

## EXECUTIVE SUMMARY

### Introduction

San Pablo City became a chartered City on May 7, 1940 by virtue of Commonwealth Act No. 520, which was later amended by Republic Act (RA) No. 163 on June 20, 1947.

Like other local government units, the City enjoys total independence in planning, managing and deciding its own administrative, fiscal, and development affairs in conformity with the national government's thrust for sustainable social and economic growth, pursuant to RA No. 7160, otherwise known as the Local Government Code of 1991.

San Pablo City is well known as the "Jeepney Capital of the Philippines" for its contribution to the country's transportation industry. Large number of various passenger jeepneys, owner-type jeeps, Asian Utility Vehicle (AUV) and mini-buses are assembled annually in the City.

The Organizational Structure of the City is as follows:

#### a. Key Officials

- City Mayor - Hon. Loreto S. Amante
- City Vice Mayor - Hon. Justin G. Colago
- Members of the Sanggunian
  1. Hon. Angelita E. Yang
  2. Hon. Karla Monica C. Adajar
  3. Hon. Carmela A. Acebedo
  4. Hon. Diosdado A. Biglete
  5. Hon. Martin Angelo B. Adriano Jr.
  6. Hon. Plaridel D. Dela Cruz
  7. Hon. Elsie C. Pavico
  8. Hon. Buhay D. Espiritu
  9. Hon. Napoleon C. Calatraba
  10. Hon. Dandi C. Medina
  11. Hon. Ariston A. Amante
  12. Hon. Liberty Pamela E. Capuchino
- City Accountant - Ms. Lolita G. Cornista
- City Treasurer - Mr. Arjan V. Babani

#### b. No. of Personnel Complement

• Permanent	1,125
• Temporary	10
• Job-Orders	1,049
• Elective Officials	<u>14</u>
<b>Total</b>	<b><u>2,198</u></b>

## Audit Objectives

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

## Scope of Audit

Financial and compliance audits were conducted on the accounts and operations of the City Government of San Pablo for Calendar Year (CY) 2019. The audit consisted of interviews with concerned local officials and employees, tracing account balances through the accounting system, verification of disbursements with underlying documents, inspection, analysis and reconciliation of accounts and such other procedures considered necessary.

The audit was conducted to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the account balances in the financial statements.

## Financial Highlights

For CY 2019, the City Government has a total Current Appropriations of ₱1,437,249,888.30 from its General Fund (GF) and Special Education Fund (SEF) amounting to ₱1,307,659,888.30 and ₱129,590,000.00, respectively. The City also has Continuing Appropriations of ₱75,883,237.53 for GF and ₱0.00 for SEF.

Out of the City's Current Appropriations, the amount of ₱1,437,249,888.30 was allotted. Obligations incurred for the GF and SEF amounted to ₱1,091,909,217.68 and ₱59,895,791.60, respectively, or a total of ₱1,151,805,009.28. Out of the Continuing Appropriations of ₱75,883,237.53, the amount of ₱36,620,047.32 was obligated, leaving a balance of ₱39,263,190.21. The realized net income of the City Government for all funds amounted to ₱212,584,666.98.

The total assets, liabilities, equity, income and expenses for CY 2019 of the City Government compared with that of the preceding year are as follows:

	<b>2019</b>	<b>2018</b>	<b>Increase/ (Decrease)</b>
Assets	₱2,890,663,271.15	₱2,582,594,518.48	₱308,068,752.67
Liabilities	<u>446,537,270.87</u>	<u>344,006,874.29</u>	<u>102,530,396.58</u>
Equity	<u>2,444,126,000.28</u>	<u>2,238,587,644.19</u>	<u>205,538,356.09</u>
	<b>2019</b>	<b>2018</b>	<b>Increase/ (Decrease)</b>
Revenue	₱1,364,282,469.56	₱1,216,512,646.03	₱147,769,823.53
Expenses			
Personnel Services	544,920,975.73	442,958,764.57	101,962,211.16
Maintenance and Other Operating Expenses	441,692,460.48	411,228,834.99	30,463,625.49
Financial Expenses	3,140,207.10	3,422,883.86	(282,676.76)

Non-Cash Expenses	129,204,190.18	120,706,398.18	8,497,792.00
Losses	4,484,968.18	1,438,474.63	3,046,493.55
Transfer, Assistance and Subsidy	<u>28,255,000.91</u>	<u>25,052,480.81</u>	<u>3,202,520.10</u>
Total Expenses	<u>1,151,697,802.58</u>	<u>1,004,807,837.04</u>	<u>146,889,965.54</u>
Surplus (Deficit) for the period	<u>₱ 212,584,666.98</u>	<u>₱ 211,704,808.99</u>	<u>₱ 879,857.99</u>

### **Audit Opinion on the Financial Statements**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements due to the following:

1. Small value items totaling ₱16,222,883.08 with acquisition cost of less than ₱10,000.00 per unit were recorded as Property, Plant and Equipment (PPE) instead of inventory accounts, contrary to COA Circular Nos. 2005-002 and 97-005, thus overstating the carrying amount of PPE and the balance of Government Equity both by ₱4,480,276.20 as of year-end.
2. The residual value of PPE remained at 10 percent instead of five percent of acquisition cost, contrary to International Public Sector Accounting Standard (IPSAS) 17, thus overstatement of the carrying amount of PPE and year-end balance of Government Equity both by ₱4,889,768.93.
3. Impairment loss on unserviceable motor vehicles in the amount of ₱1,880,833.13 was not recognized in the books of the General Fund, contrary to Paragraphs 52 and 54 of IPSAS 21, and Revised Chart of Accounts prescribed under COA Circular No. 2015-009, thus overstatement of the carrying value of Motor Vehicles account and understatement of the non-cash expenses by same amount as of year-end.
4. Operating Lease Receivables in the amount of ₱31,466,588.60 was not supported with billing statements duly received by lessee and other documents to prove validity, reliability and collectability of the account. Also, impairment loss was not provided on lease receivables which remained dormant for more than four years, contrary to Paragraph 72 of IPSAS 29, thus casts doubt on the reliability of Operating Lease Receivables with year-end balance of ₱32,013,484.22. Moreover, the related uncollected rentals on operating lease in the total amount of ₱32,013,484.22 were recorded as Unearned Revenue – Investment Property instead of Rent Income, contrary to the Revised Chart of Accounts for Local Government Units (LGUs) prescribed under COA Circular No. 2015-009, thus overstatement of the former account and understatement of the Government Equity by same amount.
5. Transfer of completed projects from the Trust Fund to the General Fund in the total amount of ₱36,292,048.57 was recorded under Grants and Donations in Kind instead of Government Equity, contrary to the Revised Chart of Accounts for LGUs prescribed under COA Circular No. 2015-009, thus overstatement of the total revenue presented in the year-end Statement of Financial Performance by same amount.
6. Prizes and financial subsidies totaling ₱4,309,781.53 received by the City from the Provincial Government of Laguna were recorded as liability instead of revenue, contrary

to IPSAS 23, thus overstatement of Due to LGUs account and understatement of the Government Equity by same amount.

7. The transfer of unspent 30 percent Local Disaster Risk Reduction Management Fund (LDRRMF) for Calendar Year 2019 from General Fund to Trust Fund was erroneously recorded under Due from Other Fund – Trust Liability instead of a debit to Cash in Bank – Local Currency, Current Account (LCCA), resulting in a discrepancy of ₱18,432,473.33 between the year-end balances of reciprocal accounts Due from Other Funds and Due to Other Funds, and understatement of the Cash in Bank – LCCA as of year-end by same amount.
8. Significant information to support the balances of some items presented in the Statement of Cash Flows were not disclosed in the Notes to Financial Statements, contrary to Paragraphs 127(c) and 129 of the IPSAS 1, thus the users of the financial statements were not provided with additional information value.

### **Significant Observations and Recommendations**

For the exceptions above cited, we recommended that the City Mayor:

- a. We recommended that the City Mayor direct the City Accountant to draw Journal Entry Voucher (JEV) to drop the small value property items from the books of the General Fund by debiting Prior Period Adjustment and Accumulated Depreciation of respective PPE in the amounts of ₱4,035,344.92 and ₱8,808,841.24, respectively, and by crediting the respective PPE accounts totaling ₱12,844,186.16. We likewise recommended that the City Accountant draw JEV in the books of Special Education Fund using similar accounting entries but with the amounts of ₱444,931.28, ₱2,933,765.64 and ₱3,378,696.92, respectively.
- b. We recommended that the City Mayor instruct the City Accountant to draw JEV to adjust the carrying amount of PPE at five percent residual value of ₱4,572,096.58 pursuant to IPSAS 17 by debiting Prior Period Adjustment and crediting Accumulated Depreciation of respective PPE by ₱4,889,768.93.
- c. We recommended that the City Mayor direct the City Accountant to draw a JEV to recognize the impairment loss of unserviceable motor vehicles by debiting Impairment Loss – Property, Plant and Equipment and crediting Accumulated Impairment Loss - Motor Vehicles, both accounts in the amount of ₱1,880,833.13.
- d. We recommended that the City Mayor direct the:
  - City Treasurer to furnish the Auditor with the certified copy of duly received billing statements to ascertain the reliability of the balance of Operating Lease Receivables;
  - City Treasurer and the City Accountant to determine the collectability of operating lease receivable and to provide impairment loss, if any, pursuant to Paragraph 72 of IPSAS 29; and
  - City Accountant to draw JEV to recognize rent income from operating lease by debiting Unearned Revenue – Investment Property and crediting Prior Period Adjustment by ₱32,013,484.22.

- e. We recommended that the City Mayor instruct the City Accountant to record the transfer of completed projects from Trust Fund to the General Fund by debiting the appropriate asset accounts and crediting Government Equity. We further recommended that the City Accountant recognize Grants and Donations in Kind only when there is actual receipt of donated tangible assets from other level of government, private sector or international institutions.
- f. We recommended that the City Mayor direct the City Accountant to initiate the transfer of funds totaling ₱4,309,781.53 from the Trust Fund to General Fund of the City and afterward draw JEV to correct the noted deficiency in the Trust Fund books by debiting Due to LGUs and crediting Cash in Bank by same amount. We further recommended that the City Accountant draw JEV in the books of the General Fund by debiting Cash in Bank and crediting Prior Period Adjustment to record the transfer of funds also by same amount.
- g. We recommended that the City Mayor direct the City Accountant to prepare the necessary adjusting entries to correct the discrepancy noted by debiting Cash in Bank – LCCA and crediting Due from Other Fund - Trust Liability by an amount of ₱18,432,473.33.
- h. We recommended that the City Mayor direct the City Accountant to disclose the required information in the Notes to Financial Statements to assist the users in understanding the financial statements and to provide them with the additional information value.

Other significant observations and recommendations are the following:

1. Fifteen (15) stale checks totaling ₱81,825.90 remained unadjusted as of December 31, 2019, contrary to Section 59 of the Manual on MNGAS for LGUs, Volume I, resulting in the understatement of both Cash in Bank – LCCA and Accounts Payable by the same amount. In addition, the City Treasurer did not send written notice to the payees on the existence of the checks one month before these become stale, contrary to the same provision of MNGAS.

We recommended that the City Mayor direct the:

- City Accountant to prepare accounting entries to take up the cancellation of stale checks in the books of accounts of the City by debiting Cash in Bank – LCCA and crediting Accounts Payable both in the amount of ₱81,825.90.
  - City Treasurer to prepare and send written notice to the payees at least one month before a check becomes stale as required under Section 59 of the MNGAS for LGUs, Volume I.
2. Accounts payable totaling ₱401,219.68 which were outstanding in the books for two years and not covered by actual claims were not reverted to the Unappropriated Surplus of the General Fund, contrary to Section 98 of Presidential Decree (PD) No. 1445, thus overstating the year-end balance of Accounts Payable and understating the Prior Period Adjustment by same amount.

We recommended that the City Mayor direct the City Accountant to revert to the Unappropriated Surplus of the General Fund the accounts payable totaling ₱401,219.68 by drawing accounting entry debiting Accounts Payable and crediting Prior Period Adjustment in the amount of ₱401,219.68.

3. Donations of 57 patrol motorcycles with sidecars to different barangays in the total amount of ₱9,143,769.00 were not supported with Deed of Donation, contrary to Article 748 of Civil Code of the Philippines, thus casts doubt on the validity of donations made by the City.

We recommended that the City Mayor execute Deed of Donation for each patrol motorcycle pursuant to Article 748 of Civil Code of the Philippines subject to ratification of the Sanggunian Panlungsod.

4. The City has no approved guidelines on the grant of financial assistance to individuals in crisis situations in the total amount of ₱35,652,688.27, thus affecting the efficient and effective discharge of its duties and functions of providing social welfare services to its constituents as amounts of assistance were not provided uniformly and proportionately based on actual needs of individuals, contrary to Section 17 of RA No. 7160.

We recommended that the City Mayor direct the City Social Welfare and Development Officer to formulate guidelines on the grant of financial assistance to individuals in crisis situation for approval of Sanggunian Panlungsod and ensure that payment thereof shall be in accordance with the approved guidelines.

5. Payments to service providers in a total amount of ₱31,342,688.27 for the financial assistance granted to indigent individuals were not supported with duly received guarantee letters, contrary to Section 4 (6) of PD No. 1445 and COA Circular No. 2012-001, thus casts doubt on the propriety of the transactions and whether or not the benefits were actually enjoyed by the indigents.

We recommended that the City Mayor direct the City Accountant to require the service providers the submission of duly received guarantee letters to support payments of claims for financial assistance. We also recommended that the City Accountant refrain from disbursing funds to the service providers with incomplete supporting documents.

6. Claims for acquisitions of land and building in the total amount of ₱14,015,750.00 were processed and paid without complete documentation, contrary to Section 4 (6) of PD No. 1445 and COA Circular No. 2012-001, thus cast doubt on the validity and propriety of the transactions.

We recommended that the City Mayor direct the City Accountant to:

- ensure that only complete and properly documented transactions are processed and paid; and
- submit immediately to the Office of the Auditor the lacking documents for the acquisitions of land and building in the total amount of ₱14,015,750.00 to facilitate the review of the disbursements and to avoid suspension and/or disallowance in audit.

7. The zonal value of commercial lot was erroneously used in the appraisal of residential lot purchased by the City, thus acquisition cost of land in the amount of ₱4,752,000.00 was excessive by ₱2,592,000.00, contrary to COA Circular No. 2012-002 prescribing the updated guidelines on the prevention and disallowance of irregular, unnecessary, excessive, extravagant and unconscionable expenditures.

We recommended that the City Mayor direct the Appraisal Committee to:

- use the appropriate zonal value in the determination of appraised value of land being acquired by the City; and
  - submit a written explanation why the excess in the acquisition cost of the land in the amount of ₱2,592,000.00 should not be disallowed in audit.
8. Disbursement vouchers covering payments of an ongoing infrastructure project, charged against the 20 percent Development Fund of the City, totaling ₱54,431,489.53 were not supported with complete documentation, while ₱43,327,494.80 of which did not bear the approval of the City Mayor, contrary to PD No. 1445, 2016 Revised Implementing Rules and Regulation (RIRR) of RA No. 9184 and COA Circular No. 2012-001, thus casting doubt on the validity, regularity and propriety of the transactions.

We recommended that the City Mayor:

- a. instruct the City Accountant to immediately submit to the Auditor the lacking documents pertaining to the ongoing infrastructure project, for review and evaluation.
  - b. instruct the City Treasurer to:
    - seek the approval of disbursement vouchers covering payments of said infrastructure projects totaling ₱43,327,494.80; and
    - ensure that the disbursement vouchers bear the approval of the City Mayor before preparing checks.
  - c. instruct the BAC Secretariat to submit to the Auditor a copy of the BAC resolution duly approved by the Head of the Procuring Entity for the Construction of Dormitory Type Hotel.
9. Deficiencies were noted in the appropriation, planning, utilization and reporting of Gender and Development (GAD) Fund, as follows:
    - a. The inability of the City to adjust its budget for GAD based on the additional Internal Revenue Allotment (IRA) collection of ₱5,000,899.00 resulted in a deficiency of ₱250,044.95 on the required minimum appropriation for GAD for Calendar Year (CY) 2019, contrary to Section 4.1 of the Joint Memorandum Circular (JMC) No. 2013-01 of the Philippine Commission on Women (PCW), Department of Interior and Local Government (DILG), Department of Budget and Management (DBM) and National Economic and Development Authority (NEDA).

We recommended that the City Mayor direct the City Budget Officer to include in the budget proposal the corresponding increase in the GAD budget vis-à-vis the increase in total annual appropriation.

- b. GAD Plan and Budget (GPB) includes items with similar GAD issues and activities resulting in the non-utilization and partial utilization of funds amounting to ₱300,000.00 and ₱3,777,226.00, respectively, thus unutilized funds could have been appropriated to other activities to address other gender issues.

We recommended that the City Mayor instruct the GAD Focal Point System (GFPS) to meticulously prepare the GPB to avoid duplication of GAD issues and activities.

- c. The details of GAD fund utilization were not posted in the conspicuous places and website of the City, contrary to Section 3.5 of the JMC No. 2013-01 of the PCW-DILG-DBM-NEDA, thus relevant information thereof was not made available to the public which is not in line with government's policy on transparency and public disclosure.

We recommended that the City Mayor direct the GFPS to cause the posting of GAD fund utilization in conspicuous places and website of the City in compliance with the full disclosure policy of the government.

10. The details of LDRRMF which showed a balance of ₱53,717,961.44 were not fully disclosed in the Notes to Financial Statements, contrary to Paragraph 5.1.16 of COA Circular No. 2012-002, thus users of financial statements were not provided with information on the utilized amount and the unexpended balance of previous years' LDRRMF being held under the Special Trust Fund.

We recommended that the City Mayor direct the City Accountant to provide sufficient disclosure of the LDRRMF in the Notes to Financial Statements.

The above observations and recommendations were communicated to concerned City officials and staff through Audit Observation Memoranda (AOMs). Management's views and comments were incorporated in the report, where appropriate.

### Unsettled Suspensions, Disallowances and Charges

The Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2019 showed total suspensions of ₱12,169,792.02, disallowances of ₱19,657,250.00 and zero charges.

Nature	Beginning Balance	Issuance	Settlement	Ending Balance
Notice of Suspension (Lacking/Incomplete supporting documents)	₱ 12,169,792.02	₱ 0.00	₱ 0.00	₱ 12,169,792.02
Notice of Disallowance (Payment of RATA, PEI and Anniversary Bonus)	<u>19,657,250.00</u>	<u>0.00</u>	<u>0.00</u>	<u>19,657,250.00</u>
<b>Total</b>	<b><u>₱ 31,827,042.02</u></b>	<b><u>₱ 0.00</u></b>	<b><u>₱ 0.00</u></b>	<b><u>₱ 31,827,042.02</u></b>



### **Status of Implementation of Prior Year's Audit Recommendations**

As of December 31, 2019, out of 30 audit recommendations embodied in the 2018 Annual Audit Report, 17 were fully implemented, 10 were partially implemented and three were not implemented by the City Government of San Pablo.