



29 October 2024

**MARIA CHRISTINA P. ANTONIS**

OIC-Supervising Auditor

Commission On Audit

Metropolitan Waterworks and Sewerage System

**Attention: BIN MUDJAHEED S. MANDA**

OIC - Audit Team Leader



Dear Auditor Antonis:

We are respectfully submitting the Metropolitan Waterworks and Sewerage System Regulatory Office's Agency Action Plan and Status of Implementation for Calendar Years 2023 and 2022, as of 15 October 2024, as outlined below:

RECOMMENDATION TYPE	PART				Total	%
	II. Audit Observation and Recommendations		III. Prior Years' Audit Recommendation			
		%		%		
A.NON- PPE (PBB – Sustained Compliance with Audit Findings)	9	100.00%	1	100%	10	100.00%
On-going	3	33.33%	1	100%	4	40.00%
Partially Implemented	2	22.22%	0	0.00%	2	20.00%
Not Implemented	1	11.11%	0	0.00%	1	10.00%
Fully Implemented	3	33.33%	0	0.00%	3	30.00%
B. PPE	2	100.00%	0	0.00%	2	100.00%
Partially Implemented	0	0.00%	0	0.00%	0	0.00%
On-going	1	50.00%	0	0.00%	1	50.00%
Not Implemented	0	0.00%	0	0.00%	0	0.00%
Fully Implemented	1	50.00%	0	0.00%	1	50.00%

The MWSS RO has fully implemented 30% of the non-PPE audit recommendations, which meets the minimum required percentage for sustained compliance with the audit findings for the CY 2024 Performance-Based Bonus.

Thank you very much.

Respectfully yours,

  
**CLAUDINE B. OROCIO-ISORENA**

Deputy Administrator, Administration and Legal Affairs



MWSS RO  
AGENCY ACTION PLAN AND STATUS OF IMPLEMENTATION  
Audit Observations and Recommendations  
For Calendar Years 2023 and 2022  
As of: 15 October 2024

Ref	Audit Observation	Audit Recommendation	Agency Action Plan					Reasons for Partial/ Delay/ Non-implementation, if applicable	Action Taken/ Actions to be Taken
			Action Plan	Person/ Dept. Responsible	Target Implementation Date		Status of Implementation		
					From	To			
A.2 Financial Audit – MWSS REGULATORY OFFICE									
CY 2023 AAR A.2 pages 119-122	<b>Property, Plant, and Equipment</b>  The year-end balance of the PPE amounting to P248.048 million includes unaccounted Information Technology Equipment and Software items with a carrying value of P11.663 million and excludes Architectural and Engineering Design cost of P6.719 million, Accumulated Surplus by P6.623 million and Depreciation Expense by P127,668.00, contrary to the relevant provisions of IPSAS 1 and 17	a. Request for specific authority from the COA to derecognize from the book of accounts the non-existing/missing IT Equipment and Software without available records of accountability pursuant to COA Circular No. 2020-006 after providing documentation of unaccounted items that were included in the PPE Account;	a. To request from the COA the specific authority to derecognize from the book of accounts the non-existing / missing IT Equipment and Software;	Admin. Dept.	Sept. 2024	Dec. 2025	On-going	N/ A	The MWSS RO have already drafted the request for the authority to derecognize the subject PPE Items. Once finalized and approved, we will send it to the COA.
		b. Prepare the necessary adjusting entries to capitalize the consultancy services totaling P6.719 million, recognize the corresponding Depreciation Expense in the estimated amount of P223,420.00 and effect	b. To prepare the necessary adjusting entries capitalizing the consultancy services for Architectural and Engineering Design and recognizing the corresponding	Admin. Dept. - Finance Section	Sept. 2024	Dec. 2024	Fully Implemented	N/ A	The Admin – Finance Section already prepared and recorded the necessary adjusting journal entries recognizing the consultancy services as part of the Building account and its



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		the adjustment on Accumulated Surplus	depreciation expenses						corresponding depreciation expense (JV-09-24-068, Annex “A”)
CY 2023 AAR A.2 pages 122-124	<b>Receivable and Payable Accounts</b>  The faithful representation of MWSS RO’s Receivables and Payable accounts, amounting to P193.922 million and P67,806 million, respectively, as at December 31, 2023, could not be ascertained due to the inclusion of dormant and abnormal account balances totaling P2.030 million and P221,769.00, respectively, which did not conform to paragraph 27 of IPSAS 1.	a. Prioritize the review, analysis, and reconciliation of the details of the dormant and abnormal balances totaling P2.030 million and P221,769.00, respectively, and take – up the required adjustments;	a. To review, analyze, and reconcile the details of the Due from Officers and Employees and Other Payables accounts as well as the negative items in the Prepayments accounts;	Admin Dept. – Finance Section	Sept. 2024	Dec. 2025	On-going	N/A	As of this date, the Financial Analyst already vouched the records from CY 2002-2007. However, the Financial Analyst opted not to renew the existing contract.
		b. Maintain the necessary subsidiary records to support the balances of the accounts	a. To prepare the necessary adjustments and maintain the necessary subsidiary records for the fair presentation of accounts	Admin Dept. – Finance Section	Sept 2024	Dec 2025	On-going	N/A	As of this date, the RO has on-going recruitment for a Financial Analyst (Contract of Service) to assist in reconciliation of the subject accounts.  Once reconciled, a corresponding adjusting entries will be made.
B.2 Non-Financial Audit Observation – MWSS REGULATORY OFFICE									
CY 2023 AAR B.2	<b>Property, Plant, and Equipment</b>  Deficiencies identified in the approval of MWSS RO of the variation orders in	a. Justify the incurred delays in the processing of the requests for variation	a. To provide and submit justification on the incurred delays in the	Project Management Unit (PMU) – Building	June 2024	Dec. 2024	Fully Implemented	N/A	The RO, in its letter dated 20 June 2024 (Annex “B”), already provided



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pages 139-143	<p>the total net additive amount of P8.488 million for the design and construction of the MWSS RO Building violate the provisions of Annex “E” of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) No. 9187, to wit:</p> <p>a. Processing time on the request of fourteen (14) variation orders incurred significant delays, contrary to Section 1.5 € of Annex “E” of the 2016 RIRR of RA No. 9184; and</p> <p>b. Deficiencies were noted in the submitted proof of requests of four variation orders, absence of proof of authority from the Contractor of the request of 10 variation orders, and supporting documents of five variation orders not signed by the authorized representative of the Contractor, contrary to Section 1.5 (b) and 1.5 (c) of Annex “E” of the 2016 RIRR of RA No. 9184</p>	<p>orders in accordance with Section 1.5 (e) of Annex “E” of the 2016 RIRR of RA No. 9184; and</p> <p>b. Provide the duly signed copy of authority for the requests to change orders/extra work orders and the copy of authorization of the representative of the contractor, including the duly executed authority of the officers/employees to sign the supporting reports and computations on behalf of the Contractor</p>	<p>processing of the request for variation orders.</p> <p>b. To provide and submit the duly signed copy of the author authority for the requests to change orders/extra work orders and the copy of authorization of the representative of the contractor, including the duly executed authority of the officers/employees to sign the supporting reports and computations on behalf of the Contractor</p>	PMU Building -	June 2024	Dec. 2024	Fully Implemented	N/A	<p>the justification on the delays in the processing of the request for variation orders.</p> <p>In addition, duly signed copy of authority for the requests to change orders/extra work orders and the copy of authorization of the representative of the contractor, including the duly executed authority of the officers/employees to sign the supporting reports and computations on behalf of the Contractor were also attached in the above-mentioned letter under Annex “AI”.</p>
CY 2023 AAR B.2 pages	The absence of reportorial requirements on Semi-Expendable Properties of MWSS RO totaling P10.932 million results in the increased risk of missing and misappropriated	a. Require the Senior Property Officer to prepare and maintain the prescribed forms, registries, and reports	a.To prepare and maintain the prescribed forms, registries and reports mentioned in COA	Admin. Dept. - Property Section	Sept. 2024	Dec. 2025	On-going	N/A	The Property Section has been using the Inventory Custodian Slip since CY 2023. As of



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143-144	properties, leading to financial losses to the agency contrary to Section 444.7 of COA Circular No. 2022-004 dated May 31, 2022	mentioned in COA Circular No. 2022-004 to strengthen controls over the semi-expendable properties, segregate semi-expendable properties as low-valued and high-valued items, and property establish the agency's property accountabilities	Circular No. 2022-004						this date, the Property Section is utilizing the prescribed forms, registries, and reports.
CY 2023 AAR B.2 pages 144-145	<b>Unserviceable Assets</b>  The deficiencies identified in the Inventory and Inspection Report of Unserviceable Property (IIRUP) prepared by the MWSS RO have led to the unsuccessful disposal of unserviceable properties totaling P1.628 million contrary to COA Circular No. 89-296, resulting in further deterioration of assets.	a. Property Section to prepare the Inventory Report of Unserviceable Properties (IIRUP) pursuant to the requirements of COA Circular No. 89-296	a. To prepare the Inventory Report of Unserviceable Properties pursuant to COA Circular No. 89-296	Admin Dept. – Property Section	Sept. 2024	Dec 2025	Partially Implemented	N/A	The Property Section is currently preparing and updating the Inventory and Inspection Report of Unserviceable Properties as basis for disposal. An initial report was submitted to the COA last 01 September 2023;
		b. Property Section to expedite the registration of the vehicles and the transfer of ownership to MWSS RO to	b. To take action on the registration of the vehicles and the transfer of ownership to	Admin Dept. – Property Section	July 2023	Dec 2023	Not Implemented	The Property Section already sought assistance with the Legal Dept. The Legal Dept.	The RO also sought guidance to the Land Transportation Office (LTO) on the documents that

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		facilitate its disposal	MWSS RO to facilitate disposal				on its issued opinion advised that the subject vehicles may be disposed without the need to transfer first its ownership under the name of the RO	need to be issued to the winning buyer. The LTO, in its letter, advised the RO would need to issue the following in favor of the winning buyers: a. Certificate of sale; b. Notarized Affidavits stating that the pertinent requirements under RA 11057 and its IRR have been fully complied with  In view of the foregoing, the Disposal Committee already included the subject vehicles in the list of properties for disposal.	
		c. Disposal Committee to oversee the disposal of unserviceable assets	c. To expedite the disposal of the remaining	Admin Dept. – Property Section &	Sept. 2024	Dec 2025	Partially Implemented	No bidder to some of the unserviceable assets for	



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			unserviceable assets	Disposal Committee				disposal	<p>were submitted to the COA last 08 August 2023.</p> <p>The Property Section is currently updating the Inventory and Inspection Report of Unserviceable Property as recommended by the COA.</p> <p>The Disposal Committee will be reconstituted considering the mandatory retirement of the Chairperson and the resignation of one of the members.</p> <p>Once completed, the disposal committee will commence the disposal of the remaining unserviceable assets.</p>

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CY 2023 AAR B.2 pages 147-148	<b>Gender and Development</b>  The absence of a Responsibility Center Code of MWSS RO's GAD Focal Point System resulted in the discrepancies amounting to P5.008 million between the recorded GAD-related expenses under the Other MOOE Account totaling P6.972 million and the reported actual expenses in the GAD Accomplishment Report in the amount of P11.980 million contrary to COA Circular No. 2021-008 dated September 6, 2021	a. Required the GAD Committee to create/assign a separate Responsibility Center Code for the GFPS which shall serve as RC for GAD-related expenses	To assign General Ledger Account per expense type for Gender and Development related items such as the following, to name a few:  <table><tr><td>5-02-03-990-02</td><td>Other Supplies Expense - GAD</td></tr><tr><td>5-02-99-030-02</td><td>Representation Expense - GAD</td></tr><tr><td>5-02-02-010-02</td><td>Training Expense - GAD</td></tr><tr><td>5-02-03-070-02</td><td>Maintenance, Sampling and Other Consumable - GAD</td></tr><tr><td>5-02-11-990-04</td><td>Other Professional Services - GAD</td></tr></table>	5-02-03-990-02	Other Supplies Expense - GAD	5-02-99-030-02	Representation Expense - GAD	5-02-02-010-02	Training Expense - GAD	5-02-03-070-02	Maintenance, Sampling and Other Consumable - GAD	5-02-11-990-04	Other Professional Services - GAD	Admin Dept. - Finance Section	May 2024	Dec. 2024	Fully Implemented	N/A	The Admin. Dept - Finance Section already assigned and utilized GL accounts per expense type for GAD since May 2024.
5-02-03-990-02	Other Supplies Expense - GAD																		
5-02-99-030-02	Representation Expense - GAD																		
5-02-02-010-02	Training Expense - GAD																		
5-02-03-070-02	Maintenance, Sampling and Other Consumable - GAD																		
5-02-11-990-04	Other Professional Services - GAD																		



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Part III. Prior Year's									
CY 2022 AAR A.2 pages 101-103	<b>Other Deferred Credits</b>  Reimbursements from the concessionaires in CY 2022 amounting to P17.984 million was recognized under the Other Deferred Credits instead of Due to Concessionaires account contrary to IPSAS 1 and the Revised Concession Agreements resulting in the overstatement of the balance of Other Deferred Credits account by P17.984 million and understatement of the Due to Concessionaires account by the same amount as at December 31, 2022	a. Refund the amount of P17.984 million to the Concessionaires pursuant to Article 12.2 of the Revised Concession Agreement	a. To seek guidance from the DBM whether the RO can remit the subject refund to the Bureau of Treasury.  b.To refund the amount of P17.984 million, if found necessary.	Admin. Dept.	May 2024	Dec 2024	On-going	N/A	The RO has sought guidance from the DBM regarding whether it can remit the subject refund to the Bureau of Treasury and consider it as government income.  In its letter dated 23 July 2023 (Annex "C"), the DBM responded that the MWSS RO is not required to remit the subject collections to the Bureau of Treasury. This is because the MWSS RO utilizes its corporate funds to cover the costs of the consultancy services in question, and the collection of the refund was in accordance with the Concession Agreement in effect at the time those

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									<p>consultancy services were rendered. Furthermore, this amount is part of the passed-on expenses recovered from customers.</p> <p>The Admin Dept. has conducted an initial meeting with the COA representatives concerning upcoming consultancies of a similar nature, such as CAPEX audit and regulatory financial audit. The subject findings were also tackled. As discussed, we will make the necessary adjusting entry to reclassify the subject payable into the Trust Liability account.</p>



Agency Sign-off:

[REDACTED]

**CLAUDINE B. OROCIO-ISORENA**  
DA for Administration and Legal Affairs  
MWSS Regulatory Office | [REDACTED]

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



**METROPOLITAN WATERWORKS AND SEWERAGE SYSTEM  
REGULATORY OFFICE**  
Katipunan Road, Balara, Quezon City



**JOURNAL VOUCHER**

Journal Voucher No. 09-24- 068

FUND

Page \_\_\_\_ of \_\_\_\_

For the Month of: **SEPTEMBER 2024**

Date Prepared:

EXPLANATION	Posted to Subsidiary	ACCOUNTS SYMBOL		
			DEBITS	CREDITS
To capitalize the consultancy services for Architectural and Engineering Design cost as part of the Building				
OFFICE BUILDINGS		211	6,719,391.62	
RETAINED EARNINGS		510		6,719,391.62
To recognize the corresponding Depreciation Expense from April 2022 to August 2024				
RETAINED EARNINGS		510	211,660.84	
DEPRECIATION - OFF. BLDG.		911	80,632.70	
Accum. Depre. - Office Bldg		211-311		292,293.54
<b>TOTAL</b>			<b>7,011,685.16</b>	<b>7,011,685.16</b>

<b>RECORDS OF AUDIT</b>			Prepared by:	REVIEWED AS TO TECHNICAL CORRECTNESS OF ENTRIES & SUPPORTING DOCS:
Particulars	Date	Initials	Journalized by:	Corporate Accountant: <u>SIR GIL P. MARAVILLA</u>
Comp. & Extensions..			Certified as to:	Certified Correct:
Index.....			CHIEF,	Recommending Approval: <u>CLAUDINE B. OROCIO - ISORENA</u> DA for Admin. And Legal Affairs
Classification & Journl....				
Audit.....				
Checked to GL.....				
Checked to SL.....				
Passed in Audit			APPROVED:	<u>PATRICK LESTER N. TY</u> Chief Regulator
AUDITOR				



Invoice/CM #	Date	Name	Line Description	Account Description	Account ID	Debit Amount	Credit Amount
DV075	2/17/21	A. C. Ong Consulting Services	Payment of 74.77% progress billing for the construction supervision for the Detailed Architectural Design of RO Building as per Contract no. RO-CS2017-003	OTHER PROF SRVCS - Others	799-3	269,848.06	
DV075	2/17/21	A. C. Ong Consulting Services	Payment of 74.77% progress billing for the construction supervision for the Detailed Architectural Design of RO Building as per Contract no. RO-CS2017-003	DUE TO BIR - EWT Supplrs/Servi	412-4		4,818.72
DV075	2/17/21	A. C. Ong Consulting Services	Payment of 74.77% progress billing for the construction supervision for the Detailed Architectural Design of RO Building as per Contract no. RO-CS2017-003	DUE to BIR - Final Vat Withhld	412-5		12,046.79
DV075	2/17/21	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		252,982.55
DV109	2/21/20	A. C. Ong Consulting Services	Payment of the 34.73 Progress Billing for 30% COnstruction Supervision of Consultancy Services for the RO Building as per RO CS 2017-003	OTHER PROF SRVCS - Others	799-3	241,078.27	
DV109	2/21/20	A. C. Ong Consulting Services	Payment of the 34.73 Progress Billing for 30% COnstruction Supervision of Consultancy Services for the RO Building as per RO CS 2017-003	DUE TO BIR - EWT Supplrs/Servi	412-4		4,304.97
DV109	2/21/20	A. C. Ong Consulting Services	Payment of the 34.73 Progress Billing for 30% COnstruction Supervision of Consultancy Services for the RO Building as per RO CS 2017-003	DUE to BIR - Final Vat Withhld	412-5		10,762.42
DV109	2/21/20	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		226,010.88
DV176	4/21/21	A. C. Ong Consulting Services	Payment of the 86.64% Progress Billing for the Construction Supervision for the New RO Building	OTHER PROF SRVCS - Others	799-3	249,268.20	
DV176	4/21/21	A. C. Ong Consulting Services	Payment of the 86.64% Progress Billing for the Construction Supervision for the New RO Building	DUE TO BIR - EWT Supplrs/Servi	412-4		4,451.22
DV176	4/21/21	A. C. Ong Consulting Services	Payment of the 86.64% Progress Billing for the Construction Supervision for the New RO Building	DUE to BIR - Final Vat Withhld	412-5		11,128.04
DV176	4/21/21	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		233,688.94
DV178	4/10/19	A. C. Ong Consulting Services	Payment of 30% Progress Billing for Contract Document Phase for the RO Building	OTHER PROF SRVCS - Others	799-3	1,469,989.42	
DV178	4/10/19	A. C. Ong Consulting Services	Payment of 30% Progress Billing for Contract Document Phase for the RO Building	ADVANCES - BUILDING	181 - BUILDING		440,996.83
DV178	4/10/19	A. C. Ong Consulting Services	Payment of 30% Progress Billing for Contract Document Phase for the RO Building	DUE TO BIR - EWT Supplrs/Servi	412-4		26,249.81
DV178	4/10/19	A. C. Ong Consulting Services	Payment of 30% Progress Billing for Contract Document Phase for the RO Building	DUE to BIR - Final Vat Withhld	412-5		65,624.53

Invoice/CM #	Date	Name	Line Description	Account Description	Account ID	Debit Amount	Credit Amount
DV178	4/10/19	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		937,118.25
DV198	4/23/18	A. C. Ong Consulting Services	Payment of Pre-Design Phase 2nd Tranche: Detailed Architectural and Engineering Design and Construction of RO Building as per Contract no. RO-CS2017-003	OTHER PROF SRVCS - Others	799-3	489,996.47	
DV198	4/23/18	A. C. Ong Consulting Services	Payment of Pre-Design Phase 2nd Tranche: Detailed Architectural and Engineering Design and Construction of RO Building as per Contract no. RO-CS2017-003	ADVANCES - BUILDING	181 - BUILDING		48,999.65
DV198	4/23/18	A. C. Ong Consulting Services	Payment of Pre-Design Phase 2nd Tranche: Detailed Architectural and Engineering Design and Construction of RO Building as per Contract no. RO-CS2017-003	DUE TO BIR - EWT Supplrs/Servi	412-4		8,749.94
DV198	4/23/18	A. C. Ong Consulting Services	Payment of Pre-Design Phase 2nd Tranche: Detailed Architectural and Engineering Design and Construction of RO Building as per Contract no. RO-CS2017-003	DUE to BIR - Final Vat Withhld	412-5		21,874.84
DV198	4/23/18	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		410,372.04
DV241	6/11/20	A. C. Ong Consulting Services	Payment of Progress billing for the Construction Supervision: Construction of the New Ro Building	OTHER PROF SRVCS - Others	799-3	205,168.52	
DV241	6/11/20	A. C. Ong Consulting Services	Payment of Progress billing for the Construction Supervision: Construction of the New Ro Building	DUE TO BIR - EWT Supplrs/Servi	412-4		3,663.72
DV241	6/11/20	A. C. Ong Consulting Services	Payment of Progress billing for the Construction Supervision: Construction of the New Ro Building	DUE to BIR - Final Vat Withhld	412-5		9,159.31
DV241	6/11/20	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		192,345.49
DV357	7/13/18	A. C. Ong Consulting Services	Payment for the Pre Design Phase 1st tranche of A&E Design and construction supervision of MWSS RO Building as per RO-CS2017-003	OTHER PROF SRVCS - Others	799-3	489,996.47	
DV357	7/13/18	A. C. Ong Consulting Services	Payment for the Pre Design Phase 1st tranche of A&E Design and construction supervision of MWSS RO Building as per RO-CS2017-003	ADVANCES - BUILDING	181 - BUILDING		97,999.29
DV357	7/13/18	A. C. Ong Consulting Services	Payment for the Pre Design Phase 1st tranche of A&E Design and construction supervision of MWSS RO Building as per RO-CS2017-003	DUE TO BIR - EWT Supplrs/Servi	412-4		8,749.94
DV357	7/13/18	A. C. Ong Consulting Services	Payment for the Pre Design Phase 1st tranche of A&E Design and construction supervision of MWSS RO Building as per RO-CS2017-003	DUE to BIR - Final Vat Withhld	412-5		21,874.84
DV357	7/13/18	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		361,372.40
DV400	10/2/20	A. C. Ong Consulting Services	Payment of the 61.92 Progress Billing for 30% Construction Supervision: Consultancy Services for the Detailed Architectural and Engineering for the RO Building	OTHER PROF SRVCS - Others	799-3	365,817.37	



Invoice #	Date	Name	Line Description	Account Description	Account ID	Debit Amount	Credit Amount
DV400	10/2/20	A. C. Ong Consulting Services	Payment of the 61.92 Progress Billing for 30% Construction Supervision: Consultancy Services for the Detailed Architectural and Engineering for the RO Building	DUE TO BIR - EWT Supplrs/S	412-4		6,532.45
DV400	10/2/20	A. C. Ong Consulting Services	Payment of the 61.92 Progress Billing for 30% Construction Supervision: Consultancy Services for the Detailed Architectural and Engineering for the RO Building	DUE to BIR - Final Vat Withhld	412-5		16,331.13
DV400	10/2/20	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		342,953.79
DV456	9/3/18	A. C. Ong Consulting Services	Payment of the Design Phase 1st & 2nd Tranche: Consultancy Services for the A&E Design and Construction Supervision of RO Building	OTHER PROF SRVCS - Others	799-3	1,469,989.42	
DV456	9/3/18	A. C. Ong Consulting Services	Payment of the Design Phase 1st & 2nd Tranche: Consultancy Services for the A&E Design and Construction Supervision of RO Building	DUE TO BIR - EWT Supplrs/Servi	412-4		26,249.81
DV456	9/3/18	A. C. Ong Consulting Services	Payment of the Design Phase 1st & 2nd Tranche: Consultancy Services for the A&E Design and Construction Supervision of RO Building	DUE to BIR - Final Vat Withhld	412-5		65,624.53
DV456	9/3/18	A. C. Ong Consulting Services	Payment of the Design Phase 1st & 2nd Tranche: Consultancy Services for the A&E Design and Construction Supervision of RO Building	ADVANCES - BUILDING	181 - BUILDING		220,498.42
DV456	9/3/18	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		1,157,616.66
DV677	11/20/19	A. C. Ong Consulting Services	Payment of 20% Progress billing for contract document Phase 2nd Tranche: Consultancy Service for the Detailed Architecture of RO Building as per RO-CS2017-003	OTHER PROF SRVCS - Others	799-3	979,992.94	
DV677	11/20/19	A. C. Ong Consulting Services	Payment of 20% Progress billing for contract document Phase 2nd Tranche: Consultancy Service for the Detailed Architecture of RO Building as per RO-CS2017-003	ADVANCES - BUILDING	181 - BUILDING		146,998.93
DV677	11/20/19	A. C. Ong Consulting Services	Payment of 20% Progress billing for contract document Phase 2nd Tranche: Consultancy Service for the Detailed Architecture of RO Building as per RO-CS2017-003	DUE TO BIR - EWT Supplrs/Servi	412-4		17,499.87
DV677	11/20/19	A. C. Ong Consulting Services	Payment of 20% Progress billing for contract document Phase 2nd Tranche: Consultancy Service for the Detailed Architecture of RO Building as per RO-CS2017-003	DUE to BIR - Final Vat Withhld	412-5		43,749.68
DV677	11/20/19	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		771,744.46
DV737	12/16/19	A. C. Ong Consulting Services	Payment of the 23.25% progress billing for the 30% Construction SUPervision of the MWSS RO Building	OTHER PROF SRVCS - Others	799-3	488,246.48	

Invoice/CM #	Date	Name	Line Description	Account Description	Account ID	Debit Amount	Credit Amount
DV737	12/16/19	A. C. Ong Consulting Services	Payment of the 23.25% progress billing for the 30% Construction Supervision of the MWSS RO Building	DUE TO BIR - EWT Supplrs/S	412-4		8,718.69
DV737	12/16/19	A. C. Ong Consulting Services	Payment of the 23.25% progress billing for the 30% Construction Supervision of the MWSS RO Building	DUE to BIR - Final Vat Withhld	412-5		21,796.72
DV737	12/16/19	A. C. Ong Consulting Services	A. C. Ong Consulting Services	A/P-Vouchers Payable	401-1		457,731.07
Total						6,719,391.62	6,719,391.62



Depreciation Expense:

Architectural and Engineering Design Cost	6,719,391.62
Less: Residual Value (10%)	<u>671,939.16</u>
Total	<u>6,047,452.46</u>
Divide: Estimated Useful Life (50yrs*12mon)	600
Monthly Depreciation	<u><u>10,079.09</u></u>

For CY 2022 (April to Dec. 2022)

90,711.79

510(Dr)  
211-311 (Cr)

For CY 2023

120,949.05

For CY 2024 (January to August 2024)

80,632.70

911 (Dr)  
211-311 (Cr)

Total Unrecorded Depreciation Expense

292,293.54



the status of the case of MWSS vs. SM Prime Holdings Inc. in the Notes to Financial Statements.

- 13.7. It is evident that the disclosures regarding significant legal cases, as provided by Management, do not align with the disclosure requirements stipulated in paragraph 100 of IPSAS 19.
- 13.8. Therefore, the inadequate assessment of the potential outcome and the disclosure of Contingent Liabilities contradicts the objective of fair presentation, as stipulated in paragraph 27 of IPSAS 1 and paragraphs 38, 97, 98, and 100 of IPSAS 19.
- 13.9. During the exit conference on May 29, 2024, Management commented that they will coordinate with LSD on the assessment of the contingent liabilities, and they will adequately disclose in the Notes to Financial Statements the list of pending litigation of MWSS CO. However, as at report date, the pending court litigations disclosed in Note 25 to the Financial Statements were still without status.
- 13.10. **We recommended and the MWSS CO Management agreed to require the:**
  - a. Legal Services Department to conduct an assessment on the contingent liabilities to determine whether an outflow of resources embodying economic benefits or service potential has become probable;
  - b. Finance Department to accordingly adjust the books based on the assessment of the probable outcome; and
  - c. Finance Department and Legal Services Department to provide adequate disclosure on the status of the pending cases under litigation in the Note on Contingent Liabilities.

## **A.2 Regulatory Office**

14. The year-end balance of the PPE amounting to P248.048 million includes unaccounted Information Technology Equipment and Software items with a carrying value of P11.663 million and excludes Architectural and Engineering Design costs of P6.719 million, resulting in the understatement of the Building account by P6.496 million, Accumulated Surplus by P6.623 million and Depreciation Expense by P127,668, contrary to the relevant provisions of IPSAS 1 and 17.
  - 14.1. The faithful representation requirement embodied in paragraph 27 of IPSAS 1 is presented in paragraph 1.1.
  - 14.2. Paragraph 14 of IPSAS 17 provides that the cost of an item of PPE shall be recognized as an asset if, and only if:
    - (a) *It is probable that future economic benefits or service potential associated with the item will flow to the entity; and*



(b) *The cost or fair value of the item can be measured reliably.*

14.3. Paragraph 19 of IPSAS 17 further states that:

*An entity evaluates under this recognition principle all its property, plant and equipment costs at the time they are incurred. **These costs include costs incurred initially to acquire or construct an item of property, plant, and equipment** xxx. (emphasis ours)*

14.4. Paragraphs 30 and 31 of IPSAS 17 likewise state the elements of cost upon recognition as follows:

30. *The cost of an item of property, plant and equipment comprises:*

*Xxx.*

*(b) **Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.***

*Xxx.*

31. *Examples of directly attributable costs are:*

*Xxx.*

*(f) **Professional fees.***

*(emphasis ours)*

14.5. COA Circular No. 2017-004 dated December 13, 2017 provides guidelines for the preparation of financial statements and other financial reports and implementation of the reporting framework for government business enterprises adopting PFRS and non-government business enterprises adopting IPSAS. Section 7.3.d.2 thereof provides the guidelines on accounting for PPE under IPSAS, which states that:

*The effect on the recognition of depreciation as a result of the change in the estimated residual value to at least five percent (5%) of the cost of the asset shall be applied prospectively.*

14.6. As at December 31, 2023, the agency's PPE net of accumulated depreciation amounting to P248.048 million represented 35.90 percent of its total assets. The net book value of the Office Building accounts for 40.46 percent of the total PPE.

14.7. The following observations were noted in the audit of PPE for CY 2023:

14.8. **Inclusion of unaccounted Information Technology (IT) Equipment and Software items with carrying amounts totaling P11.663 million in the books.**

- 14.8.1. During the audit of the PPE account in the previous year, it was noted in the lapsing schedule that there were unaccounted items totaling P11.664 million.
  - 14.8.2. MWSS RO indicated that the subject PPE items are related to the software developed for the Public Assessment of Water System (PAWS) Project, and the funds were transferred to the University of the Philippines National Engineering Center (UP NEC).
  - 14.8.3. MWSS RO has expressed the viewpoint that the costs should be categorized as expenses, citing that the Survey Methodology system, a project output, will no longer be utilized after the PAWS project is terminated. However, Management has reconsidered this decision in CY 2022 due to the lack of supplementary supporting documents.
  - 14.8.4. In CY 2024, MWSS RO submitted a memorandum regarding the reconciliation of the CY 2023 PPE balances between the books and the PIR. The Accounting Section stated that in order to fully implement the derecognition of the mentioned asset, the Administration Department will consolidate all the supporting documents needed to support the journal entry. Once this process is complete, the MWSS RO will request authorization from the COA to derecognize the PPE items. Upon receiving the authorization, the Accounting Section will proceed to make the necessary adjusting entries.
  - 14.8.5. IPSAS 17 provides that derecognition takes place either upon disposal or when no future economic benefits or service potential is anticipated from its use or disposal.
  - 14.8.6. Also, in COA Circular No. 2020-006, this Commission requires that non-existing/missing PPEs without available records of accountability shall be derecognized from the books of accounts only upon the grant of specific authority by the COA.
  - 14.8.7. Thus, in the absence of any evidence to establish the existence of expenses necessary for the derecognition of the PPE account, the reliability of the PPE was raised, and the faithful representation of the said account in the financial statements.
- 14.9. **Non-capitalization of Architectural and Engineering Design Costs totaling P6.719 million for the detailed architectural design and construction supervision of the new MWSS RO Building.**
- 14.9.1. The MWSS BOT authorized the MWSS RO to construct its own office building at a location separate from any other office or establishment of MWSS or Concessionaires and approved the budget for the Detailed Architectural and Engineering Design and Construction Supervision Consultancy Services in the amount of P12 million.
  - 14.9.2. However, the provision of IPSAS 17 is clear that the cost to be recognized as PPE should include all necessary costs incurred to bring



the asset to its intended use by management. Also, it is important to highlight that the constructed office building wouldn't have been possible without the invaluable designs and oversight provided by the consultant.

- 14.9.3. MWSS BOT stated that the procurement of architectural and engineering design, as well as construction supervision services, is intended for the construction of the MWSS RO building. This qualifies the professional services as directly attributable costs.
- 14.9.4. Thus, the Management's expressed intention to engage consultancy services for their building construction underscores that the costs incurred by MWSS RO for architectural and engineering design are to be capitalized to the cost of the constructed building.
- 14.9.5. Furthermore, directly attributable costs are those necessary for the construction activity and directly related to it. These costs are essential for bringing the asset to the necessary location and condition. Expenses directly arising from the construction or acquisition, such as architect fees, should be capitalized, and the remaining costs should be charged to the Statement of Profit and Loss.
- 14.9.6. Thus, the Detailed Architectural and Engineering Design and Construction Supervision is an attributable cost of the Building that should be recognized as a capitalizable cost under the PPE-Building account. Also, in construction projects, the cost includes the payment to the developer for constructing the property and any directly related expenses for preparing the asset to operate as intended.
- 14.9.7. Finally, in the context of the MWSS RO building construction, although it was not acquired as a design-and-build contract but rather as two separate contracts – one for the procurement of architectural and engineering services and the other for the procurement of the infrastructure build project – this does not diminish the essential nature of architect fees as a direct and indispensable expense in preparing the fixed asset for its intended use. The office building simply could not have been constructed without the architectural and engineering designs.
- 14.9.8. Records revealed that on April 1, 2022, the MWSS RO occupied the new 3-storey MWSS RO building. IPSAS 17 requires an entity to start depreciating PPE when it is available for use.
- 14.9.9. Thus, the non-capitalization of the actual costs of Architectural and Engineering Design directly attributable to the construction of the MWSS-RO Building amounting to P6.719 million understated the Building account by P6.496 million (net of unrecorded depreciation for 2022 and 2023 totaling P223,419), Accumulated Surplus by P6.623 million (net of unrecorded depreciation for 2022 of P95,751) and Depreciation Expense by P127,668.

14.10. We recommended and the MWSS RO Management agreed to:

- a. Request for specific authority from the COA to derecognize from the books of accounts the non-existing/missing IT Equipment and Software without available records of accountability pursuant to COA Circular No. 2020-006 after providing documentation of unaccounted items that were included in the PPE account; and
- b. Prepare the necessary adjusting entries to capitalize the consultancy services totaling P6.719 million, recognize the corresponding Depreciation Expense in the estimated amount of P223,420, and effect the adjustment on Accumulated Surplus.

**Receivable and Payable accounts**

15. The faithful representation of MWSS RO's Receivables and Payables accounts, amounting to P193.922 million and P67.806 million, respectively, as at December 31, 2023, could not be ascertained due to the inclusion of dormant and abnormal account balances totaling P2.030 million and P221,769, respectively, which did not conform to paragraph 27 of IPSAS 1.

- 15.1. The faithful representation requirement embodied in paragraph 27 of IPSAS 1 is presented in paragraph 1.1.
- 15.2. Audit of Receivables and Payable accounts for CY 2023 showed that there were various dormant accounts and abnormal balances under the said accounts, which lack supporting details in the subsidiary records.
- 15.3. Summary of dormant items totaling P2.030 million, is as follows:

Account Name		Balance of Dormant Account as at December 31, 2023
1	Due from Officers and Employees (OE) – Health Insurance	954,840
2	Due from OE – MVFP Insurance	75,615
3	Due from OE – Others	52,262
4	Other Receivables	283,004
5	Other Payables	664,084
<b>Total</b>		<b>2,029,805</b>

- 15.3.1. The total amount of dormant Due from Officers and Employees is P1.366 million, while dormant Other Payables, which have been outstanding for more than 14 years, amounted to P664,084 as at December 31, 2023. This outstanding balance have been carried forward in the present accounting system since CY 2008.
- 15.3.2. In view of the remote possibility of settlement and the long outstanding status of the other payables account, the liability account ceases to qualify as a liability as defined under IPSAS 1 as present obligations of the entity.





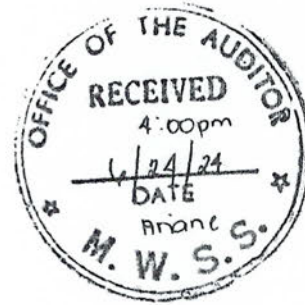
20 June 2024

**MARIA CHRISTINA P. ANTONIS**

OIC - Supervising Auditor

Commission on Audit

Metropolitan Waterworks and Sewerage System



**SUBJECT : RESPONSE TO COMMISSION ON AUDIT - AUDIT  
OBSERVATION MEMORANDUM NO. RO-2024-06-(2019-2023)**

Dear Auditor Antonis:

This has reference to the Commission on Audit's (COA) Audit Observation Memorandum (AOM) No. RO-2024-06-(2019-2023) dated 17 May 2024, requiring the comments of the MWSS RO to the findings therein within fifteen (15) working days from receipt thereof, to which the staff members tasked to prepare the response requested an extension of ten (10) working days<sup>1</sup>.

Hereunder are the comments to the findings:

**COA Finding #1:**

Processing time on the requests for fourteen (14) variation orders incurred significant delays contrary to Section 1.5 (e) of Annex "E" of the 2016 RIRR of RA 9184.

Comments:

**Variation Orders in general** - variation orders may be requested at an earlier date; this does not, however, mean that this initial request will be approved because the request can be for resubmission upon correction of its contents. This is necessary as corrections cannot be instituted by the approving authority on its own. Material quantities vary depending on how they will be used, for example, steel bars are quantified in connection with a cutting list to minimize the total weight of steel reinforcement, even hollow blocks and ceiling panels come with a percentage for breakage as not all gaps are filled by a single piece of the material. Therefore, a new request with revisions must be submitted when there are improvements to the quantification.

Although requests are addressed to the procuring entity, the variation orders in the contract of MWSS RO were coursed through the project consultant for their part in the construction supervision works. Annex "B" of the Updated 2016 RIRR of RA 9184

<sup>1</sup> Annex "A" - Email request for extension of Ten (10) working days





states that construction supervision includes the verification and checking of quantities of work accomplished by the contractor. This means that the project consultant can correct the initial submission by the project contractor, without the MWSS RO necessarily receiving the request. In addition, requests can be returned to assure compliance with the building code, changes in specifications, changes in orientation, and client preference, among many other things.

The Department of Public Works and Highways (DPWH), the State's engineering and construction arm, in their implementation of RA 9184, issued Department Order No. 28, Series of 2015<sup>2</sup>, stating that the processing by the implementing office of variation orders from its preparation to approval shall not exceed thirty (30) calendar days. This means that the thirty (30) day period begins once the MWSS RO receives the request which was already reviewed by the project consultant.

**Variation Order No. 2** – a review of the minutes of meetings would show that the last submission of the revised request for this variation order was recorded on 05 December 2019<sup>3</sup>. With this variation order having been approved on 13 December 2019, it therefore means that the PMU then did not incur delay in its processing.

**Variation Order No. 3** – upon reviewing the minutes of meetings, it would show that as early as 12 December 2019, this variation order had already been raised for discussion. In the attached 12 December 2019 MOM<sup>4</sup>, this variation order was to be submitted the following week for the review of the project consultant. In the attached 23 January 2020 MOM<sup>5</sup>, the project consultant asked for the resubmission of this variation order. The resubmission was completed last 04 February 2020, and according to the attached MOM<sup>6</sup> of even date, the project consultant must submit their evaluation on 07 February 2020, however in the attached 13 February 2020 MOM<sup>7</sup>, the project contractor was instructed to submit their calculations for this variation order on 14 February 2020. In the attached 27 February 2020 MOM<sup>8</sup>, the project consultant was instructed to submit their evaluation on the same day, however, according to the attached 05 March 2020 MOM<sup>9</sup>, the project consultant was again instructed to submit documents concerning this variation order on the same day.

The remaining members of the PMU do not possess documents to prove that this evaluation was indeed submitted by the project consultant on 05 March 2020.

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<sup>2</sup> Annex "B" – Department of Public Works and Highways, Department Order No. 28 Series of 2015

<sup>3</sup> Annex "C" – Minutes of Meeting 05 December 2019

<sup>4</sup> Annex "D" – Minutes of Meeting 12 December 2019

<sup>5</sup> Annex "E" – Minutes of Meeting 23 January 2020

<sup>6</sup> Annex "F" – Minutes of Meeting 04 February 2020

<sup>7</sup> Annex "G" – Minutes of Meeting 13 February 2020

<sup>8</sup> Annex "H" – Minutes of Meeting 27 February 2020

<sup>9</sup> Annex "I" – Minutes of Meeting 05 March 2020



The following months saw the implementation of lockdowns<sup>10</sup> as summarized in the following table:

Issuance	Date	Remarks
IATF Resolution No. 13	March 17, 2020	ECQ implementation over the entirety of Luzon
IATF Resolution No. 20	April 6, 2020	ECQ in the entirety of Luzon is extended up to April 30, 2020
IATF Resolution No. 28	April 23, 2020	ECQ in the NCR up to May 15, 2020
IATF Resolution No. 35	May 11, 2020	ECQ in the NCR up to May 31, 2020

As reported by the COA Audit Team, this variation order was approved on 18 June 2020.

Thus, considering the preparation and review by the project contractor and the project consultant, and the imposition of lockdowns due to COVID-19, we believe there was no delay incurred in the processing of this variation order by the PMU then. Assuming the project consultant was able to submit their review on 05 March 2020, the PMU then had from 06 March 2020 to 18 June 2020 to process and submit for approval this variation order; removing the days due to lockdowns will show that this variation order was processed by the PMU then in twenty-nine (29) days.

**Variation Order No. 4** – upon reviewing the minutes of the meetings, it would show that as early as 20 June 2020, this variation order had already been raised for discussion. In the attached 26 June 2020 MOM<sup>11</sup>, it was recorded that the project contractor had not yet submitted their request for this variation order.

According to the attached approval<sup>12</sup> for this variation order, it was submitted by the project contractor on 18 August 2020, contrary to the finding of the COA Audit Team. This PMU is of the position that the thirty (30) calendar days of processing the variation order must begin when the documents are in the possession of the MWSS RO; as clearly is the practice in the DPWH. Sufficient time is given to the project contractor and project consultant to review and correct their submissions; this period of cyclical review and correction is outside the control of the MWSS RO.

<sup>10</sup> Annex "J" – IATF Resolutions, 2020

<sup>11</sup> Annex "K" – Minutes of Meeting 26 June 2020 – VO4

<sup>12</sup> Annex "L" – Approval for Variation Order Nos. 4,5,6,7,8,& 12

In view of the foregoing, considering the attached submission by the project consultant of their review for this variation order<sup>13</sup> dated 11 September 2020, it is clear that the PMU then processed the request in seven (7) days.

**Variation Order No. 5** – upon reviewing the minutes of the meetings, it would show that as early as 20 June 2020, this variation order had already been raised for discussion. In the attached 26 June 2020 MOM<sup>14</sup>, it was recorded that the project contractor had not yet submitted their request for this variation order. In the attached 03 July 2020 MOM<sup>15</sup>, it was recorded that the plans for this variation order were submitted to the project consultant for their review. In the attached 24 July 2020 MOM<sup>16</sup>, it was recorded that the request for this variation order was not yet submitted.

According to the attached approval<sup>12</sup> for this variation order, it was submitted by the project contractor on 18 August 2020, contrary to the finding of the COA Audit Team. This PMU is of the position that the thirty (30) calendar days of processing the variation order must begin when the documents are in the possession of the MWSS RO; as clearly is the practice in the DPWH. Sufficient time is given to the project contractor and project consultant to review and correct their submissions; this period of cyclical review and correction is outside the control of the MWSS RO.

In view of the foregoing, considering the attached submission by the project consultant of their review for this variation order<sup>13</sup> dated 11 September 2020, it is clear that the PMU then processed the request in seven (7) days.

**Variation Order No. 6** – upon reviewing the minutes of the meetings, it would show that as early as 24 July 2020<sup>17</sup>, this variation order had already been raised for discussion.

According to the attached approval<sup>12</sup> for this variation order, it was submitted by the project contractor on 18 August 2020, contrary to the finding of the COA Audit Team. This PMU is of the position that the thirty (30) calendar days of processing the variation order must begin when the documents are in the possession of the MWSS RO; as clearly is the practice in the DPWH. Sufficient time is given to the project contractor and project consultant to review and correct their submissions; this period of cyclical review and correction is outside the control of the MWSS RO.

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<sup>13</sup> Annex "M" – AC Ong Review of Variation Order Nos. 4,5,6,7,8, & 12

<sup>14</sup> Annex "N" – Minutes of Meeting 26 June 2020 – VO5

<sup>15</sup> Annex "O" – Minutes of Meeting 03 July 2020

<sup>16</sup> Annex "P" – Minutes of Meeting 24 July 2020 – VO5

<sup>17</sup> Annex "Q" – Minutes of Meeting 24 July 2020 – VO6



In view of the foregoing, considering the attached submission by the project consultant of their review for this variation order<sup>13</sup> dated 11 September 2020, it is clear that the PMU then processed the request in seven (7) days.

**Variation Order No. 7** – according to the attached approval<sup>12</sup> for this variation order, it was submitted by the project contractor on 18 August 2020, contrary to the finding of the COA Audit Team. This PMU is of the position that the thirty (30) calendar days of processing the variation order must begin when the documents are in the possession of the MWSS RO; as clearly is the practice in the DPWH. Sufficient time is given to the project contractor and project consultant to review and correct their submissions; this period of cyclical review and correction is outside the control of the MWSS RO.

In view of the foregoing, considering the attached submission by the project consultant of their review for this variation order<sup>13</sup> dated 11 September 2020, it is clear that the PMU then processed the request in seven (7) days.

**Variation Order No. 8** – according to the attached approval<sup>12</sup> for this variation order, it was submitted by the project contractor on 18 August 2020, contrary to the finding of the COA Audit Team. This PMU is of the position that the thirty (30) calendar days of processing the variation order must begin when the documents are in the possession of the MWSS RO; as clearly is the practice in the DPWH. Sufficient time is given to the project contractor and project consultant to review and correct their submissions; this period of cyclical review and correction is outside the control of the MWSS RO.

In view of the foregoing, considering the attached submission by the project consultant of their review for this variation order<sup>13</sup> dated 11 September 2020, it is clear that the PMU then processed the request in seven (7) days.

**Variation Order No. 9** – according to the attached executive summary<sup>18</sup> for this variation order, the previous members of the PMU were not able to comply with the required time frame. The project consultant submitted the necessary documents on 07 October 2020, received by the Central Records Office on 09 October 2020, and routed to Mr. Carlito Espallardo on 12 October 2020. This variation order should have been approved by 08 November 2020; however, no other documents show that there were discussions that could have resulted to changes to the initial submission. This variation order was submitted for approval by Mr. Noel Gappi on 11 February 2021.

**Variation Order No. 10** – upon review of the documents attached to this variation order, it would show that the project consultant submitted their review on 15 February

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<sup>18</sup> Annex "R" – Executive Summary for VO9

2021<sup>19</sup>. This variation order having been approved on 22 February 2021 would mean that the PMU then in seven (7) days.

**Variation Order No. 12** – according to the attached approval<sup>12</sup> for this variation order, it was submitted by the project contractor on 18 August 2020, contrary to the finding of the COA Audit Team. This PMU is of the position that the thirty (30) calendar days of processing the variation order must begin when the documents are in the possession of the MWSS RO; as clearly is the practice in the DPWH. Sufficient time is given to the project contractor and project consultant to review and correct their submissions; this period of cyclical review and correction is outside the control of the MWSS RO.

In view of the foregoing, considering the attached submission by the project consultant of their review for this variation order<sup>13</sup> dated 11 September 2020, it is clear that the PMU then processed the request in seven (7) days.

**Variation Order No. 13** – this variation order did not push through as the discussed changes were never committed to by the project contractor. Hence, there could have been no delay on the part of the MWSS RO.

**Variation Order No. 14** – this variation order was submitted by the project consultant on 07 April 2021 as shown in the attached letter<sup>20</sup>. This variation order having been approved on 08 April 2021<sup>21</sup> means that the PMU then did not incur any delay in the processing of same.

**Variation Order No. 18** – upon reviewing the minutes of the meetings dated 27 July 2021<sup>22</sup> and 05 August 2021<sup>23</sup>, it would show that this variation order was still being prepared for submission; this means that there was an initial submission on 23 July 2021, as found by the COA Audit Team, however there likely had been corrections.

The following months saw the implementation of lockdowns<sup>24</sup> as summarized in the following table:

Issuance	Date	Remarks
IATF Resolution No. 130-A	July 29, 2021	ECQ implementation in NCR from 06 until August 20, 2021

<sup>19</sup> Annex "S" – AC Ong review of VO10

<sup>20</sup> Annex "T" – AC Ong submission of VO14

<sup>21</sup> Annex "U" – Approval of VO14

<sup>22</sup> Annex "V" – Minutes of Meeting 27 July 2021

<sup>23</sup> Annex "W" – Minutes of Meeting 05 August 2021

<sup>24</sup> Annex "X" – IATF Resolutions, 2021



IATF Resolution No. 134	August 19, 2021	MECQ implementation in NCR until August 31, 2021
IATF Resolution No. 135-A	August 26, 2021	MECQ implementation in NCR until September 7, 2021
IATF Resolution No. 137	September 7, 2021	MECQ implementation in NCR until September 15, 2021

In the attached printed email from the project consultant<sup>25</sup>, it is clear that they resubmitted this variation order on 29 September 2021, a few days after a two-month COVID-19 lockdown; this information was also reported in the request for approval of the Chief Regulator<sup>26</sup>. Thus, with this variation order having been approved on 12 October 2021, it means that the PMU then did not incur any delay in the processing of the same.

**Variation Order No. 19** – the submission by the project contractor last 26 July 2022 was found to be erroneous thus the PMU conducted its own quantification. The PMU's activity was comprehensive, even going to the pre-implementation quantification to clarify inconsistencies that were difficult to resolve.

In 22 August 2022<sup>27</sup>, the PMU wrote to the project consultant to explain inconsistencies based on the approved design. The PMU observed that if the project consultant correctly quantified the work items, their submitted bill of quantities would exceed the approved budget for the contract – this inconsistency has far-reaching effects to the whole project, affecting both the consultancy and construction contract. In the project consultant's response<sup>28</sup> dated 07 September 2022, they essentially stated that the situation may be rectified by the issuance of a variation order.

On 19 September 2022, the project contractor submitted their request<sup>29</sup> to meet with the Chief Regulator to discuss the issues in the quantities. The meeting discussed further deductions to the payment to the project contractor in relation to variation orders; these deductions amounted to PhP441,797.33. On 04 October 2022, the PMU submitted an Executive Summary<sup>30</sup> of the construction contract reporting the final quantities as computed; this was concurred by the project consultant and the project contractor on 26 October 2022.

<sup>25</sup> Annex "Y" – AC Ong email submission of VO18

<sup>26</sup> Annex "Z" – Approval of VO18

<sup>27</sup> Annex "AA" – Letter to AC Ong on their failure to tally plans versus bill of quantities

<sup>28</sup> Annex "AB" – AC Ong response regarding quantities

<sup>29</sup> Annex "AC" – MRRM Letter request for meeting with the Chief Regulator

<sup>30</sup> Annex "AD" – Proposed Executive Summary for VO19

As shown in the attached routing slip<sup>31</sup> and the pertinent documents, the propriety of this variation order was submitted to the Legal Department, to which they stated that the issuance of a variation order after contract expiry was not prohibited. To further support this, a meeting with the Government Procurement Policy Board (GPPB) was held on 21 December 2022<sup>32</sup> with similar comments. Thus, a letter was sent to the project contractor on 23 December 2022<sup>33</sup>, requesting their comments or conformity to the summary of findings. On 03 January 2023 the project contractor submitted their conformity to the findings and requested the issuance of a variation order<sup>34</sup>. This variation order, having been approved on 18 January 2023, means that the PMU did not incur any delay in the processing of the same.

The result of the review by the PMU is evident in the difference between the initial submission of the project contractor on 26 July 2022 in the amount of PhP109,301,213.76 compared to the corrected amount of PhP104,126,981.25. This correction was necessary to come up with the revised contract amount that was reflected in the certificate of completion.

**Project completion** – the PMU respectfully requests reconsideration of the comment that the processing of variation orders contributed to the delayed completion of the MWSS RO Building because the processing times of the variation orders were within the extended contract period. The pendency of the variation orders ran parallel to actual construction works, meaning the variation orders could not have been the reason for the project contractor to lag behind their own proposed work schedule. Further, it can be observed that the variation orders included extensions of contract time. The period of delay in the contract started after contract expiry or on 08 November 2021 until the project consultant reported completion or on 14 June 2022. The project contractor was made to pay liquidated damages in the amount of PhP499,403.22, computed following the guidance of the Bureau of Construction of the DPWH.

## **COA Finding #2:**

Non-submission of (1) signed proof of requests for four (4) variation orders, (2) proof of authority from the Contractor to request for ten (10) variation orders, and supporting documents of five (5) variation orders were not signed by the authorized representative of the Contractor, contrary to Section 1.5 (b) and 1.5 (c) of Annex "E" of the 2016 RIRR of RA 9184.

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<sup>31</sup> Annex "AE" – Correspondence with Legal Affairs regarding issuance of VO19

<sup>32</sup> Annex "AF" – GPPB meeting email

<sup>33</sup> Annex "AG" – Letter to MRRM requesting comments or conformity

<sup>34</sup> Annex "AH" – MRRM Letter concurring with findings



Comments:

In the implementation of construction contracts, it is not unusual to spontaneously assign an employee to sign and receive official documents in behalf of the authorized representative. This is because authorized representatives are not always available on-site as they are running their companies from head office or are tending to matters in their other projects. To facilitate the processing of submissions, engineers may be tasked to sign or initial construction documents. This is precisely what happened in this project; due to the numerous project turnovers to different project managers, project documents were entrusted to the employee consistently present in the project site.

In this case, Engr. Renie Boy Rodriguez was the stay-in site engineer who was trusted to facilitate documents in behalf of Ms. Ma. Rosa S. Mandani. This claim is verified by Ms. Mandani herself in the attached certification<sup>35</sup>.

As regards the variation orders without proof of request, please find attached letters<sup>36</sup> summarized as follows:

Variation Order	Document	Date
VO No. 2	Letter from MRRM, addressed to Chief Regulator Patrick Lester N. Ty, signed by Ms. Ma. Rosa S. Mandani, requesting for approval of VO2.	October 15, 2019
VO No. 3	Letter from MRRM, addressed to Chief Regulator Patrick Lester N. Ty, signed by Ms. Ma. Rosa S. Mandani, requesting for approval of VO3.	February 04, 2020
VO No. 9	Request from MRRM, addressed to Mr. Carlito E. Espallardo, signed by Ms. Ma Rosa S. Mandani, requesting approval of VO9.	September 09, 2020

<sup>35</sup> Annex "AI" – MRRM Certification

<sup>36</sup> Annex "AJ" – MRRM Request Letters

VO No. 14	Request from MRRM, addressed to Atty. Patrick Lester N. Ty, signed by Ms. Ma Rosa S. Mandani, requesting approval of VO14.	September 15, 2020
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**COA Finding #3:**

No proof of posting of the approved variation orders was made to the PhilGEPS and procuring entity's website as provided under the Government Procurement Manual for Infrastructure Projects.

**Comments:**

This matter was referred to the Philippine Government Electronic Procurement System<sup>37</sup>. They stated that the posting of variation orders in the PhilGEPS is not yet available.

We hope to have sufficiently provided the necessary proof and clarification to your findings.

Very truly,

  
**PATRICK LESTER N. TY**  
 Chief Regulator

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<sup>37</sup> Annex "AK" - PhilGEPS email response





REPUBLIC OF THE PHILIPPINES  
**DEPARTMENT OF BUDGET AND MANAGEMENT**  
GENERAL SOLANO STREET, SAN MIGUEL, MANILA

DMS Reference No.: 2024-BC-0067053-E

July 23, 2024

**CHIEF REGULATOR PATRICK LESTER N. TY**  
Metropolitan Waterworks and Sewerage System  
Regulatory Office (MWSS RO)  
Katipunan Road Avenue corner H. Ventura Street  
Barangay Pansol, Balara, Quezon City

MWSS CENTRAL RECORDS OFFICE  
RO INCOMING  
Ref No. **24 2772**  
By: Mhde  
Date / Time: 26 JUL 2024 9:01pm

Dear **Chief Regulator Ty**:

This pertains to your letter, dated May 14, 2024, seeking clarification and guidance on the interpretation of Section 4 of the General Provisions (GP) under the FY 2024 General Appropriations Act (GAA), in relation to the handling of receipts or revenues collected by the MWSS RO, with the following questions:

1. If the MWSS RO sources funding from its corporate funds to cover the costs of remedial works, with the understanding that the cost shall be reimbursed from the Concessionaires, is the MWSS RO required to remit the collection with the National Treasury?; and
2. If the MWSS RO receives funding from the National Government through the GAA in the form of a subsidy to cover the costs of remedial works, with an agreement to reimburse from the Concessionaires, is the MWSS RO required to remit the collection with the National Treasury?

The following are this Department's comments and observations:

- a. The request stemmed from the findings of the Commission on Audit on the income collected by the MWSS RO from the Concessionaires in 2022, representing the cost of consultancy services for the review and validation of Concessionaires' Asset Condition Reports in 2019.
- b. It may be noted that pursuant to Section 6.5.3 of the 1997 Concession Agreement (CA), the Regulatory Office shall have the right, at any time, to commission an independent technical audit of the accuracy and completeness of any Asset Condition Report and/or the Concessionaires' compliance with their obligations under Section 6.5.1 therein. The cost of such audit shall be borne by the Concessionaires and treated as an expenditure.
- c. As such, the conduct of the review and validation of the Concessionaires' Asset Condition Reports in 2019 was based on the 1997 CA, which is the agreement that was in effect that time between the MWSS and the Concessionaires.

Accordingly, the treatment of any collection relative to the said activity will also be based on the provisions stipulated in the said CA.

- d. It is noteworthy to mention that beginning FY 2024, the MWSS RO receives National Government (NG) subsidy to cover its operating expenses consistent with the provision of the 2021 Revised CA that its funding shall be governed by an Executive Order to be issued by the President. Relative to this, the funding of MWSS RO's operating requirements is sourced from NG subsidy and not from the concession fees.
- e. Section 4 of the GP applies only to national government agencies whose operations are fully funded by the NG, thus, all of their revenue collection shall be deposited with the National Treasury as income of the General Fund.
- f. On the other hand, Republic Act (RA) No. 7656 or the Dividends Law of 1994 mandates all government-owned or -controlled corporations (GOCCs), whether or not receiving funding from the NG, to declare and remit at least 50 percent of their annual net earnings to the NG.

In view of the foregoing, hereunder are this Department's responses to above clarifications:

**Item No. 1:** The MWSS RO is not required to remit its collections to the Bureau of the Treasury if the Office utilizes its corporate funds to cover the costs of remedial works. Nevertheless, said disbursement should be approved by its Board of Directors, and the reimbursement is in accordance with the CA that is in effect at the time the said remedial works are done.

**Item No. 2:** The MWSS RO's subsidy is intended to cover its operating requirements and not for CAPEX, thus, it may not utilize the same for remedial works.

We hope to have satisfactorily clarified your concern. Thank you.

Very truly yours,

 by  
Brillantes

**ELENA REGINA S. BRILLANTES**  
Director, BMB-C