

EXECUTIVE SUMMARY

INTRODUCTION

The City of Dipolog, the seat of Zamboanga del Norte, was declared a municipality on July 1, 1913 by an American official, General Pershing. It became a chartered city on January 1, 1970, by virtue of Republic Act (RA) No. 5520.

Audit Methodology

The Commission has been implementing risk-based audit in the conduct of its audit services. However, to meet the evolving developments in public governance and fund management, the results-based approach in audit was incorporated. The integration of these two approaches, called the Integrated Results and Risk-Based Audit (IRRBA) Methodology, was applied in the audit of the accounts and operations of the Local Government Unit (LGU).

Scope of Audit

A comprehensive audit was conducted on the accounts and operations of the City of Dipolog for Calendar Year (CY) 2016. The audit consisted of review of operating procedures, evaluation of the City's programs and projects, interview of concerned government officials and employees, verification, reconciliation and analysis of accounts and such other procedures considered necessary.

Specifically, the objective of the audit is to ascertain the propriety of the financial transactions and compliance of the City to prescribed laws, rules and regulations. It was also made to ascertain the accuracy of the financial records and reports as well as fairness of the presentation of the financial statements. Performance audit was likewise conducted with the objective of informing management where improvement can be instituted in the field of revenues, expenditures and management of resources.

As a result of the risk assessment conducted and in compliance with the identified audit thrusts of the Local Government Sector (LGS) for CY 2016, the following audit areas / accounts were looked into:

1. Fund Transfers:
 - a) From National Government Agencies (NGAs) to LGUs:
 - a. 1 Bottoms-Up-Budgeting (BuB)
 - a. 2 Special Local Road Fund (SLRF)
 - b) To Non-Government Organizations (NGOs)/Peoples Organizations (POs)
 - c) To Other LGUs
2. 20% Development Fund
3. Local Disaster Risk Reduction and Management (LDRRMF)
4. Environmental Compliance

5. Special Education Fund (SEF)
6. Gender and Development (GAD)
7. Cash and Cash Accounts
8. Property, Plant and Equipment
9. Infrastructure Projects
10. Credit Financing
11. Financial Assistance, Contributions and other Disbursements of LGUs to Leagues
12. Procurement
13. Submission of Accounts
14. Compliance with RA 8291
15. Pag-ibig Fund

Financial Highlights

The financial condition and results of operation of the City as of December 31, 2016 are summarized as follows:

	2016	2015
Assets	2,778,748,010.77	2,407,453,745.86
Liabilities	1,172,739,137.30	1,044,507,033.58
Government Equity	1,606,008,873.47	1,362,946,712.28
Income	785,251,877.95	646,122,539.20
Expenses	542,504,005.09	435,058,166.36

The City's appropriations and obligations for the year were as follows:

Description	2016		2015	
	Appropriations	Obligations	Appropriations	Obligations
Current Legislative				
Appropriations - General Fund				
Personal Services	295,332,372.84	198,414,592.03	281,564,977.92	182,598,732.93
Maintenance and Other				
Operating Expenses	452,111,944.16	354,561,616.82	427,671,059.78	245,890,833.16
Capital Outlay	229,818,702.87	54,732,905.31	241,339,500.00	78,842,843.28
Financial Expenses	17,528,000.00	8,209,613.96	27,528,000.00	11,430,585.16
	994,791,019.87	615,918,728.12	978,103,537.70	518,762,994.53
Current Legislative				
Appropriations - SEF	11,338,380.00	2,094,357.32	2,839,460.00	1,088,091.40
TOTAL-Current LA	1,006,129,399.87	618,013,085.44	980,942,997.70	519,851,085.93
Continuing Legislative				
Appropriations - GF	45,842,943.54	26,241,927.18	34,137,329.98	13,597,098.00
Continuing Legislative				
Appropriations - SEF	16,618,598.27	-	14,500,576.12	703,937.85
TOTAL-Continuing LA	62,461,541.81	26,241,927.18	48,637,906.10	14,301,035.85
GRAND TOTAL	1,068,590,941.68	644,255,012.62	1,029,580,903.80	534,152,121.78

The total obligations incurred for the same period was ₱644.255 Million, consisting of ₱618.013 Million and ₱26.242 Million for current and continuing appropriations, respectively.

Operational Highlights

In line with the City's thrust for development, the following were some of the major accomplishments duly validated by the Auditor on a selective basis:

Programs/Projects	Project Cost	Percentage of Accomplishment as of December 31, 2015
Construction of City Food Terminal 2	₱ 2,700,000.00	100%
Construction of Swimming Pool at the Dipolog Sports Complex	14,700,000.00	100%
Construction of Perimeter Fence with Gate at the Dipolog Sports Complex	3,060,000.00	100%
Concrete Paving of Road at Corazon C. Aquino Hospital	9,900,000.00	100%
Construction of Barangay Miputak-Sta. Isabel-Sta. Filomena-Galas Farm to Market Road	2,970,000.00	100%

Independent Auditor's Report

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the City as of December 31, 2016 for the following reasons:

1. The accuracy and reliability of the Property, Plant and Equipment accounts valued at ₱698,756,081.67 as of December 31, 2016 could not be ascertained due to material deficiencies noted in the submitted Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and Summary of Assets, hence, comparison between the book balances and inventory reports could not be made, rendering the book balance questionable.
2. The book balance of the account Fuel, Oil and Lubricants amounting to ₱27,614,856.97 as of December 31, 2016, did not reconcile with the actual cost of inventory taken on the same date amounting to ₱383,892.46 or a difference of ₱27,230,964.51, thus, rendering the validity and accuracy of the account as reported in the financial statements doubtful.
3. Intra-Agency Receivables and Intra-Agency Payables with balances of ₱108,010,553.06 and ₱71,397,178.93 respectively, were not reconciled as of December 31, 2016 resulting in a net difference of ₱36,613,374.13, thereby, affecting the accuracy of these accounts as reflected in the financial statements.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

In addition to the audit observations which were considered in rendering a qualified opinion, below are the other significant audit observations with audit recommendations, the details of which are discussed in Part II of this Report.

1. Advances to Officers and Employees as well as Advances to Special Disbursing Officers amounting to ₱9,313,070.12 (net of intelligence funds), out of which, ₱3,931,760.46 or 42.22% are aged one year and above, remained unliquidated as of December 31, 2016 in violation of Section 89 of Presidential Decree (PD) No. 1445 and COA Circular No. 97-002 dated February 10, 1997, resulting in the possible overstatement of assets and understatement of expenses and retained surplus in case refunds are called for.

Recommendation:

We recommended that the City Accountant exert more effort in requiring the liquidation of cash advances by sending demand letters to the accountable officers concerned and effect the necessary sanctions upon failure to liquidate the same, and make the necessary adjusting entries, wherever appropriate.

2. Certain deficiencies were noted in the reporting, procurement and implementation of the BuB Projects contrary to Department of Budget and Management (DBM)-Department of Interior and Local Government (DILG)-Department of Social Welfare and Development (DSWD)-National Anti-Poverty Commission (NAPC) Joint Memorandum Circular (JMC) No. 7 and the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184.

Recommendation:

We recommended that management:

- a. Require the BuB focal person to prepare and submit the required reports to avoid sanctions by donor agencies and to follow up and obtain completely signed Memoranda of Agreement;
- b. Require the Head, City Planning and Development Office to include in the Annual Investment Program, all BuB projects to be implemented during the year;
- c. Require the City General Services Office (CGSO) or the concerned Office to render a report on the Sta. Isabel Day Care Center which was razed to the ground by fire;
- d. Require the Bids and Awards Committee (BAC) to invite at least three Local Poverty Reduction Action Plan (LPRAP) signatories to biddings conducted on the purchase of materials and/or services for BuB projects;

- e. Advise the BAC not to adopt shopping if the conditions as stated in RA 9184 are not present;
 - f. Require the DSWD and Department of Agriculture (DA) personnel to specify what sub-projects the materials are going to be used for, attach training modules to vouchers in the payment of catering services and specify for what barangays these are for; and
 - g. Require the proponents of proposed BuB projects to conduct thorough planning in coming up with project proposals, and consultations with residents to be affected by the implementation of said projects.
3. The reported Cash in Bank balance of the General and Trust Fund accounts as of November 30, 2016 could not be ascertained due to non-adjustment of reconciling items amounting to ₱3,448,826.14 of which ₱1,051,380.49 remained unadjusted for more than five years.

Recommendation:

We recommended that the City Treasurer's Office be required to:

- a. Submit a written explanation as to the whereabouts of the documents of the unrecorded disbursements and submit the related vouchers and supporting papers to the Accounting Office, and
 - b. Request from the bank for copies of the unrecorded debit and credit memoranda of the prior years or any other documents that could facilitate the determination of the validity of the transaction/adjustment of the said items in the books.
4. The release of ₱500,000.00 to a local non-government sports organization for the conduct of a triathlon competition was recorded as an outright expense without any supporting documents showing proof of the event's actual occurrence. This was charged to the Extraordinary and Miscellaneous Expense account even when it exceeded the allowed appropriation prescribed in Section 325 (h) of RA 7160.

Recommendation:

We recommended that management required the:

- a. City Treasurer to submit the breakdown of expenses together with the related invoices and official receipts relative to the activity pursuant to Section 7 of COA Circular 2012-001 dated June 14, 2012.
- b. City Accountant to support with complete documentation pursuant to the cited provisions further activities and expenditures of similar nature, and

for Extraordinary and Miscellaneous Expenses be made within the allowable limits as mandated by Section 325 (h) of RA 7160.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

The Status of Audit Suspensions, Disallowances and Charges as of December 31, 2016 is shown below:

Particular	Balance as of Dec. 31, 2015	Issuance for CY 2016	Settlement for CY 2016	Balance as of Dec. 31, 2016
Suspensions	₱ 19,145,945.48	₱ 11,302,406.97	₱ 5,374,638.15	₱ 25,073,714.30
Disallowances	6,933,943.98	800.00	102,846.00	6,831,897.98
Charges	0.00	0.00	0.00	0.00
Total	₱ 26,079,889.46	₱ 11,303,206.97	₱ 5,477,484.15	₱ 31,905,612.28

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of 27 audit recommendations stated in our 2015, 2014, 2013, 2012, and 2011 Annual Audit Reports, 4 were fully implemented, 15 were partially implemented and 8 were unimplemented .