



METROPOLITAN WATERWORKS & SEWERAGE SYSTEM
REGULATORY OFFICE

23 October 2020

MA. LYDIA F. DE JOYA
Officer-in-Charge
CGS Cluster 3-Public Utilities
Commission on Audit
Commonwealth Avenue, Quezon City



Dear Ms. De Joya:

We are respectfully transmitting herewith Metropolitan Waterworks and Sewerage System Regulatory Office's (MWSS RO) Agency Action Plan and Status of Implementation (AAPSI) for Calendar Year 2019 and 2018¹.

Thank you.

Very truly yours,

CLAUDINE B. OROCIO-ISORENA
Deputy Administrator
Administration and Legal Affairs

¹ Annex "A"



Annex "A"

MWSS RO
AGENCY ACTION PLAN AND STATUS OF IMPLEMENTATION
 Audit Observations and Recommendations
 For Calendar Years 2019 and 2018
 As of: August 26, 2020

As of: August 20, 2020

Ref	Audit Observation	Audit Recommendation	Agency Action Plan				Status of Implementation	Reasons for Partial/ Delay/ Non-implementation, if applicable	Action Taken/ Actions to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date				
					From	To			
B. Financial Audit-MWSS - REGULATORY OFFICE (Pg. 81)									
Cash In Bank (Pg. 81 of the AAR CY2019)	13. The former PNB Regular and MVP accounts remained unreconciled by P1.271 million as of December 31, 2019, contrary to Section 74 pf P.D. 1445 resulting in the overstatement of cash in bank balance in the Financial Statements.	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.	The MWSS RO shall evaluate the work load of the Accounting personnel.	Acctg./Ad min dept.	Aug 2020	Dec. 2020	Delayed	The MWSS RO's Rationalization Plan is with the DPWH awaiting endorsement to the GCG upon the approval of the Concession Agreement review by the Office of the President.	The Management is hoping to resolve the manpower deficiency through the Board-approved proposed Rationalization Plan of the RO which was transmitted to the Office of the Secretary of DPWH on January 17, 2020. Upon endorsement by the DPWH Secretary, the RO shall present and negotiate adjustments (if any) to the Governance Commission for GOCCs until its approval.

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Trust Liabilities -BAC (Pg. 82) AOM RO-19-07 (Trust Liabilities -BAC) dated March 11, 2020	14. We recommended and Management agreed to Prepare the necessary adjusting entry to recognize the revenue from the trust liabilities in compliance with PPSAS 23.	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.	RO will recognize the revenue from trust liabilities in accordance with the PPSAS 23.	Acctg./ Admin dept.	Aug 2020	Dec. 2020	Fully implemented	Entries were made in the books of the MWSS RO to recognize the revenue under JV. NO. JV-02-20-013.	
D. Other Audit-Regulatory Office (Pg. 130)									
Consultancy Services (Pg. 130)	24. Consultancy service contracts entered into by MWSS RO totaling P88,191,984.00 were for the conduct of regular functions of the MWSS RO	24.11 (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	Conduct pre rate rebasing activities	Technical and Financial Regulation Area (TRA & FRA)	Aug 2020	Dec. 2020	Fully implemented	The Technical and Financial Regulation Areas with its lean personnel compliment were fully maximized before, during and after the Rate Rebasing activities on top of their regular monitoring functions with the two concessionaires under the CA.	

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	2017 resulting to excessive consultancy expenses and uneconomical operations of the Agency.	(b) Analyze the manpower requirements that will conduct its regular functions and consider it in its reorganization.		Technical and Financial Regulation Area	Aug 2020	Dec. 2020	Fully implemented		<p>The regular or core functions of each of the regulations areas were primarily taken into consideration in the MWSS RO Rationalization Plan.</p> <p>May we also invite your attention to the letter of Chairman Michael G. Aguinaldo dated 22 May 2020¹ to the Chief Regulator Patrick Lester N. TY siting that the MWSS RO may utilize a private accounting firm for the RFA (Regulatory Financial Audit). The RFA is one of the components of the RR consultancy services.</p>
Cash Advance to UP-	25. The advances to UP National	25.3 We recommended and management	The RO shall	Acctg./ Admin	Aug. 2020	Dec. 2020	Delayed	The former Accountant who was	On February 24, 2020, the former Project Engineer of the PAWS

¹ Annex "A".

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NEC-National Engineering Center (Pg. 141) RO-19-02 (UP-NEC) Dated February 18, 2020	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 to the overstatement in assets and retained earnings account.	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 compensation of the project.	continue to coordinate with the Office of the Chancellor and the UP-NEC through telephone calls as to the status of the liquidation report and the refund of the unexpected balance of the advances to the PAWS Project.					requested to assist the UP-NEC for the completion of the liquidation report was not allowed to travel due to the Pandemic.	Project, Engr. Eric Llaguno informed us that their former Accountant, who will be in the country next month, has agreed to help the UP-NEC in the completion of the full liquidation report and coordinate with the UP Accounting Office for the verification. We advised Engr. Llaguno, the former Project Engineer of the PAWS Project, that the RO shall send a final Demand Letter addressed to the new UP Chancellor Dr. Fidel R. Nemenzo, should UP-NEC still fails to submit their full liquidation report and remit the remaining balance not later than March 31, 2020.

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4 th Rate Rebasing (Pg.142) RO-19-03 (Consultancy Services for the 4 th Rate Rebasing Exercise) dated February 18, 2020	26. The agreed-upon contract timeline is not strictly complied by the consultants, resulting to the overall delay in the competition of the contract. Also, liquidated damages for delay totaling P1,324,298.36 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.	26.8 We recommended that Management collect from the 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.	Deduct P1,324,298.36 from Final Payment	Acctg/ Admin.	Aug. 2020	Dec. 2020	Fully Implemented	The MWSS RO imposed and deducted from the final payment the amount of P1,324,298.36 as liquidated damages under DV-170 April 2020.	

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Other Receivables (Pg. 145) AOM RO-19-04	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.	27.5 We reiterated our recommendation and management agreed to finally take 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.	MWSS RO will send the final notice of demand once travel restrictions are lifted.	Legal Dept.	Aug. 2020	Dec. 2020	Delayed	Delivery of demand letters are hampered with restrictions of travel due to the pandemic	The MWSS RO shall send the demand letters once the travel/access restrictions to the residential addresses of concerned former employees are lifted.
Other Receivables-MPLP	28. Retired/separated employees were granted	28.4 We recommended for Management to stop the issuance of	The MWSS RO will ensure that	Acctg./Admin.	Aug. 2020	Dec. 2020	Fully Implemented		Retired/ separated employees with outstanding multi-purpose loans were not

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(Pg. 146)	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.	clearance to employees with outstanding loan balances and held accountable/responsible the officer who cleared the separated/ retired employees.	no clearance shall be issued unless concerned employee has complied with the loan contract.						granted clearance unless they comply with the requirement per the loan contract.
Other Receivables – Subsidiary Ledgers (Pg. 147)	29. The accuracy of various receivable accounts in the amount of P1.366 million were not ascertained due to lack of subsidiary	29.7 We reiterate our recommendation for Management to maintain subsidiary records for all receivable accounts in conformity to Section 114 (2) of P.D. 1445.	The MWSS RO shall evaluate the work load of the Accounting personnel	Acctg./Admin	Aug. 2020	Dec. 2020	Partially Implemented	The MWSS RO's Rationalization Plan is pending with the DPWH awaiting endorsement to the GCG upon the approval of the Concession	The Management is hoping to resolve the manpower deficiency through the Board-approved proposed Rationalization Plan of the RO which was transmitted to the Office of the Secretary of DPWH on January 17, 2020. Upon

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	records contrary to Section 114 of PD 1445 resulting in uncollected accounts.							Agreement review by the Office of the President.	endorsement by the DPWH Secretary, the RO shall present and negotiate adjustments (if any) to the Governance Commission for GOCCs until its approval.
HR Biometric System (Pg.148) AOM RO-19-06	30. Non-monitoring of the change and/or activity logs of the HRIS super-user which casts doubt on the integrity of attendance and leave records, which likewise affect the computation of terminal leave benefits	30.5 We recommended for Management for: (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/	The MWSS RO will require the service provider to resume visit the office once access restrictions in the premises are lifted.	HR/ Admin. Dept.	Aug. 2020	Dec. 2020	Delayed	Actual appearance of the software programmer /provider at the MWSS RO premises has been restricted due to the Pandemic.	The HR will request the assistance from the service provider as to the grant of access to the audit trail logs of the HRIS. HR will conduct a periodic review/assessment of the audit trail to ensure that the changes or activities done within the system are accurate and the access (user, admin, and super-user) to certain features are given to appropriate users only.
					Aug. 2020	Dec. 2020	Fully Implemented		

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		quarterly/ semi-annual basis, depending on the assessment of the frequency 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.			Aug. 2020	Dec. 2020	Fully Implemented		
Travel Expenses (Pg.149)	31. Conduct of various meeting and budgeting	31.5 We recommended for Management to:							The matter of the expenses for the planning sessions, we call attention to the fact

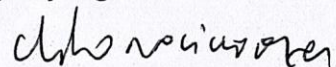
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	sessions of MWSS RO outside the agency premises for CY 2019 with expenditures totaling P514,129.00 are deemed extravagant under Section 6 of COA Circular No, 2012-003 dated 29 October 2012	(a) Stop the practice of conducting planning sessions outside the office premises, but instead, utilize the meeting rooms or halls within the MWSS compound; and (b) refund the amount of P514,129.00 representing extravagant expenditure, otherwise. A Notice of Disallowance shall be issued.			Aug. 2020	Dec. 2020	Fully Implemented		that the pertinent expenses are for snacks, training materials, and other cost associated with the conduct of the relevant official function, rather than for the travel and lodging of the participants. The said costs were meant to facilitate the orderly holding of the related sessions in a manner that is comfortable to both the participants and the facilitators. They are in no way intended to cover the participants' DTE, as defined under EO No. 77 s. 2019. The conduct of official functions away from the office is necessary in order to ensure that the participants therein give their full attention and energy to the
					Aug. 2020	Dec. 2020	Delayed	An appeal will be filed against the issuance of the Notice of Disallowance	

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									related activities, free from distractions that are unavoidable in their usual place of work. Further, all goods and services necessary for the subject planning sessions were procured in strict adherence to Republic Act No. 9184 and its implementing rules and regulations. It is also undisputed that government offices are highly encouraged to regularly hold planning sessions. In fact, the periodic conduct of planning sessions is a customary and widespread practice in government, including the COA. For many offices, it presents the perfect opportunity to focus and finally accomplish important major tasks.

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Gender and Development (GAD) (Pg.151) RO-19-09	32. The Projects/ Activities/ Programs (PAPs) in the GAD and Budget were partially implemented resulting to failure to attribute at least 5% of the total agency budget contrary to Section 6.1 and 6.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01.	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.		GAD Committee	Aug. 2020	Aug. 2020	Partially Implemented		As regards the GAD Plan and Budget, we assure you that the MWSS RO will revisit and review all relevant Projects, Activities, and PAPs and take all the steps necessary in compliance with Section 6.1 and 6.4 of the PCW-NEDA-DBM Joint Circular No. 2012-01, with a view towards increased gender responsiveness. The MWSS RO has successfully increased the utilization of its GAD Budget.

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GAD (Pg.153)	33. The GAD Database/sex-disaggregated data was not institutionalized as required under Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-001.	33.5 We recommended for Management to institutionalized the GAD database/ Sex-disaggregated data in compliance with Section 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-001 by way of the detailed Gender Survey.	The GAD will submit the GAD Sex Disaggregated Data (SDD).	GAD Committee	Aug. 2020	Dec. 2020	Partially Implemented		The MWSS RO commits to adopt and institutionalize a GAD database with sex-disaggregated data, in compliance with Sections 4.4 of PCW-NEDA-DBM Joint Circular No. 2012-01 by conducting a detailed disaggregated gender survey. In preparation for this, the GAD Committee has conducted a GAD survey on October 21, 2019 to gather inputs or bases for identifying gender-related issues among MWSS RO personnel for future GAD Plans and Budget.

Agency Sign-off:



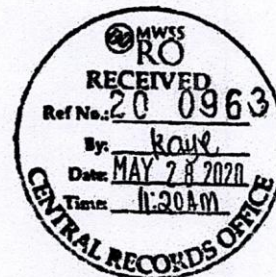
CLAUDINE B. OROCIO-ISORENA
DA for Administration and Legal Affairs

MWSS Regulatory Office

Note: Status of Implementation may either be a) Fully Implemented; b) on-gong; c) Not Implemented; d) Partially Implemented; or e) Delayed



Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City



Office of the Chairperson

22 May 2020

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

Dear Sir:

This has reference to your letter dated 4 April 2020, requesting preliminary discussion for the possibility of the Commission undertaking a Regulatory Financial Audit (RFA) on the two Metro Manila Water Concessionaires.

In your letter, the MWSS Regulatory Office (RO), in line with the Concession Accounting and Auditing Guidelines (CAAG) issued by the MWSS Board of Trustees in 2019, would like to commission the services of COA to audit the books and records of the Concessionaires.

A careful reading of the CAAG would disclose that the RFA being requested by MWSS RO is in the nature of a management services to aid the latter in the 5th Rate Rebasing exercise, rather than a rate audit which is among the mandates of COA pursuant to Section 38 of Presidential Decree No. 1445.

Records show that the CAAG was promulgated, among others, to ensure that the Concessionaires' respective receipts and expenditures identified by them as recoverable and included in their respective business models are valid, efficient and reasonable or prudent. The CAAG is also designed to facilitate the conduct of the Rate Rebasing Exercise (Section 1.3). Moreover, from the time of the implementation of the Concession Agreement up to 2018, the parties thereto had already concluded the 4th Rate Rebasing exercise (page 10 of CAAG). Further, during the 3rd and 4th Rate Rebasing exercise conducted from 2012 to 2017, the MWSS RO had commissioned auditors (page 1, 2nd paragraph). As we gathered, the commissioned auditors were private accounting firms.

The MWSS-RO had contemplated that the CAAG shall be applicable in the assessment of the Concessionaires' cash flows for the determination of the "Opening Cash Position" (OCP) relative to the 5th Rate Rebasing exercise (penultimate paragraph of the Introduction, page 10). The outputs of the RFA as required under the CAAG is the submission and presentation of the final audit report containing the recommended balances for the Regulatory Accounts Working Capital (Section 8.4.1.5). While the Audit Methodology prescribed are for the conduct of a Financial Audit (Section 8.6).

Thus, in conducting the RFA, the commissioned auditor is required to determine the validity and reliability of the Concessionaire's OCP as well as the validity, efficiency and reasonableness or prudence of the latter's reported Receipts and Expenses, and to submit the final recommended balances for the Regulatory Accounts and Working Capital.

Undoubtedly, the RFA is intended to aid MWSS RO in the 5th Rate Rebasing exercise which is in the nature of a management services audit, and not strictly a financial audit, because the auditor is not required to express an opinion on the fairness of the presentation of the financial statements and results of operations of the Concessionaires.

On the other hand, COA is conducting rate audit as mandated under Section 38 of PD 1445 to determine the reasonableness of the tariffs approved by government regulators such as the MWSS RO. It is only when the government regulator has already exercised its prerogatives, that is, by approving the tariff increase, and not prior thereto, can COA conduct the audit to determine the reasonableness of the tariff as approved. Otherwise, COA would be placed in incompatible positions, first, as a commissioned auditor of MWSS RO and later on as the auditor that would review the reasonableness of the tariff approved by MWSS RO.

While COA, thru the Special Audits Office, had previously looked into the books of accounts of said Concessionaires, particularly the related income, expenses and assets which were invested or used in operations, such was merely necessary to the conduct of rate audit.

In view thereof, we regret to inform you that the requested RFA cannot be granted. You may utilize a private accounting firm for the RFA.¹

Very truly yours,


MICHAEL G. AGUINALDO

¹ SECTION 32. *Government Contracts for Auditing, Accounting, and Related Services.* — (1) No government agency shall enter into any contract with any private person or firm for services to undertake studies and services relating to government auditing, including services to conduct, for a fee, seminars or workshops for government personnel on these topics, unless the proposed contract is first submitted to the Commission to enable it to determine if it has the resources to undertake such studies or services. The Commission may engage the services of experts from the public or private sector in the conduct of these studies.

(2) Should the Commission decide not to undertake the study or service, it shall nonetheless have the power to review the contract in order to determine the reasonableness of its costs.



Michael G. Aguinaldo <mgaguinaldo...>

📧 May 27, 2020, 4:58 PM (17 hours ago)



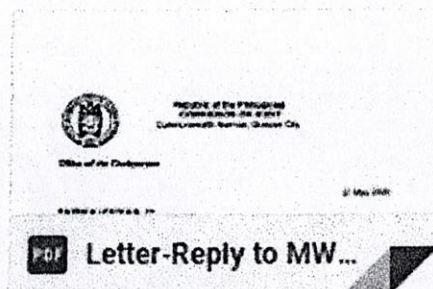
to Victor, me, Emyl, Emelita, Darrell ▾

Dear Sir:

Please find attached the reply to your letter requesting RFA.

Sincerely,

...



↩ Reply

↩↩ Reply all

➡ Forward