

## EXECUTIVE SUMMARY

### Introduction

The MDFO was created as an office under the Department of Finance (DOF) by virtue of EO No. 41 dated November 20, 1998 to make available to LGUs the Municipal Development Fund (MDF), a revolving fund created under PD 1914 dated March 29, 1984. The MDF is funded from proceeds of foreign loans, assistance or grants to finance specific purpose, project components and activities of LGUs as set forth in loan/grant agreements.

### Financial Highlights

	CY 2005	CY 2004	Increase/(Decrease)
NCA Received	1,266,429,639.86	2,388,203,936.19	(1,121,774,296.33)
Allotment Received	1,388,796,000.00	1,039,694,280.00	349,101,720.00
Continuing Appropriations	1,388,796,000.00	1,039,694,280.00	349,101,720.00
Obligations Incurred	1,388,796,000.00	1,039,694,280.00	349,101,720.00
Unexpended Balance	-	-	-

### Scope of Audit

The audit scope covered all transaction and operations for the period January 1 to December 31, 2005. The audit covered examination of transactions pertinent to income and expenses which include compliance, substantive testing of transactions and analytical review of balances pertaining to the same period.

### Auditor's Report

The auditor rendered a qualified opinion on the financial statements due to the audit observations enumerated below.

### Observations and Recommendations

The following are the significant audit observations and recommendations:

- 1) Transfer of ₱ 900 million to the Treasurer-in-Trust of MFC and recording the same as Investment in Stock in the books was not proper and contrary to PD 1914 and EO 252.

It is recommended for management to: a) transfer back/return the amount of ₱900 million to MDFO including interest income earned therefrom; b) drop the

Investment in Stock account in the books of MDFO; and, c) resolve the conflicting issue on MDF under PD 1914 and EO 252;

- 2) Unexpended GOP Counterpart funds of ₱96.063 million from ten (10) completed/cancelled projects remained unremitted to the National Treasury and were still included in the Cash in Bank account.

It is recommended for management to remit the remaining unutilized/idle cash balance of completed/cancelled projects totaling ₱96.063 million including any interest income earned therefrom to the National Treasury;

- 3) Recording of liquidation reports of completed/closed/transferred and on-going projects under Due from LGUs account was delayed for more than one year, thus accuracy of the Due from LGUs account cannot be ascertained.

It is recommended for management to: a) record all liquidations in the books immediately upon receipt of SORDs from the LGUs and to use the same as basis in recording the liquidation in the books and not the CFRs in order to reflect the correct balance of the account at any given period; and b) exert more effort to retrieve the documents needed to drop from the books the Due from LGUs of completed/closed and transferred projects;

- 4) No proper accounting of unexpended funds from long completed projects of LGUs.

It is recommended for management to analyze and review financial records and SSAF of said LGUs specifically for the completed projects to determine/check for any unexpended balance of funds;

- 5) Investment in Treasury Notes of ₱4.140 billion and Treasury Bonds of ₱866.876 million were recorded as Investment Treasury Bills and classified under current assets in the balance sheet.

It is recommended for management to reclassify Investment in Treasury Notes and Treasury Bonds to Long-Term Investment under non-current asset for fair presentation of the accounts and in compliance to NGAS; and,

- 6) There were negative balance of ₱1.887 million and reporting difference of ₱7.998 million in the Loans Receivable-LGUs account, thus accuracy and validity of the account cannot be ascertained.

It is recommended for management to analyze the negative balance and reporting difference of ₱1,887,285.81 and ₱7,998,752.00, respectively and make necessary adjustments, if any in order to establish the correct balance of the accounts.

The above observations and recommendations, together with all the other observations and recommendations contained in the report were discussed with concerned officials of MDFO and their comments were incorporated in the report, were appropriate.

### **Implementation of Prior Years' (PYs) Recommendations**

Out of the twenty (20) PYs recommendations, eight (8) were fully implemented, seven (7) partially implemented and four (4) were not implemented. Details of the management's actions on prior years' audit recommendations are discussed in the report.