

## EXECUTIVE SUMMARY

### Introduction

The City of Santa Rosa is a former municipality of the Province of Laguna. It attained cityhood by virtue of Republic Act No. 9264 that was ratified through a plebiscite on July 10, 2004.

The City of Santa Rosa has been recognized as a fast rising investment capital of South Luzon next to Metro Manila and the Information Communication Technology (ICT) Hub of Southern Luzon. The City Government is managed by Mayor Arlene B. Arcillas, assisted by Vice Mayor Arnel DC Gomez and the Members of the Sangguniang Panglungsod. The City was awarded the Seal of Good Housekeeping by the Department of Interior and Local Government in recognition of the City's efforts in advancing the principles of accountability and transparency in local governance.

The Sangguniang Panglungsod passed and approved City Ordinance Nos. 1675-2011 and 1720-2011 known as the City of Santa Rosa Revenue Code and City Environment Code, respectively.

The City maintains three funds, namely: General Fund, Special Education Fund and Trust Fund.

The City maintains special account in the General Fund for 20% Development Fund, Calamity Fund, Hospital, Market, Cemetery and Slaughterhouse.

### Financial Highlights

For CY 2012, the City generated a total income of ₱2,010,673,695 from local taxes, permits and licenses, service and business income and internal revenue allotment which is higher by ₱176,218,815 or about 9 percent from last year's total of ₱1,834,454,880.

The total obligations incurred for the year amounted to ₱1,605,687,837 out of the total allotment of ₱2,444,008,530, leaving an unexpended balance of allotment of ₱838,320,693.

The City's assets, liabilities, equity, income and expenses for CY 2012 as compared with that of the preceding year are as follows:

	<b>CY 2012</b>	<b>CY 2011</b>	<b>Increase/Decrease</b>
Total Assets	₱3,900,059,396	₱3,266,535,159	₱633,524,237
Total Liabilities	769,689,383	592,178,026	177,511,357
Total Equity	3,130,370,013	2,674,357,133	456,012,880
Total Income	2,010,673,695	1,834,454,880	176,218,815
Total Expenses	1,452,825,746	1,476,804,672	(23,978,926)

## **Scope of Audit**

Financial and compliance audit, as well as value for money audit were conducted on the accounts and operations of the City Government of Sta. Rosa for the Calendar Year 2012. The audit consisted of interviews with concerned local officials and employees, tracing account balances with the general ledger, 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, compliance with prescribed rules and regulations and the economical, efficient and effective utilization of resources. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of financial transactions.

## **Audit Opinion**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the City of Sta. Rosa, Province of Laguna due to a net variance of ₱906,005,022.24 between the records of the Accounting and the General Services Office (GSO) for Property, Plant and Equipment (PPE) account, as well as the uncompleted inventory taking of PPE totalling ₱2,432,229,828.31, unclassified unserviceable properties of undetermined amount to Other Assets account, non-maintenance of updated subsidiary ledgers/property cards, non-conduct of the required physical count and discrepancies noted in the analysis of Statement of Cash Flows.

## **Significant Observations and Recommendations**

For the exceptions cited above, we recommended that the City Mayor require the Accounting Office to verify the causes of discrepancy between the subsidiary ledgers and the controlling accounts, instruct the GSO to conduct physical count of PPE and submit the RPCPPE to the Office of the Auditor and reconcile with the Accounting records.

We reiterated our recommendation that the Local Chief Executive require the Head of the General Services Office to update Property Accountability Receipts, maintain property cards and reconcile records and reports with the Accounting Office for adjustments, if any.

We also recommended that the City Mayor require the Accounting Office to reclassify the unserviceable properties to Other Assets account. Likewise, create a Committee on Appraisal to appraise the value of these properties and request the assistance of the Commission on Audit (COA) for technical inspection for the proper disposal of the same.

We recommended that the City Mayor require the City Accountant to submit schedules and other pertinent documents to support the data reported in the Statement of Cash Flows and to draw Journal Entry Vouchers to adjust the deficiencies noted to come up with a reliable balances of the accounts in the financial statements.

Other significant observations and recommendations are the following:

1. Acquisition of seven parcels of lot consisting of approximately 31,538 square meters valued at ₱49,232,400.00 were not yet in the name of the City Government, thus, the ownership, propriety and validity of Land account balance is doubtful.

We recommended that the City Mayor instruct the City Assessor and the City Treasurer to facilitate the transfer of title of land in the name of the City Government to protect the interest of the government.

2. Cash advances amounting to ₱10,621,233.52 remained unliquidated as of year-end due to the continued non-adherence to the rules and regulations prescribed under COA Circular No. 97-002 dated February 10, 1997.

We recommended that the City Mayor enjoin the City Accountant to enforce the sanction of withholding the salary of accountable officers who are still in the service and with pending claims from the City Government and file the necessary legal sanction against those already separated from the service.

3. The City has not instituted action in collecting various long outstanding receivables totaling ₱27,612,986.46, contrary to Sections 35 and 37 of PD 1445, thus, casting doubt on the collectibility of the accounts and creating negative impact on the quality of performance and good housekeeping efforts of the City officials.

We recommended that the City Mayor instruct the City Accountant and the City Treasurer to institute all possible legal remedies against the concerned accountable persons. Issue demand letters and cause withholding of salary for those defaulting officers and employees. Also, instruct the City Cooperative Officer to provide all possible records relative to the defaulting multi-purpose cooperatives and coordinate with the City Accountant and the City Treasurer for possible settlement of the long outstanding receivables.

Likewise, we recommended that the City Mayor instruct the City Accountant to make a request or follow-up, if there has been a pending request for writing-off receivables from the Commission on Audit upon submission of all proofs that efforts have been initiated to collect the same.

Lastly, we recommended that the City Management adopt an effective policy for granting and collection of loans to various individuals or groups.

4. Accounts Payable amounting to ₱2,507,226.92 remained in the books for several years now, in spite of repeated audit recommendation to revert the amount to the Unappropriated Surplus of the General Fund, contrary to Section 98 of Presidential Decree (PD) No. 1445.

We recommended that the City Mayor instruct the Chief Accountant to retrieve and evaluate all the documents pertaining to the unpaid payables. Determine the legitimacy of the transactions and if found to be valid claims, communicate with concerned payees for the payment/settlement of the accounts. Finally, revert to the Unappropriated Surplus of the General Fund those that proved to be with no legal claims.

5. Seven completed and already in use infrastructure projects and one project not yet started amounting to ₱8,907,290.29 and ₱726,033.78, respectively, were included in the Construction in Progress (CIP) account, contrary to Section 50 of the Manual on New Government Accounting System(MNGAS) for Local Government Units (LGUs), thus, resulted in the understatement of the specific Agency Asset and Public Infrastructure accounts and overstatement of CIP and Accounts Payable accounts.

We recommended that the City Mayor require the City Engineer to submit the Final Inspection and Acceptance Reports to the Chief Accountant to correct/adjust the entries in the books. Failure on the part of the City Engineer to submit the said reports shall held him liable, pursuant to Section 122 of Presidential Decree (PD) 1445.

6. The validity, reliability and accuracy of Due from Other Funds and Due to Other Funds reciprocal accounts under the General, Special Education and Trust Funds could not be determined due to the failure of the Accounting Unit to reconcile the said accounts and record the necessary adjustments, thus, resulted in the unaccounted and unadjusted difference of ₱16,833.96 that affects the fair presentation of the financial statements.

We recommended that the City Mayor require the City Accountant to carefully check the entries made in the subsidiary ledgers to determine the causes of the discrepancy and immediately make the necessary correcting entries to bring both accounts in agreement and to ensure the correctness and accuracy of the financial statements.

7. Maintenance and other operating expenses of ₱12,350,000.00 were charged to 20% Local Development Fund, while charges of ₱5,000,000.00 capital outlay were not compliant with Joint Memorandum Circular 2011-1 of the Department the Interior and Local Government (DILG) and the Department of Budget and Management (DBM) dated April 13, 2011, thus, limiting the number of development projects that could have been funded, to the disadvantage of the constituents.

We recommended and the City Mayor agreed to require the City Planning and Development Coordinator to strictly follow the guidelines of the Joint Memorandum Circular of the DILG and DBM relative to the utilization of the 20% Internal Revenue Allotment (IRA) for development projects so that only legitimate ones are charged against the fund.

8. Subsidy to Barangays of ₱18,000,000.00 was released equally among the barangays of the City even without the program of expenditures and liquidation reports for monitoring purposes, contrary to Section 300 of Republic Act (RA) 7160 and COA Circular No. 2012-001.

We recommended that the City Mayor instruct the City Accountant to require from the recipients the submission of an approved Project Expenditures or Estimated Expenses and Liquidation Reports, pursuant to Section 300 of RA 7160 and COA Circular 2012-001 dated June 14, 2012 to ensure that the fund was used for its intended purpose.

9. The services of 46 consultants which costs the City Government the amount of ₱7,532,000.00 were not highly technical in nature, were not supported with accomplishment reports and the scope of work has no specific job description and term of completion contrary to Section 5, paragraph 5 of Republic Act (RA) No. 9184 and Section 24.3 of its Implementing Rules and Regulations, and Section 209 of the Government Accounting and Auditing Manual (GAAM), Volume I, thus, the necessity of hiring consultants is doubtful.

We recommended that the Local Chief Executive consider the requirements mandated by the provisions of Section 5, paragraph 5 of RA 9184 and Section 209 of the GAAM in hiring consultants.

We also recommended that accomplishment reports be submitted in support of the claim.

10. Disbursements for utilities and gasoline of ₱236,367.90 were paid out of the Local Disaster Risk Reduction Management Fund (LDRRMF), contrary to Republic Act No. 10121 and the Department of Interior and Local Government (DILG) Memorandum Circular No. 2012-73 dated April 17, 2012, thus, limiting the available cash for calamity preparedness and quick response activities.

We recommended and the Local Chief Executive agreed to instruct the City's Local Disaster Risk Reduction and Management Council to implement utilization of the LDRRMF according to the requirements of Republic Act No. 10121 and the DILG Memorandum Circular No. 2012-73 dated April 17, 2012.

11. The City Government could have saved the amount of ₱52,326,479.83 had it filled up the 273 vacant plantilla positions with an estimated cost of ₱44,976,500.00, instead of hiring 1,003 casuals and 486 contractual employees with total salaries and wages incurred of ₱97,302,979.83.

We recommended that the City Mayor limit the hiring of casuals and contractuales to those that are extremely necessary according to the immediate and actual needs of each Office with consideration on the financial capability of the City government.

12. The City Government has no allocation of at least 5% of the total appropriation of the Annual Budget for Gender and Development and no plan was formulated, contrary to Sections 4.1 and 4.4 of DBM/NEDA/NCRFW, thereby, depriving the City's constituents of the program, projects and activities that promote gender responsive governance projects and fulfill women's human rights and promote women's economic empowerment.

We recommended and the Management agreed to comply with the provisions of DBM/NEDA/NCRFW Joint Circular No. 2004-1 in the implementation of GAD Program in the ensuing year.

Our observations and recommendations were discussed with the City officials and employees concerned in an exit conference held on April 26, 2013 and we are pleased to note their favorable reactions to our observations and recommendations.

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

Of the 14 audit recommendations contained in the CY 2011 Annual Audit Report, 8 were fully implemented, 2 were partially implemented and 4 were not implemented by the City Government.