

EXECUTIVE SUMMARY

I. Introduction

Sagay City is bounded in the North of Asuncion Pass and Visayan Sea, the City of Talisay and Municipality of Calatrava in the south, Cities of Cadiz and Silay in the west and the City of Escalante and Municipality of Toboso in the east. It was founded in 1860 and was officially named Sagay in 1960 during the administration of Mayor Quintin Katalbas.

Sagay became a city after the passing of House Bill No. 6543, authored by Congressman Alfredo G. Marañon, Jr., entitled “An Act Converting the Municipality of Sagay into a Component City of Negros Occidental,” and the Senate version for cityhood under Senate Bill No. 1191 of Senator Raul S. Roco. On June 11, 1996, His Excellency President Fidel V. Ramos signed into law RA No. 8192, the Charter of the City of Sagay. After a successful referendum on August 10, 1996 it was converted officially to Sagay City.

Sagay City is politically subdivided into 25 Barangays. It has a land area of 127.54 square miles and a total population of 146,264 based on 2015 census.

Sagay City has received the following awards for the year 2017:

1. DILG Seal of Good Local Governance- Hall of Fame;
2. Grand Winner “The Suyac Journey” Coastal Communities Resource Advocacies to Boost Sustainability, 12th ATOP/DOT Pearl Awards;
3. Grand Winner “Best Tourism Month Celebration, 12th ATOP/DOT Pearl Awards."

II. Highlights of Financial Operation

a. Sources and Application of Funds

Actual total revenue realized during the year amounted to ₱812,250,948.85 which is higher by 6.10% compared to ₱765,480,748.35 in CY 2016. The Internal Revenue Allotment (IRA) received from the national government of ₱625,107,852.00 comprises 77% of the total revenue realized while service and business income amounting to ₱57,323,266.19 constitutes 7.05%.

On the other hand, total current operating expenses incurred during the year amounted to ₱632,333,274.29 indicates an increase of 0.08% as compared to last year's ₱631,850,270.10. The total personal services of ₱227,132,827.54 is 1.6% lower than last year's ₱230,837,408.36. While maintenance and other operating expenses of ₱351,552,852.15 is higher by 1.59% compared to last year's ₱346,038,200.58.

The non-cash expenses of ₱39,481,613.61 shows a minimal increase of 0.68% as compared to ₱39,215,918.56 in CY 2016. The financial expenses of ₱14,165,980.99 is lower by 10.10% as compared to last year's ₱15,758,742.60.

b. Appropriations

During the year, the City has total current appropriations of ₱788,107,850.00 and continuing appropriations of ₱90,151,373.21, which are broken down as follows:

Current Appropriations:

Fund	2017	2016	Increase/ (Decrease)
General Fund	768,607,850.00	697,494,897.00	71,112,953.00
Special Education	<u>19,500,000.00</u>	<u>24,904,834.88</u>	<u>(5,404,834.88)</u>
Total	<u>788,107,850.00</u>	<u>722,399,731.88</u>	<u>65,708,118.12</u>

Continuing Appropriations:

Fund	2017	2016	Increase/ (Decrease)
General Fund	90,151,373.21	82,219,226.89	7,932,146.32
Special Education	<u>0</u>	<u>1,999,470.90</u>	<u>(1,999,470.90)</u>
Total	<u>90,151,373.21</u>	<u>84,218,697.79</u>	<u>5,932,675.42</u>

Total Appropriations:

Fund	2017	2016	Increase/ (Decrease)
General Fund	858,759,223.21	779,714,123.89	79,045,099.32
Special Education	<u>19,500,000.00</u>	<u>26,904,305.78</u>	<u>(7,404,305.78)</u>
Total	<u>878,259,223.21</u>	<u>806,618,429.67</u>	<u>71,640,793.54</u>

c. Obligations

During the year, obligations incurred out of current year's appropriations amounted to ₱687,091,392.20 consisting of ₱660,771,285.20 from the General Fund and ₱26,320,107.00 from the Special Education Fund.

On the other hand, total obligations incurred out of the continuing appropriations totaled ₱24,869,573.89.

III. Scope of Audit

A financial and compliance audit had been undertaken on the accounts and operations of the City of Sagay for the year ended December 31, 2017. The audit was conducted to ascertain the propriety of financial transactions and compliance of the local government unit to prescribed rules and regulations and to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements. A verification of the implementation of prior years' audit recommendation was also undertaken.

In compliance with the Unnumbered Memorandum dated October 12, 2017 of the Assistant Commissioner, Local Government Sector, COA, Quezon City, the following areas were set as the main focus of the audit:

1. Cash and cash equivalents
2. Local Council for the Protection of Children
3. Due to NGAs
4. Due From NGOs/POs
5. Special Education Fund
6. LDRRM Funds
7. 20% Development Fund
8. Solid Waste Management/Environmental Compliance

Based on the Audit Team's assessment on Agency's accounts, the following areas were likewise covered during audit:

1. Property, Plant and Equipment (PPE)
2. Other Receivables (Advances to Special Disbursing Officers)

IV. Auditor's Opinion on the Financial Statements

A qualified opinion was rendered due to the effect of the observations enumerated below, discussed in detail in Part II of this report, which affected the fair presentation of the financial statements.

1. The failure of the City to conduct complete inventory of its Property, Plant and Equipment amounting to ₱1,339,297,265.48 as of December 31, 2017 and the unreconciled PPE ledger cards and the property cards cast doubt on the veracity of year-end balances; and
2. The unreconciled Cash in Bank balance between the Accounting records and the cash books of the City Treasurer's Office with a variance of ₱51,859,929.36, rendered the accuracy of said account as unreliable.

V. Summary of Findings and Recommendations

1. The validity and accuracy of the Property, Plant and Equipment (PPE) balance of ₱1,339,297,265.48 (net of Depreciation) could not be properly ascertained due to incomplete physical inventory count and failure of the Accounting and General Services Office (GSO) to reconcile their records, contrary to Section 114 on the Manual of the New Government Accounting System (MNGAS) for LGUs, Volume I.

We recommended that the City Mayor:

- 1.a Instruct the Inventory Committee to conduct complete physical inventory count of the City's PPE as of December 31 of each year pursuant to Section 124 of MNGAS for LGUs, Volume I;
 - 1.b Direct the City General Services Officer to maintain a complete and updated stock cards for the PPE accounts; and
 - 1.c Instruct the City Accountant and City General Services Officer to undertake the required reconciliation of the accounting and property records of PPE accounts pursuant to Section 114 of MNGAS, Volume I and effect the necessary adjustments to come up with reliable balances of said accounts in the financial statement.
2. The City failed to allocate one percent or ₱6,251,078.52 of its Internal Revenue Allotment (IRA) for the strengthening and implementation of the programs, projects and activities of the Local Council for the Protection of Children (LCPC) contrary to the provision of Section 15 of RA 9344 and DILG Memorandum Circular No. 2012-120 dated July 4, 2012.

We recommended that the City Government adhere strictly to the provisions of RA 9344 and DILG Memorandum Circular No. 2012-120 dated July 4, 2012 by allocating 1% of its IRA for the strengthening and implementation of programs, projects and activities of the LCPC.

3. The aggregate balance of the three Cash in Bank accounts totaling ₱235,989,043.14 per General Ledger did not reconcile with the corresponding Cash in Bank balance per Cash Book of ₱196,451,994.90 indicating total variance of ₱51,859,929.36, casting doubt on the accuracy of said accounts as presented in the Financial Statement.

We recommended that the City Mayor:

- 3.a Instruct the City Accountant and the City Treasurer to immediately reconcile their records on the three cash in bank accounts under the three funds at least quarterly or while the documents are still available and effect necessary adjustments in the books to ensure the fair presentation of the Cash in Bank account balances of the three funds; and
 - 3.b Direct the City Treasurer to comply with Section 27, of MNGAS for LGUs, Volume II to update and balance daily the cash books as well as rule and foot the cash books at the end of each month to hasten reconciliation between the cash book and the accounting records.
4. Book reconciling items amounting to ₱727,208.82 for the year 2017 and prior years were not taken up in the books and remained as reconciling items in the Bank Reconciliation Statement (BRS) of the City, contrary to Section 3.3 of COA Circular No. 96-011 dated October 2, 1996, thus resulting in the understatement or overstatement of the account in the books.

We recommended that the City Accountant promptly draw Journal Entry Voucher (JEV) to take up in the books valid reconciling items based on the monthly BRS pursuant to Section 3.3 of COA Circular No. 96-011 dated October 2 1996 to ascertain that balances of Cash in Bank accounts are fairly presented in the financial statements.

5. The unutilized balance of Priority Development Assistance Fund (PDAF) amounting to ₱108,643.63 as of December 31, 2017 was not reverted to the unappropriated surplus of the General Fund or returned to the National Government in violation of the Supreme Court ruling dated November 19, 2013 in G.R. No. 208566, G.R. No. 208493 and G.R. No. 209251.

We recommended that:

- 5.a The City Mayor direct the OIC-City Treasurer to draw a disbursement voucher covering the return of the unutilized PDAF funds amounting to ₱108,643.63 to the National Treasury pursuant to Supreme Court decision; and
 - 5.b The City Accountant to prepare as soon as possible the necessary adjustment to book up the reversion of the remaining balance of PDAF to the unappropriated surplus.
6. Long over-due cash advances to Special Disbursing Officers (SDOs) totaling ₱2,735,043.56 remained unliquidated due to the failure of the accountable officers to settle within the prescribed period and not imposing the sanctions provided under COA Circular No. 97-002 dated February 10, 1997.

We recommended that the City Mayor and the City Accountant:

- 6.a Enforce immediate settlement of long outstanding cash advances to SDOs totaling ₱2,735,043.56 pursuant to COA Circular No. 97-002 dated February 10, 1997; and
 - 6.b Impose the withholding of salary and institute other sanctions as provided for under Sections 9.2 and 9.3 of COA Circular No. 97-002 dated February 10, 1997 to those employees who fail to liquidate their cash advances after the demand letters are issued to them.
7. Expenditures totaling ₱267,425.00 charged against the Special Education Fund (SEF) were not among the allowable expenses enumerated in Section 272 of RA 7160 and DepEd, DBM and DILG Joint Circular No. 1, s. 2017 dated January 19, 2017.
 - 7.a We recommended that the City School Board ascertain that expenditure items included in the SEF budget are among the allowable expenses chargeable against the SEF pursuant to Item 4.0 of the DepEd, DBM and DILG Circular No. 1, series 2017 dated January 19, 2017; and
 - 7.b We recommended likewise that the City Budget Officer and the City Accountant ensure proper charging of expenses against the SEF.
8. Payments for utilities totaling ₱4,504,261.58 of the different schools under the Sagay City Schools Division were fully charged against the Special Education Fund (SEF) contrary to 4.1 of DepEd, DBM and DILG Joint Circular (JC) No. 1, s. 2017, thus strategic and efficient utilization of the fund for priority programs and projects was not attained.
 - 8.a We recommended that the City Mayor, as Chairman of the Local School Board (LSB), ensure that all schools adhere to the latest guidelines on the use of the SEF under of Dep Ed, DBM and DILG JC No. 1 series of 2017, specifically Item 4.0 concerning the allowable expenses chargeable against the SEF; and
 - 8.b We recommended also that the LSB require all elementary and secondary schools to submit requests for funding for the ensuing year to the Schools Division Superintendent (SDS) as contained in the approved School Improvement Plan (SIP) and Division Education Development Plan (DEDP) and attached approved DepEd national budget for utilities and other operating expenses as basis for granting additional budget chargeable against the SEF budget.

9. Fund Transfers to NGOs/POs totaling ₱8,535,875.79 were not liquidated and remained outstanding for several years contrary to Item 2.0, COA Circular No. 2012-001 resulting in the overstatement of the Due from NGOs/POs or other receivable account in the financial statement.

We recommended that:

- 9.a The City Mayor send demand letters to the recipient NGOs/POs for the immediate settlement of the funds granted to them in the total amount of ₱8,535,875.79 through submission of Final Fund Utilization Report pursuant to 5.4 of COA Circular No. 2007-001 dated October 25, 2007; and
 - 9.b The City Accountant ascertain that no additional fund transfer is released to NGO/PO if the previous fund transfer was not yet fully liquidated.
10. The City's 20% Development Fund (DF) totaling ₱16,887,033.08 for current and prior years were not optimally utilized contrary to paragraph 5.0 of Joint Memorandum Circular (JMC) No. 2017-1 dated February 22, 2017, thus the desired socio-economic development and environmental management outcomes were not attained, depriving the constituents of the benefits that may be derived therefrom.

We recommended that the City Mayor:

- 10.a Expedite the implementation of all projects funded by 20% DF to ensure optimum utilization of the fund so that the services and benefits from these projects are delivered to the constituents without unnecessary delay, pursuant to paragraph 5.0 of DILG-DBM JMC No. 2017-1 dated February 22, 2017;
- 10.b Direct the City Accountant to maintain complete records or Subsidiary Ledger (SL) with regard to the appropriations of projects funded out of the 20% DF for the current year as well as for the continuing appropriations, as supporting schedule of the monthly Trial Balance;
- 10.c Instruct the City Planning and Development Coordinator (CPDC) to also maintain records on projects funded out of the 20% DF, monitor its implementation and likewise prepare a quarterly accomplishment report, copy furnished the Auditor; and
- 10.d Instruct the City Budget Officer to maintain records for programs, projects and activities funded out of the 20% DF for ready reference in recording ObR and to determine the correct balance of the continuing appropriations to be carried over in the budget of the ensuing year.

11. The status of project implementation of the Alfredo E. Marañon Sr. Memorial District Hospital (AEMSMDH) with total cost incurred of ₱153,140,365.80 as of December 31, 2017, a project jointly funded out of the City's 20% Development Fund (DF) and the Province of Negros Occidental, could not be ascertained due to non-submission of copies of perfected contracts and other supporting documents for every phase of the project.

We recommended that the City Mayor:

- 11.a Assign personnel who will gather all documents relative to the construction of the AEMSMDH particularly contracts and its supporting documents for every phase of the project including plans and drawings and submit the same to the Auditor pursuant to the requirements of COA Circular No. 2009-001 dated February 12, 2009;
 - 11.b Expedite the completion of the AEMSMDH which has been constructed since CY 2010 to ensure optimum utilization of the fund so that the services and benefits from these projects are delivered to the constituents;
 - 11.c Direct the City Engineer to exercise close supervision on the construction of AEMSMDH to ensure that actual work of the constructor is in accordance with plans and specifications; and
 - 11.d Direct the City Accountant to prepare a reliable SL for the project, indicating details of contract cost for every phase of the project, the source of fund for every phase of the project and the total cost incurred for the project as of current date.
12. The City did not fully implement its planned programs/projects/activities under Local Disaster Risk Reduction Management Fund (LDRRMF) for calendar year 2017 contrary to the provisions of RA No. 10121 and DBM-DILG Joint Memorandum Circular No. 2013-1 dated March 25, 2013.

We recommended that the City Mayor direct the City DRRM Officer in coordination with the CDRRM Council to formulate and implement disaster prevention and mitigation, preparedness plans and projects as well as to maximize the use of its available LDRRM Funds so that the City is prepared in terms of facilities and the communities have the capacities to respond in case calamities occur in the City.

13. The City failed to effectively implement the provisions of RA 9003 otherwise known as “Ecological Solid Waste Management Act of 2000,” in terms of the following components:

- a. Mandatory Segregation of Solid Waste at Source
- b. Establishment of Material Recovery Facility (MRF)
- c. Operation of Sanitary Landfill (SLF)

13.a We recommended that the City Mayor as Head of the Solid Waste Management Board:

- Enforce the mandatory segregation of solid waste at source pursuant to Section 21 and 22 of RA 9003;
- Direct all Punong Barangay to establish the MRF in their respective barangay in consonance with Section 32 of RA 9003;
- Facilitate the procurement of additional bulldozer for the exclusive use of the SLF; and
- Convene all members of the City Solid Waste Management Board and remind them of their duties as embodied in the Ecological Solid Waste Management Plan, particularly paragraph g, that states:

“Review every two years, or as the need arises, the Solid Waste Management Plan for purposes of ensuring its sustainability, effectiveness and relevance in relation to local and international developments in the field of solid waste management.”

13.b We recommended also that the City Mayor direct the Head of CENRO:

- Look for a bulldozer by all means for the immediate levelling and compacting of waste discharged from the compactors and dump cars;
- Implement immediate repair of the damaged portion of the SLF perimeter fence;
- Strictly prohibit intruders in the SLF site;
- Drivers of garbage compactors and dump truck should be reminded to dump solid waste at the final disposal area and warned that any violation thereof should be dealt with accordingly;
- Allocate fund for the construction of septic tank as a receptacle for infectious waste as required in the ECC; and

- Strictly implement Condition No. 9 of the ECC, which requires:

“That one (1) month stockpile of immediate soil cover materials for the landfill must always be available on site. This shall be properly stockpiled and stored in a covered area. The active landfill site must be covered with soil after each day of operation or whenever appropriate.”

VI. Status of Notice of Suspensions, Disallowances and Charges

Of the ₱13,360,295.68 audit suspensions as of January 1, 2017 only ₱1,114,514.28 was settled. During the year, audit suspensions totaling ₱15,989,000.00 was issued, hence, increasing the balance to ₱28,234,781.40 as of December 31, 2017. While the total disallowances of ₱241,695.93 remained unsettled as of year-end.

VII. Status of Implementation of Prior Year’s Audit Recommendations

Of the 22 recommendations embodied in the prior year’s Audit Report, five were implemented, 10 were partially implemented and seven were not implemented during the year.