

## EXECUTIVE SUMMARY

### A. Introduction

The City Government of Cabanatuan was created by virtue of Republic Act No. 526 dated February 3, 1950. It is strategically located in the heart of the Province of Nueva Ecija approximately 117 kilometers north of Manila. The City Government comprises of 89 barangays and its total land area is approximately 19,228.63 hectares which encompasses urban commercial areas, residential and agricultural lands. About 10,960 hectares of the land area are agricultural with rice, corn, mango and citrus as major crops.

The City Government is envisioned to be a model for central economic hub, academic excellence, public health and safety, environmental preservation, good governance and equal opportunity for all its constituents living in a peaceful, friendly atmosphere through a God-centered leadership of the incumbent elected officials headed by the Honorable City Mayor Julius Cesar V. Vergara.

The plans, programs and objectives of the City Government during the year were attained with the help of 1,867 personnel broken down as follows:

<u>Status</u>	<u>No. of Personnel</u>
Elected	13
Permanent	718
Co-Terminus	55
Consultants	95
Temporary	10
Casuals	32
Job-Order	944
<b>Total</b>	<b>1,867</b>

The audit covered the financial transactions and operations of the City Government for the year ended December 31, 2015. The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's unimplemented audit recommendations.

### B. Financial Highlights

The City Government's financial condition, results of operations and sources and application of funds for CY 2015 are as follows:

<b>Account</b>	<b>2015</b>
<b>Financial Conditions</b>	
Assets	₱ 3,718,633,971.03
Liabilities	1,497,874,041.92
Government Equity	2,220,759,929.11

Account	2015
<b>Results of Operations</b>	
Income	₱ 1,696,445,018.38
Expenses	879,471,814.71
Excess of Income	816,973,203.67
<b>Sources and Application of Funds</b>	
Appropriations	₱ 1,688,811,939.32
Allotments	1,654,382,161.72
Obligations	963,473,590.44
Balance	690,908,571.28

### C. Independent Auditor's Report

As discussed in Part II of the report, a qualified opinion was rendered on the fairness of presentation of the financial statements of the City Government of Cabanatuan for the year ended December 31, 2015 owing to (a) the year-end balance of Cash-in-Bank-Local Currency-Current Account of ₱109,354,091.63 was unreliable due to non-adjustment/recording of the reconciling items amounting to ₱1,121,372.17, resulting in overstatement of both Cash-in-Bank and Government Equity accounts by the same amount as of year-end; (b) unreliable land account balance of ₱65,896,204.57 due to ownership of land amounting to ₱53,931,600.20 which were not yet titled in the name of the City Government; and (c) accuracy of balance of Construction-in-Progress (CIP) account was doubtful for the list of on-going projects as of end of December 2015 amounting only to ₱260,468,589.62 while the recorded amount was ₱1,139,723,702.05 or a disparity of ₱879,255,112.43, thus affecting the reliability of the balance of Property, Plant and Equipment (PPE) account.

For the deficiencies/errors stated in the said report, the audit team recommended that the Local Chief Executive require the:

- (a) City Accountant to (i) promptly adjust the reconciling items reflected in the BRS to present a more accurate cash in bank account balances and other affected accounts; (ii) work on the submission of the unrecorded disbursement vouchers; and (iii) exert more efforts in finding alternative ways to prove validity of the debit/credit memos.
- (b) City Accountant, City Assessor and Heads of the General Services Office (GSO) and City Planning & Development Office (CPDO) to (i) coordinate with each other and reconcile their records to ascertain the correctness of the Land account balance; (ii) Head of the GSO to register in the name of City Government the land which was not yet covered by TCT as proof of ownership of the asset; and (iii) City Accountant Office to maintain Real Property Ledger Card for each land property to contain the necessary information relative thereto.
- (c) City Accountant to (i) trace the composition and nature of the CIP account, effect the necessary adjustments, and prepare the corresponding subsidiary ledger for

each project to monitor the completion of each project; and (ii) concerned offices to facilitate the necessary documentation of the completed projects and submit the same to the City Accountant for proper recording.

#### **D. Other Significant Observations and Recommendations**

The following are the other significant audit observations and the corresponding recommendations:

1. The City still failed to enforce prompt liquidation of cash advances granted to officials and employees even if the purpose for which they were granted had already been served contrary to COA Circular No. 97-002 dated February 10, 1997 which resulted in accumulation of outstanding cash advances to ₱2,885,426.84 as of year-end. **(Observation No. 2)**

We reiterated our recommendations that the City Accountant (a) follow strictly the provisions of Section 89 of PD No. 1445 and COA Circular No. 97-002 dated February 10, 1997 on the granting and utilization of cash advances for a more efficient and effective internal control thereon; (b) ensure that all cash advances are reported on as soon as the purpose for which it was granted has been served and that no cash advances remained unliquidated at the end of the year; (c) continue sending demand letters to the employees that have already been transferred to another government agency and to those who were retired from the service; and (d) the City Legal Officer apply all possible remedies for the settlement of cash advances granted to officials and employees and institute possible legal action against the officials concerned.

2. The balance of Other Receivables account totaling ₱1,523,042.83 as of December 31, 2015 was long overdue, hence its collectability was uncertain. **(Observation No. 3)**

We reiterated our recommendations that the City Accountant (a) send demand letters to the concerned persons requiring them to settle their accounts with the City; and (b) conduct a cost benefit analysis, particularly for debtors with small amount of accounts, whether pursuing the collection would be more expensive as compared with the amount to be collected. Consider writing off of receivables following the rules and regulations on writing off of accounts.

3. Unserviceable equipment amounting to ₱29,330,602.72 remained undisposed as of year-end thereby exposing them to gradual deterioration and obsolescence depriving the city of additional income that may be derived from the sale thereof. **(Observation No. 5)**

We reiterated our recommendation that the Local Chief Executive, through the Head of the General Services Office, undertake disposal of unserviceable properties to prevent further deterioration and decline in their value and to generate additional income from their sale.

4. The hiring of the City of various consultants and payment totaling ₱7,205,500.00 for CY 2015 posed several deficiencies in violation of COA Circular No. 2012-003 dated October 29, 2012, DBM National Budget Circular No. 433 dated March 1, 1994 and COA Circular No. 2012-001 dated June 14, 2012. (*Observation No. 8*)

We recommended that the Local Chief Executive (a) assess the need to engage in consultancy services; (b) justify the contracts of the consultants whose services are only duplication of the functions of regular employees or whose works could be performed by existing plantilla personnel; (c) in case there is really a need for consultants, engage only experts in their respective fields; (d) observe rules and regulations on the hiring of consultants; and (e) support payments for consultancy services with adequate documentation.

5. The non-submission of copies of contracts together with their supporting documents within the prescribed period as required under COA Circular No. 2009-001 dated February 12, 2009 prevented the Audit Team from conducting timely inspection and review/evaluation of contracts and communicating the results thereof to Management for immediate attention. (*Observation No. 10*)

We reiterated our recommendation that the Local Chief Executive require the General Services Office to submit all perfected contracts/purchase orders and their supporting documents to the Audit Team within the prescribed period pursuant to the above cited regulations.

6. The City failed to observe strictly the proper accounting and reporting guidelines on the receipt and utilization of the Local Disaster Risk Reduction and Management Fund (LDRRMF) as required under COA Circular No. 2012 – 002 dated September 12, 2012 and COA Circular No. 2014 – 002 dated April 15, 2014. (*Observation No. 12*)

We recommended that the Local Chief Executive require the City Accountant and City Treasurer to strictly comply on the proper accounting and reporting guidelines on the receipt and utilization of LDRRMF pursuant to COA Circulars No. 2012 – 002 and 2014 – 002 dated September 12, 2012 and April 15, 2014, respectively.

7. Disbursements totaling ₱4,765,667.23 which were considered not priority and not among those activities/expenditures enumerated in Section 1 of R.A. No. 5447, Section 272 of R.A. No. 7160 and DepEd-DBM-DILG Joint Circular Nos. 01, s. 1998 dated April 14, 1998, No. 01-A dated March 14, 2000, and No. 01-B dated June 25, 2001 were paid from the Special Education Fund (SEF); thus, defeating the purposes for which the fund was created. (*Observation No. 15*)

We recommended that the members of the City School Board (a) prepare a balanced budget with conscious and concerted efforts of observing compliance with the legal and regulatory requirements on SEF budgeting, allocation and utilization; (b) request for inputs from the DepEd Official/School Division Superintendent in the prioritization of SEF projects and expenditures in accordance with the DepEd criteria and with due regard

to the provisions of laws, rules and regulations prescribing the limitations on the use of the fund; and (c) maximize the utilization of SEF to attain its objectives and take appropriate actions such as realignment or reprogramming, if necessary.

8. Research Subsidy for DepEd, Division of Cabanatuan charged against Special Education Fund (SEF) was used for payment of additional allowances for non-teaching personnel amounting to ₱753,000.00 instead for research expenses contrary to Section 82 of the NGAS Manual for the Local Government Units, Volume I and DECS, DBM and DILG Joint Circular No. 1, Series of 1998, as amended. (*Observation No. 16*)

We recommended that the City School Board (a) exercise due prudence in the proper utilization of Special Education Fund (SEF) in pursuant to the rules and regulations on SEF utilization; (b) explain/cite legal basis in using such funds for allowances of non-teaching personnel instead for research expenses, otherwise, this would be disallowed in audit; and (c) submit copy of SEF Supplemental Budgets with corresponding Resolutions duly approved by the Local School Board pertaining thereto.

9. The City has not complied fully with some provisions of Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000 on the formulation and implementation of ecological solid waste management plans and programs, thus total protection of the environment and general welfare of the constituents has not been attained. (*Observation No. 17*)

We recommended that the City Solid Waste Management Board (CSWMB) and the Environmental Protection Division (EPD) (a) exert effort to expedite the establishment and completion of the Integrated Solid Waste Management Facility; (b) involve closely the Barangay officials in the strict implementation on the existing environmental laws and intensify the information campaign on the “*no segregation, no collection policy*” and the “*no-littering policy*” among the residents; and (c) exercise strong political will to implement the environmental laws on preserving and protecting the environment as mandated under Republic Act No. 9003.

10. The City utilized ₱370,000.00 for honoraria under the 20% Development Fund contrary to the utilization guidelines set out under Joint Memorandum Circular No. 2011-1 dated April 13, 2011 of the DILG and DBM thus, depleting the amount available for other eligible capital investment projects. (*Observation No. 19*)

We recommended that the City Development Council, the Sanggunian, the City Budget Officer and the City Accountant (a) refrain from appropriating/allocating funds for programs/projects/activities (PPAs) under the 20% Development Fund which are not capital in nature; (b) ensure that the fund is only utilized for its intended purpose; and (c) stop the granting of honoraria to Project Management Unit which is contrary to the said DILG-DBM Joint Memorandum Circular.

11. The 20% Development Fund was not optimally utilized to achieve desirable socio-economic development and environment outcomes beneficial to the City's constituents. (*Observation No. 20*)

We recommended that the City Government, through the City Development Council (a) ensure that the mandatory 20% Development Fund appropriated out of the Internal Revenue Allotment be optimally utilized to implement prioritized identified programs, projects and activities to help achieve the desirable outcomes on socio-economic development and environmental management pursuant to the DILG-DBM Joint Memorandum Circular No. 2011-1; and (b) come up with a better method in identifying priority programs and projects with its corresponding full implementation for the immediate benefits that could be derived therefrom.

#### **E. Summary of Total Suspensions, Disallowances and Charges as of December 31, 2015**

As of year-end, audit disallowances in the total amount of ₱13,456,971.43 were not yet settled, of which the disallowed amount of ₱8,929,071.43 was issued by the Fraud Audit and Investigation Office (FAIO), COA Legal Services Sector, the amount of ₱3,538,000.00 was for the payment of Productivity Enhancement Incentive (PEI) in excess of the allowed ₱5,000.00, and ₱989,900.00 was for the purchase of unnecessary communication equipment which were issued in 2014 and 2015, respectively. No Notices of Suspensions and Charges were issued during the year 2015.

#### **F. Status of Implementation of Prior Year's Unimplemented Audit Recommendations**

Out of the 28 audit recommendations contained in the Annual Audit Report for CY 2014, six or 21% were fully implemented, seven or 25% were partially implemented, and 15 or 54% were not implemented. Those that were partially implemented and not implemented with material impact on the financial statements were reiterated in the current year 2015 report.