

EXECUTIVE SUMMARY

Introduction

The Province of Quezon, formerly known as Tayabas, was established on March 12, 1901, with Lucena as its capital and the late Hon. Cornelius Gardiner as its first Governor. It was at this time that the seat of the Provincial Government was transferred from the Municipality of Tayabas to Lucena City.

On June 12, 1902, the district of El Principe (now known as Aurora), then a dependency of Laguna, and the district of Infanta, including Polillo that used to be a part of Laguna, were annexed to Tayabas. Six months later, Marinduque, which during that time was a separate province, was also annexed to Tayabas. Marinduque became a separate province in 1921.

On September 7, 1946, President Manuel A. Roxas, by virtue of Republic Act (RA) No. 14 renamed the Province of Quezon in honor of President Manuel L. Quezon, a native of Baler, formerly a part of Quezon.

The Provincial Government of Quezon with Taxpayer Identification Number 600-000-633-148 is exempt from income tax, and is registered with General (Overall) Public Service Activities as line of business/industry.

The Organizational Structure of the Province is as follows:

a. Key Officials

Governor	:	Hon. Danilo E. Suarez
Vice-Governor	:	Hon. Samuel B. Nantes
Members of the Sanggunian	:	
		1. Hon. Alona V. Obispo
		2. Hon. Claro M. Talaga, Jr.
		3. Hon. Elizabeth U. Sio
		4. Hon. Romano Franco C. Talaga
		5. Hon. Maria Yllana Liwanag-Asistio
		6. Hon. Reynante U. Arrogancia
		7. Hon. Donaldo C. Suarez
		8. Hon. Isaias B. Ubana II
		9. Hon. Rhodora B. Tan
		10. Hon. Roderick I. Magbuhos

b. No. of Personnel Complement

Permanent	:	1,727
Casual/Contractual	:	1,642
Job Order/Contract of Service	:	2,373
Elective Officials	:	15
Coterminous	:	9
Total		<u>5,766</u>

Financial Highlights

For calendar year (CY) 2019, the Province of Quezon generated a total income of ₱4,377,493,862.26 from local taxes, Internal Revenue Allotment (IRA), permits and licenses, service, business and other income, including the subsidies from other fund, which increased by ₱416,942,022.90 as compared to last year's total income of ₱3,960,551,839.36.

The appropriation and allotment for CY 2019 totaled ₱5,931,922,811.07, of which, ₱4,272,555,842.51 was expended.

The financial position and results of operation for CY 2019 of the Province with comparative figures for CY 2018 are summarized below and shown in detail in the attached audited financial statements.

	2019	2018	Increase / (Decrease)
Total Assets	₱10,197,030,504.26	₱9,228,923,350.32	₱968,107,153.94
Total Liabilities	3,071,166,885.26	2,779,935,823.76	291,231,061.50
Total Equity	7,125,863,619.00	6,448,987,526.56	676,876,092.44
Total Income	4,377,493,862.26	3,960,551,839.36	416,942,022.90
Total Expenses	3,373,515,164.64	2,963,348,676.01	410,166,488.63

Scope of Audit

Financial and compliance audits were conducted on the accounts and operations of the Province of Quezon for CY 2019 in accordance with International Standards of Supreme Audit Institutions (ISSAIs) to ascertain the fairness of the presentation of the financial statements and compliance of the Province with laws, rules and regulations. The audit consisted of review of operating procedures, interview of concerned government officials and employees, verification, reconciliation and analysis of accounts and such other procedures considered necessary.

Auditor's Opinion on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the Province of Quezon due to the following:

1. The reported balance of the Cash in Bank - Local Currency Current Account (CIB - LCCA) of ₱2,270,492,592.40 is unreliable due to the: (a) non-recognition of reconciling items with a net amount of ₱30,928,486.05; (b) stale checks amounting to ₱2,109,097.22; and (c) non-existent deposit account with the Philippine National Bank (PNB) of ₱323,531.08;
2. The Cash in Bank (CIB) and other asset accounts in the Trust Fund (TF) books totaling ₱1,191,388,005.46 do not reconcile with the recorded liability accounts corresponding to the said CIB and other asset accounts due to possible erroneous disbursement and recording of transactions, thus affecting the accuracy and reliability of the aforementioned accounts;

3. Cash Advances (CAs) totaling ₱4,653,638.58 were not liquidated as of December 31, 2019 by the concerned officers and employees due to non-settlement by the Accountable Officers who were either retired, resigned or deceased, resulting in the overstatement of respective asset accounts by the same amount and understatement of the related expense accounts by ₱3,125,547.64 pertaining to current unliquidated cash advance and overstatement of equity account by ₱1,528,090.94 representing the prior years' unliquidated CAs.
4. The balance of Inventory Held for Distribution and Inventory Held for Consumption accounts amounting to ₱361,009,531.15 and ₱163,215,988.52, respectively, could not be ascertained due to non-adjustment and/or non-recognition of the issuances of some inventories totaling to ₱149,844,768.94 to the respective expense accounts;
5. The balances of the Property, Plant and Equipment (PPE) accounts totaling ₱2,305,198,518.43 per Accounting records were not reconciled with the Report of Physical Count of Property, Plant and Equipment (RCPPPE) of the Provincial General Services Office (PGSO) amounting to ₱1,856,110,525.89, showing a difference of ₱449,087,992.54 due to non-completion of physical count and non-reconciliation of records by the Accounting Office and the PGSO, thus rendering the account balance unreliable;
6. The Construction in Progress (CIP) - Building and Other Structures account as of December 31, 2019 of ₱228,110,088.56 under the General Fund is unreliable due to non-reclassification of the completed projects amounting to ₱45,228,873.69 to its appropriate Buildings and Other Structures account which remain in the books for five years or more, thus overstating the account by the amount of completed projects;
7. The Breeding Stocks account balance amounting to ₱7,451,530.95 is doubtful due to the: 1) presence of dormant balances totaling ₱5,817,355.00; 2) the balance amounting to ₱130,000.00 which have been unreconciled for seven to 11 years; and 3) non-reconciliation of records between the PGSO and the Accounting Office with a difference of ₱7,211,730.95;
8. The accuracy and reliability of the Due to Government Service Insurance System (GSIS) account balance totaling ₱33,398,948.20 are doubtful due to improper posting and/ or over remittances that resulted in the existence of negative balance amounting to ₱23,945,288.14, thus indicating weak internal control.

For the exceptions cited above, the Auditor recommended that the Provincial Governor require the:

1. Provincial Accountant to:

- revisit the reconciling items without available supporting documents to determine the appropriate action or disposition to pave the way for their elimination. Consequently, recognize immediately in the books the reconciling items of current year of ₱31,279,632.27 for fair presentation of Cash in Bank - LCCA and other affected accounts balances;
- verify and analyze the long-reported reconciling items of ₱351,146.22 to establish their validity and correctness; and

- prepare the adjusting entry reverting to Cash in Bank, LCCA the stale checks totaling ₱2,109,097.22 and recognizing the corresponding Payable account.

Provincial Treasurer to:

- a. closely monitor the issuance of checks to avoid the incurrence of stale checks; and
 - b. exert more efforts in finding documents that will support the existence of the PNB accounts, including active coordination with the current PNB Branch Manager. If all efforts proved futile, consider deducting the balance of ₱323,531.08 from the claim of terminal leave of the retired/deceased cashier.
2. Provincial Accountant to reconcile the CIB balances, as well as the corresponding related asset accounts, with the recorded liability accounts, and make the necessary adjustments after reconciliation to reflect the correct balances of the respective accounts in the financial statements.
 3. Provincial Accountant to:
 - enforce the liquidation of all cash advances within the prescribed period in accordance with Item 5.8 of Commission on Audit (COA) Circular No. 97-002, otherwise, consider initiating the filing of appropriate charges against the erring Accountable Officer under Article Nos. 217 and 218, both of the Revised Penal Code;
 - review cash advances which have been outstanding for 10 years or more and exert extra efforts in sending final demand letters to ensure liquidation; and
 - coordinate with the Provincial Prosecutors Office (PPO), Regional Trial Court (RTC) and Department of Education (DepEd) for assistance in the collection of the cash advances of their Accountable Officers.

If all efforts proved to be futile, we recommended that the Provincial Governor file a request for authority to write-off the unliquidated cash advances from the COA, following the guidelines and procedures on the write-off of unliquidated cash advances per COA Circular No. 2016-005 dated December 19, 2016.

4. OIC-General Services Officer to prepare, consolidate and submit the Requisition and Issue Slip (RIS) to the Provincial Accountant, to be used as the basis for the preparation of Journal Entry Voucher recognizing the issuance of inventories to their respective expense accounts.
5. Provincial Accountant and the OIC- General Services Officer to:
 - conduct a complete physical inventory of all the Province's assets and prepare and submit the required report thereon. Investigate any discrepancies between the inventory report and the accounting and property records and make the necessary adjustments where the error was committed;

- conduct analysis of PPE accounts to identify, investigate and clear the unreconciled items; and
 - perform regular reconciliation of property cards with accounting records to ensure that all discrepancies are immediately adjusted in order to reflect the correct account balances.
6. Provincial Accountant to effect the necessary adjustment in the books of account relative to the transfer of completed projects to Buildings and Other Structures account with the corresponding Accumulated Depreciation, for fair presentation of the accounts in the financial statements.
 7. Provincial Veterinarian and Provincial Agriculturist to: (a) exert effort in locating documents pertaining to the missing breeding stocks; (b) conduct regular monitoring of breeding stocks; and (c) submit an updated Physical Inventory Report/Status Report of breeding stocks to the PGSO and Provincial Accounting Office to effect adjustment;

Provincial Accountant and the OIC-General Services Officer to continuously reconcile their records; and

Provincial Accountant to conduct analysis of the Breeding Stocks account and effect the necessary adjusting journal entries, if warranted.

8. Provincial Accountant to review the Due to GSIS account, and make adjustment pertaining to the negative balances, to eliminate the erroneous recordings in the account.

Significant Audit Observations and Recommendations

1. The balance of the Due to Officers and Employees account under the General Fund (GF) amounting to ₱47,530,302.28 includes negative balances totaling P168,453.98, thus understating the account by the same amount;

We reiterated our recommendation that the Provincial Governor instruct the Provincial Accountant to continuously analyze the reason of the negative balances in the account and implement the necessary adjustments to correct the balances, and require her to regularly monitor the account and take up the necessary adjusting entries, to ensure that the account balance is fairly presented in the financial statements.

2. The Collecting Officers of various Hospitals were not able to remit their collections to the Provincial Treasurer's Office regularly and promptly with an average delay of three to 79 days, thus exposing the unremitted collections to risk of loss and/or misuse.

We reiterated our recommendation that the Provincial Governor direct: (a) the Provincial Treasurer and Provincial Accountant to compel the accountable officers to promptly remit their collections to avoid possible misuse, theft, and misappropriation of government funds and to facilitate timely recording; and (b) the Chief of Hospitals to ensure and monitor that collections of the hospitals are remitted by the Accountable Officer on time and intact.

3. The Monthly Report on Sources and Utilization of Disaster Risk Reduction Management Fund (DRRMF) was not furnished to the Audit Team, thus prevented the timely verification of utilization of the fund. Moreover, cash donations received in CYs 2013 and 2014 amounting to ₱1,406,693.85 remain unutilized, thereby depriving the targetted recipients of the benefits that could be derived therefrom.

We recommended that the Provincial Governor instruct the:

- a. Local Disaster Risk Reduction Management Officer to submit to the Audit Team the Monthly Report on Sources and Utilization of DRRMF, certified correct by the Provincial Accountant, for timely evaluation of the implemented programs, projects and activities; and
 - b. Provincial Accountant to remit the unutilized cash donations to the National Treasury and/or revert to the Unappropriated Surplus, whatever is appropriate.
4. Funds released to various Non-Governmental Organizations/People's Organizations (NGOs/POs) aged less than one to three years, totaling ₱13,051,565.33 remain unliquidated as of year-end due to non-submission of the supporting documents, thus precluding evaluation of the same and casting doubt on the utilization and existence of the projects.

We recommended that the Provincial Governor instruct the Provincial Accountant to follow up the status of all the projects/activities of the NGOs/POs by sending demand letters for the immediate submission of utilization reports and monitor their implementation. We also recommended that compliance with the guidelines provided for in COA Circular No. 2007-001 be strictly observed.

The above audit observations, together with the recommended courses of action are discussed in detail in Part II of this Report.

Due to the Covid-19 pandemic, the exit conference with the Province's officials and staff was not conducted since the face to face discussion was discouraged. However, the audit observations, together with the recommended courses of action were summarized in the Audit Highlights/Summary of Audit Observations and Recommendations which were sent to Management on July 9, 2020. Their comments were acknowledged through their letter replies of various dates.

Summary of Total Suspension, Disallowances and Charges

There was no unsettled suspensions and charges as of December 31, 2019.

Status of Implementation of Prior Year's Audit Recommendations

Of the 26 audit recommendations embodied in the CY 2018 Annual Audit Report (AAR), seven were fully implemented, 17 were partially implemented and two were not implemented.