/
Supreme Court or Without Appeal Received but Appeal Period has not yet Expired

	ND No.	Date	Nature of Disallowance	Amount	Status
1	10-001-05-(09)	July 16, 2010	Year-End Financial Assistance	P 6,565,910.90	With Petition for Certiorari filed before the Supreme Court Notice of Finality of Decision dated August 29, 2017 COA Decision No. 2016-394 dated December 5, 2016
2	10-002-05-(09)	July 16, 2010	Anniversary Bonus	5,417,999.39	-do-
3	10-003-05-(09)	July 16, 2010	Anniversary Bonus	5,688,443.56	-do-
4	10-004-05-(09)	July 16, 2010	Monetization of Leave credits	1,178,209.03	-do-
5	10-005-05-(09)	July 16, 2010	Traditional Anniversary Bonus	686,000.00	-do-
6	10-006-05-(09)	July 16, 2010	Mid-Year Financial Assistance	5,818,138.91	-do-
7	10-007-05-(09)	July 16, 2010	RATA for January 2009	104,000.00	-do-
8	10-008-05-(09)	July 16, 2010	RATA for February 2009	104,000.00	-do-
9	10-009-05-(09)	July 16, 2010	RATA for March 2009	104,000.00	-do-

	ND No.	Date	Nature of Disallowance	Amount	Status
10	10-010-05-(09)	July 16, 2010	Family Day Allowance (Regular)	1,800,000.00	-do-
11	10-011-05-(09)	July 16, 2010	Rate Rebasing Bonus (Regular)	5,764,746.31	-do-
12	10-012-05-(09)	July 16, 2010	Family Week Allowance (Regular)	6,454,899.70	-do-
13	10-013-05-(09)	July 16, 2010	Performance Enhancement Incentive	6,524,033.20	-do-
14	09-014-05-(09)	July 16, 2010	GOCC Incentive for CY 2008	5,471,382.77	-do-
15	10-015-05-(09)	July 16, 2010	Scholarship Allowance (1 st Tranche)	3,985,333.71	-do-
16	09-016-05-(09)	July 16, 2010	Scholarship Allowance (2 nd Tranche)	6,603,893.90	-do-
17	10-029-05-(09)	August 16, 2010	Corporate Christmas Package for CY 2009	10,730,286.97	-do-
18	10-017-05-(09)	July 29, 2010	PX Mart Allowance (4 th Quarter)	2,630,000.00	With Petition for Review filed before the COA Commission Proper under CP Case No. 2011-371
19	10-018-05-(09)	July 29, 2010	Grocery Incentive Pay (1 st Quarter)	2,048,273.83	
20	10-019-05-(09)	July 29, 2010	Grocery Incentive Pay (2 nd Quarter)	2,053,273.85	
21	10-020-05-(09)	July 29, 2010	PX Mart Allowance (3 rd Quarter)	2,635,000.00	-do-
22	10-021-05-(09)	July 29, 2010	Efficiency Incentive Benefit for CY 2009	5,929,843.97	-do-
23	10-022-05-(09)	July 29, 2010	Privatization Financial Assistance	5,679,037.49	-do-
24	10-023-05-(09)	July 29, 2010	Educational Assistance	5,741,017.42	-do-
25	10-024-05-(09)	July 20, 2010	Extraordinary Expenses	1,325,375.40	-do-
26	10-025-05-(09)	July 29, 2010	Extraordinary Expenses	2,111,192.85	-do-
27	10-030-05-(09)	August 18, 2010	Grocery Allowance (2 nd Quarter – BOT)	77,628.50	-do-
28	10-031-05-(09)	August 18, 2011	Grocery Allowance (1 st Quarter – BOT)	73,747.09	-do-
29	10-032-05-(09)	August 18, 2011	Grocery Allowance (3 rd Quarter – BOT)	90,000.00	-do-
30	10-033-05-(09)	August 18, 2011	Grocery Allowance (4 th Quarter – BOT)	120,000.00	-do-
31	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	With Petition for Certiorari filed before the Supreme Court NFD no. 2019-022 dated January 18, 2019 issued by COA-CPASSSS COA Decision No. 2017-291 dated September 6, 2017

	ND No.	Date	Nature of Disallowance	Amount	Status
32	13-005-05-(12)	July 1, 2013	Procurement of private health insurance	3,072,183.95	With Petition for Review filed before the COA Commission Proper under Case No. 2016-808
33	13-006-05-(12)	July 1, 2013	-do-	857,205.00	-do-
34	13-007-05-(12)	July 1, 2013	-do-	2,985,516.00	-do-
35	13-009-05-(12)	December 3, 2013	Hazard and Longevity Pay	1,269,627.39 5,017,297.07	With Petition for Review filed before the COA Commission Proper under COA CP Case No. 2016-935
36	14-001-05-(12)	February 4, 2014	Janitorial Services	2,855,968.14	With Petition for Review filed before the COA Commission Proper
37	14-002-05-(12)	April 25, 2014	Rice Allowance	2,716,030.99	With Petition for Review filed before the COA Commission Proper under COA CP Case No. 2016-543
38	14-009-05-(13)	October 1, 2014	Hazard and Longevity Pay	1,120,917.28 5,166,462.69	With Petition for Review filed before the COA Commission Proper
39	14-010-05-(13)	October 14, 2014	RATA	1,736,399.47	With Petition for Review filed before the COA Commission Proper under COA CP Case No. 2016-586
40	14-011-05-(13)	October 3, 2014	RATA	3,649,328.00	With Petition for Review filed before the COA Commission Proper under COA CP Case No. 2016-278
41	14-012-05-(13)	November 4, 2014	Rice Allowance	2,697,161.04	With Petition for Review filed before the COA Commission Proper under COA CP Case No. 2016-586
42	14-013-05-(13)	November 24, 2014	Janitorial Services	3,657,198.05	COA Decision No. 2019-179 dated May 24, 2019
43	15-002-05-(PY)	April 20, 2015	Validity of Appointment	822,129.00	With Petition for Review filed before the COA Commission Proper
44	15-003-05-(PY)	June 29, 2015	Consultancy Services	1,315,000.00	COA CGS Cluster 3 Decision No. 2017-22 dated June 5, 2017 was elevated to the COA Commission Proper for automatic review
45	15-004-05-(PY)	June 30, 2015	Separation Pay – Contract Collectors	6,886,524.79	COA CGS Cluster 3 Decision was elevated to the COA Commission Proper for automatic review
					COA CGS Cluster 3 Decision No. 2017-37

ND No.	Date	Nature of Disallowance	Amount	Status
46	15-007-05-(14)	November 3, 2015	RATA	366,372.00
47	15-008-05-(14)	November 3, 2015	RATA	519,596.00
48	15-009-05-(14)	November 3, 2015	Hazard and Longevity Pay	751,962.93 5,032.26
49	15-010-05-(14)	November 23, 2015	Reimbursement OGCC Lawyers	728,232.33
50	16-001-05-(14)	January 26, 2016	Rice Allowance	1,085,745.81
51	16-002-05-(14)	January 26, 2016	Meal Allowance	1,041,600.00
52	16-003-05-(14)	January 26, 2016	Meal Allowance	1,132,567.09
53	16-04-05-(15)	May 31, 2016	Hazard Pay	652,338.86
54	16-05-05-(15)	August 8, 2016	RATA	70,000.00
55	16-06-05-(15)	August 31, 2016	Deficiency Taxes	77,491,573.88
56	16-07-05-(15)	September 19, 2016	Invalidated Appointment	260,533.39
57	10-026-05-(09)	July 28, 2010	Cash Token- Jim G. Fondevilla	200,000.00

dated August 16, 2017 subject to automatic review of the CP With Petition for Review filed before the Commission Proper under COA CP Case No. 2017-223

With Petition for Review filed before the Commission Proper under COA CP Case No. 2017-223

With Petition for Review filed before the COA Commission Proper

With Petition for Review filed before the COA Commission Proper

With settlement of P4,900

With Petition for Review filed before the COA Commission Proper

With Petition for Review filed before the COA Commission Proper

-do-

With Petition for Review filed before the Commission Proper COA CGS Cluster 3 Decision No. 2017-18 dated April 26, 2017 was elevated to the COA Commission Proper for automatic review

With Petition for Review filed before the COA Commission Proper

CGS Cluster 3 Decision No. 2018-12 dated April 12, 2018

COA CGS Cluster 3 Decision No. 2017-16 dated April 17, 2017 was elevated to the COA Commission Proper for automatic review

NSSDC No. 17-005 dated April 17, 2017 for partial settlement of P225,319.27

The COA CGS Cluster 3 Decision No. 2016-40

ND No.		Date	Nature of Disallowance	Amount	Status
					dated October 3, 2016, COA CGS Cluster 3 Decision No. 2016-42 dated October 4, 2016 and COA CGS Cluster 3 Decision No. 2016-44 dated October 6, 2016 were elevated to the COA Commission Proper for automatic review.
58	10-027-05-(09)	July 28, 2010	Financial Assistance- Lorenzo S. Sulaik	250,000.00	-do-
59	10-028-05-(09)	July 28, 2010	Medical/Financial Assistance- Oscar Garcia	450,000.00	-do-
60	2014-03-0002	March 10, 2014	Allowance	363,643.84	
61	14-005-05-(12)	June 30, 2014	Meal Allowance	2,142,850.00	COA Decision No. 2019-019 dated February 20, 2019
62	14-006-05-(12)	June 30, 2014	Meal Allowance	2,033,200.00	COA Decision No. 2019-019 dated February 20, 2019
63	14-007-05-(13)	June 30, 2014	Meal Allowance	2,086,800.00	COA Decision No. 2019-019 dated February 20, 2019
64	14-008-05-(13)	June 30, 2014	Meal Allowance	1,910,880.00	COA Decision No. 2019-019 dated February 20, 2019
65	2019-01-841-(18)	March 26, 2019	Various Vehicles Repairs and Maintenance	252,110.00	
66	2019-02-05-(18)	August 29, 2019	Meal Allowance	809,970.00	
67	2019-03-05-(PYs)	August 30, 2019	Multi-purpose Loan	27,855,701.21	
Total Unsettled Audit Disallowances with Pending Appeal with the COA Commission Proper/Supreme Court or Without Appeal Received but Appeal Period has not yet Expired – MWSS Corporate Office				P332,284,919.61	

MWSS Regulatory Office
Notices of Disallowances which are final and executory

	ND No.	Date	Nature of Disallowance	Amount	Status
1	RO10-001-719-3(09)	July 16, 2010	Anniversary Bonus (Traditional)	P 622,000.00	COA Decision No. 2015-040 dated January 30, 2015 with G.R. No. 224240 With COE No. 2016-097 from LSS Office of the General Counsel dated December 28, 2016 With Notice of Finality of Decision from CPASSSS

ND No.	Date	Nature of Disallowance	Amount	Status
				Commission Secretariat dated January 24, 2017
2	RO10-002-719-3(09)	July 16, 2010	Productivity Enhancement Pay (PEP)	622,000.00 -do-
3	RO10-003-510(09)	July 16, 2010	Rate Rebasing Allowance	622,000.00 -do-
4	RO10-004-510(09)	July 16, 2010	Rate Rebasing Incentive Pay (Premium)	622,000.00 -do-
5	RO10-005-510(09)	July 16, 2010	Family Day & Educational Allowances	416,000.00 -do-
6	RO10-006-719-6(09)	July 16, 2010	Traditional Christmas Bonus	793,400.00 -do-
7	RO10-007-510(09)	July 16, 2010	Productivity Incentive Bonus (PIB) 1	793,400.00 -do-
8	RO10-008-510(09)	July 16, 2010	GOCC Incentive	793,400.00 -do-
9	RO10-009-510(09)	July 16, 2010	Collective Negotiation Agreement (C N A) Incentive	793,400.00 -do-
10	RO10-010-510(09)	July 16, 2010	Scholarship Allowance (2 nd Tranche)	793,400.00 -do-
11	RO10-011-510(09)	July 20, 2010	Efficiency Incentive Bonus	447,400.00 -do-
12	RO10-012-510(09)	July 20, 2010	Scholarship Allowance (1st Tranche)	597,400.00 -do-
13	RO10-013-510(09)	July 20, 2010	Family Week Allowance	793,400.00 -do-
14	RO10-014-510(09)	July 20, 2010	Performance Enhancement Incentive	793,400.00 -do-
15	RO10-015-510(09)	July 20, 2010	Calamity Economic Assistance 1	793,400.00 -do-
16	RO10-016-510(09)	July 20, 2010	Calamity Economic Assistance 2	793,400.00 -do-
17	RO10-017-510(09)	July 20, 2010	Corporate Christmas Package	793,400.00 -do-
18	RO10-018-717-1(09)	July 20, 2010	Productivity Incentive Bonus 2	695,400.00 -do-
19	RO10-019-510(09)	July 20, 2010	Additional Educational Allowance	622,000.00 -do-
20	RO10-020-883-3(09)	July 22, 2010	Health & Wellness Allowance	150,000.00 -do-
21	RO10-021-717-1(09)	July 20, 2010	Productivity Incentive Bonus 3	793,400.00 -do-
22	RO10-022-510(09)	July 22, 2010	Rate Rebasing Additional	447,400.00 -do-
23	RO10-023-510(09)	July 22, 2010	RATA Differential	756,000.00 -do-
24	RO10-024-719-3(09)	July 22, 2010	Privatization Anniversary Bonus 1	597,400.00 -do-
25	RO10-025-719-3(09)	July 22, 2010	Privatization Anniversary Bonus 2	597,400.00 -do-

ND No.	Date	Nature of Disallowance	Amount	Status
26	RO10-026-510(09)	July 22, 2010 (Additional) Performance Bonus	695,400.00	-do-
27	RO10-027-717-1(09)	July 22, 2010 Performance Enhancement Incentive	3,175,426.20	-do-
28	RO10-028-717-1(09)	July 22, 2010 Productivity Incentive Benefit	5,943,527.44	-do-
29	RO10-029-717-1(09)	July 22, 2010 Productivity Incentive Bonus	3,454,313.88	-do-
30	RO10-030-719-1(09)	July 22, 2010 Collective Negotiation Agreement (C N A) Incentive	3,482,425.50	-do-
31	RO10-031-717-1(09)	July 22, 2010 Performance Bonus	3,451,319.10	-do-
32	RO10-032-719-1(09)	July 22, 2010 GOCC Incentive	3,482,425.50	-do-
33	RO10-033-721(09)	July 22, 2010 Hazard Duty Pay- Jan to June 2009	498,000.00	-do-
34	RO10-034-721(09)	July 22, 2010 Hazard Duty Pay- July to Dec 2009	493,800.00	-do-
35	RO10-035-719-1(09)	July 22, 2010 Anniversary Bonus	2,712,493.34	-do-
36	RO10-036-719-1(09)	July 22, 2010 Anniversary (Bigay Pala I)	2,737,201.58	-do-
37	RO10-037-510(09)	July 22, 2010 Rate Rebasing Incentive 1	5,554,413.46	-do-
38	RO10-038-883-4(09)	July 22, 2010 Grocery Incentive Pay 1st Quarter	1,330,000.00	-do-
39	RO10-039-883-4(09)	July 22, 2010 Grocery Incentive Pay 2nd Quarter	1,340,000.00	-do-
40	RO10-040-883-4(09)	July 22, 2010 Grocery Incentive Pay 3rd Quarter	1,350,000.00	-do-
41	RO10-041-883-4(09)	July 22, 2010 Grocery Incentive Pay 4th Quarter	1,375,000.00	-do-
42	RO10-042-510(09)	July 22, 2010 Educational Assistance 1	1,513,200.00	-do-
43	RO10-043-510(09)	July 22, 2010 Rate Rebasing Incentive 2	2,451,400.00	-do-
44	RO10-044-510(09)	July 22, 2010 Educational Assistance 2	1,519,000.00	-do-
45	RO10-045-510(09)	October 21, 2010 Productivity Enhancement Pay	3,015,729.40	-do-
46	RO10-046-719-1(09)	October 22, 2010 Corporate Christmas Package	5,554,413.46	-do-
47	RO10-047-717-1(09)	October 08, 2010 Scholarship Allowance (1)	3,392,897.70	-do-
48	RO10-048-719-1(09)	October 08, 2010 Calamity Economic Assistance for CY 2009	3,444,769.20	-do-
49	13-007-RO-(12)	December 03, 2013 Hazard Duty Pay	464,127.10	CGS Cluster-3 Decision No. 2016-29 dated June 28, 2016 With Notice of Finality of Decision from CD dated December 21, 2016 CGS Cluster-3 Decision No. 2016-29 dated June
50	13-008-RO-(12)	December 03, 2013 Longevity Pay	1,816,335.48	

ND No.	Date	Nature of Disallowance	Amount	Status
				28, 2016
51	14-003-RO-(12)	April 25, 2014	Rice Allowance CY 2012	1,371,805.56
				With Notice of Finality of Decision from CD dated December 21, 2016 CGS Cluster-3 Decision No. 2016-30 dated June 30, 2016
52	14-004-RO-(12)	May 21, 2014	Welfare Fund CY 2012	7,121,527.82
				With Notice of Finality of Decision from CD dated December 21, 2016 CGS Cluster-3 Decision No. 2016-18 dated May 31, 2016
53	14-005-RO-(13)	May 26, 2014	Welfare Fund CY 2013	1,231,430.82
				With Notice of Finality of Decision from CD dated December 21, 2016 CGS Cluster-3 Decision No. 2016-18 dated May 31, 2016
54	15-004-RO-(14)	November 10, 2015	Meal Allowance	905,250.00
				With Notice of Finality of Decision from CD dated December 21, 2016 CGS Cluster-3 Decision No. 2016-39 dated September 20, 2016
55	15-005-RO-(14)	November 10, 2015	Rice Allowance	543,836.41
				With Notice of Finality of Decision from CD dated December 21, 2016 CGS Cluster-3 Decision No. 2016-38 dated September 5, 2016
				With Notice of Finality of Decision from CD dated December 21, 2016
Total Unsettled Audit Disallowances which are final and executory – MWSS Regulatory Office			P 91,963,268.95	

MWSS Regulatory Office
Audit Disallowances with Pending Appeal with the Cluster 3/ Commission Proper or Without Appeal Received but Appeal Period has not yet Expired

	ND No.	Date	Nature of Disallowance	Amount	Status
1	13-001-RO-(12)	June 06, 2013	Amelioration Allowance	P 1,991,974.15	COA Decision No. 2015-405 dated December 28, 2015
					RO's Petition for Certiorari denied by the SC
2	13-002-RO-(12)	June 10, 2013	COLA	7,910,835.98	-do-
3	13-004-RO-(12)	June 10, 2013	Productivity Incentive	3,924,797.50	-do-

	ND No.	Date	Nature of Disallowance	Amount	Status
4	13-005-RO-(12)	June 10, 2013	Bonus CY 2011	4,389,873.84	-do-
5	13-006-RO-(12)	June 10, 2013	RATA CY 2012	2,940,705.00	-do-
6	14-001-RO-(12)	February 05, 2014	Health Insurance Janitorial Services CY 2012	686,587.61	CGS Cluster-3 Decision No. 2017-11 dated March 7, 2017
7	14-002-RO-(12)	February 11, 2014	Security Services CY 2012	1,334,050.05	With Petition for Review to CP dated March 28, 2017 CGS Cluster-3 Decision No. 2017-11 dated March 7, 2017
8	14-006-RO-(12)	June 10, 2014	EME CY 2012	628,272.99	With Petition for Review to CP dated March 28, 2017 CGS Cluster-3 Decision No. 2017-15 dated March 28, 2017
9	14-007-RO-(13)	June 26, 2014	EME CY 2013	443,217.87	With Petition for Review to CP dated April 10, 2017 CGS Cluster-3 Decision No. 2017-15 dated March 28, 2017
10	14-008-RO-(13)	June 30, 2014	Private Health Insurance	32,438.13	With Petition for Review to CP dated April 10, 2017 CGS Cluster-3 Decision No. 2017-15 dated March 28, 2017.
11	14-009-RO-(12)	June 27, 2014	Meal Allowance CY 2012	2,278,667.44	With Petition for Review to CP dated April 10, 2017 CGS Cluster-3 Decision No. 2016-57 dated December 6, 2016
12	14-010-RO-(13)	June 27, 2014	Hazard Duty Pay	406,545.17	CGS Cluster-3 Decision No. 2016-57 dated December 6, 2016
13	14-011-RO-(13)	June 27, 2014	Meal Allowance CY 2013	2,022,150.00	CGS Cluster-3 Decision No. 2016-57 dated December 6, 2016
14	14-012-RO-(13)	September 04, 2014	Janitorial Services	770,228.00	CGS Cluster 3 Decision No. 2017-32 dated July 12, 2017
15	14-013-RO-(13)	September 09, 2014	Longevity Pay	1,665,500.00	-do-
16	14-014-RO-(13)	November 12, 2014	RATA SG 24 and below	1,880,772.08	CGS Cluster 3 Decision No. 2017-31 dated July 12, 2017
17	14-015-RO-(13)	November 12, 2014	RATA SG 24 and above	942,166.96	-do-
18	14-016-RO-(13)	December 04, 2014	Security services	1,432,122.36	-do-

	ND No.	Date	Nature of Disallowance	Amount	Status
19	15-001-RO-(12, 13 & 14)	June 25, 2015	Subsistence - Children's Allowance	117,770.78	CGS Cluster 3 Decision No. 2017-23 dated June 5, 2017
20	15-002-RO-(14)	June 26, 2015	RATA (SG-24 & above)	294,611.60	CGS Cluster-3 Decision No. 2017-05 dated February 8, 2017. With Petition for Review to CP dated February 27, 2017
21	15-003-RO-(14)	September 29, 2015	Welfare Fund - Government Share (Jan.-June 2012)	559,504.08	CGS Cluster-3 Decision No. 2017-09 dated February 23, 2017 With Petition for Review to CP dated March 9, 2017
22	16-001-RO-(14)	June 07, 2016	Appeal Filing Fee	40,460.00	CGS Cluster 3 Decision No. 2017-42 dated September 13, 2017
23	16-006-05-(15)	September 01, 2016	Tax Penalty	77,491,573.88	CGS Cluster 3 Decision No. 2018-12 dated April 12, 2018
24	16-002-RO-(15)	September 22, 2016	Children's Allowance	13,365.00	CGS Cluster 3 Decision No. 2017-38 dated August 23, 2017
25	17-001-RO-(16)	October 18, 2017	Transportation Allowance	57,312.89	CGS Cluster 3 Decision No. 2018-17 dated May 29, 2018 With Petition for Review to CP dated August 10, 2018
26	18-001-RO-(17)	February 21, 2018	Appeal Filing Fees	28,601.96	CGS-Cluster 3 Decision No. 2018-23 With undated Petition for Review to CP
27	18-002-RO-(17)	April 23, 2018	Various expense accounts	2,186,625.60	CGS-Cluster 3 Decision No. 2018-32 dated November 29, 2018 With Petition for Review to CP dated January 16, 2019
28	18-003-RO-(17)	June 25, 2018	Representation Expenses	659,084.27	CGS Cluster 3 Decision No. 2018-37 dated December 28, 2018
29	18-004-RO-(17)	June 26, 2018	Transportation Allowance	49,142.06	CGS Cluster 3 Decision No. 2018-28 dated September 20, 2018 With Petition for Review to CP dated September 17, 2018
30	18-005-RO-(17)	October 22, 2018	Loans Receivable-MVFP/Housing	25,000,000.00	CGS Cluster 3 Decision No. 2019-04 dated February 8, 2019 With undated Petition for Review to CP

	ND No.	Date	Nature of Disallowance	Amount	Status
31	18-006-RO-(17)	October 22, 2018	Multi-Purpose Loan Program (MPLP) and Motor Vehicle Financing Program (MVFP)	15,385,059.53	CGS Cluster 3 Decision No. 2019-01 dated January 8, 2019 With undated Petition for Review to CP.
32	19-001-RO-(18,19)	September 27, 2019	Appeal Filing Fees	78,527.50	CGS Cluster 3 Decision No. 2019-15 dated November 11, 2019 with Petition for Review with Answer from CGS Cluster 3
33	19-002-RO-(18)	December 16, 2019	Transportation Allowance CY 2018	81,761.94	CGS Cluster 3 Decision No. 2020-06 dated February 26, 2020 with Petition for Review dated March 16, 2020

Total Unsettled Audit Disallowances with Pending Appeal with the Cluster 3/Commission Proper or Without Appeal Received but Appeal Period has not yet Expired – MWSS Regulatory Office **P157,724,306.22**

Prior to the effectivity of COA Circular No. 2009-006, the disallowances and charges issued has an outstanding balance of P9,345,236.71 as of December 31, 2019 broken down as follows:

Notice of Disallowance			
No./Date	Nature		Outstanding Balance
1 2000-017-07-(99)/ August 15, 2000	RATA, Longevity, Rice, Meal, Children's and Medical Allowance	P	582,288.40
2 2001-025-05-(00)/ March 19, 2001	Mid-year FA 2000		2,128,780.40
3 2001-006-05-(00)/ February 28, 2001	Mid-year FA 2000		601,919.70
4 2001-024-05-(00)/ March 9, 2001	Year-end FA 2000		1,929,610.60
5 2001-022-05-(00)/ March 6, 2001	Year-end FA 2000		735,243.34
6 2001-021-05-(00)/ March 6, 2001	Bigay-Pala Anniversary Bonus		742,573.90
7 2001-023-05-(00)/ March 8, 2001	PIB		2,157,932.65
8 2001-019-05-(00)/ March 6, 2001	Medical Allowance		287,500.00
9 2001-018-05-(00)/ March 5, 2001	RATA		179,387.72
Total			P 9,345,236.71