

EXECUTIVE SUMMARY

A. Introduction

By virtue of Republic Act No. 7720, the City of Santiago was declared as an Independent Component City which was approved by President Fidel V. Ramos on May 5, 1994.

The City of Santiago is a first class City consisting of 37 barangays. It is under the administration of City Mayor, Honorable Joseph S. Tan with the assistance of Vice Mayor Honorable Alvin N. Abaya and the Sangguniang Panlungsod.

The City maintains separate books for General Fund, Special Education Fund and Trust Fund.

Financial, compliance and value for money audits were conducted on the accounts and operations of the City of Santiago for Calendar Year (CY) 2018. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the City with laws, rules and regulations, as well as economical, efficient and effective utilization of resources.

B. Highlights of Financial Information

The total assets, liabilities, government equity, income and expenses for CY 2018 compared with that of the preceding year are as follows:

	2018	2017	Increase (Decrease)	%
Assets	4,625,404,041.97	4,181,462,507.75	443,941,534.22	11%
Liabilities	550,956,899.12	408,901,427.33	142,055,471.79	35%
Equity	4,074,447,142.85	3,772,561,080.42	301,886,062.43	8%
Income	1,578,447,280.66	1,508,872,559.32	69,574,721.34	5%
Expenses	1,222,917,594.81	1,037,238,721.36	185,678,873.45	18%

For CY 2018, the City Government of Santiago generated a total income of P1,578,447,280.66 from local taxes, permits and licenses, service and business income, and internal revenue allotment. Total income increased by P69.574 million or 5% compared with the income in CY 2017.

The total funds utilized for the year amounted to P1.546 billion out of the total appropriation of P2.002 billion. Details are as follows:

	CY 2018	CY 2017	Increase (Decrease)	%
Appropriations	2,002,543,063.87	2,620,141,688.32	(617,598,624.45)	-24%
Allotments	1,002,543,063.87	1,620,141,688.32	(617,598,624.45)	-38%
Obligations	1,546,208,742.24	1,383,674,330.90	162,534,411.34	12%

C. Auditor's Opinion on the Financial Statements

We rendered a modified opinion on the fairness of presentation of the financial statements as of December 31, 2018 for the reason that the validity, propriety and existence of Property, Plant and Equipment (PPE) stated at P4.011 billion as at December 31, 2018, or 87% of total assets, could not be ascertained due to incomplete inventory taking, unreconciled discrepancy of P3.4 billion between accounting and property records, inclusion of unserviceable properties totaling P218.967 million, inadequacies of subsidiary records and accounting deficiencies, which are not in conformity with existing laws, rules and regulations prescribed under Paragraph 2, Section 124, Volume I of Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs); Section 13, Volume II, of the MNGAS for LGUs; and Sections 58 and 79 of PD 1445.

D. Significant Audit Observations and Recommendations

Favorable Observations

1. Seal of Good Local Governance

For four (4) consecutive years, 2015, 2016, 2017, & 2018, the Secretary of the Department of Interior and Local Government (DILG) recognized the good performance of the City of Santiago thru the *Seal of Good Local Governance Award (SGLG)* Award as a symbol of City's commitment towards good local governance.

2. Tax Compliance

Management complied with tax laws by withholding applicable taxes on compensation, goods and services and remitting the same to the Bureau of Internal Revenue (BIR) on a periodic basis in compliance to existing BIR regulations.

However, in the course of our audit, we noted the following significant observations, together with our recommendations.

Financial and Compliance

- 1. The accuracy, validity and existence of Property, Plant and Equipment (PPE) stated at P4.011 billion, or 87% of total assets, as at December 31, 2018 could not be ascertained due to incomplete inventory taking, unreconciled discrepancy of P3.4 billion between accounting and property records, inclusion of unserviceable properties totaling P218.967 million, inadequacies of subsidiary records and accounting deficiencies, and non-recognition of Road Networks account from its Registry of Public Infrastructure totaling P401.547 million, which are not in conformity with existing rules and regulations prescribed under Paragraph 2, Section 124, Volume I of Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs); Section 13, Volume II, of the MNGAS for LGUs; Sections 58 and 79 of PD 1445; and COA Circular No. 2015-008 dated November 23, 2015.**

We reiterated the following recommendations:

- Direct the Santiago City Inventory and Disposal Committee to (i) conduct a complete physical count annually as required; (ii) intensify efforts to reconcile the result of physical count with property and accounting records and (iii) recommend for the adjustment of any noted discrepancy in compliance with Paragraph 2 of Section 124, Volume I of MNGAS for LGUs;*
 - Direct the concerned City Officials to maintain and regularly update property cards, subsidiary ledgers, property ledger cards, stock cards and other subsidiary records in conformity with Section 13, Volume II of the MNGAS for LGUs; and*
 - Derecognize unserviceable properties in the books, stop providing depreciation charges for these assets and facilitate disposal of these properties in accordance with Section 79 of PD No. 1445.*
 - Recognize the Road networks as carried in the Registry of Public Infrastructure in the books of accounts within the target set in compliance with COA Circular No. 2015-008.*
- 2. The accuracy and reliability of Cash-in-bank accounts totaling P1,167,106,626.86 as of December 31, 2018 cannot be ascertained due to (a) variance of P19,469,794.32 between the Accounting Records and Treasury Records, (b) current and prior years' book and bank reconciling**

items were not immediately adjusted and/or remained unadjusted; and (c) failure of the City Accountant's Office to prepare and submit monthly Bank Reconciliation Statements (BRS) together with the paid checks and original copies of debit/credit memos within the prescribed period contrary to existing rules and regulations as prescribed under Section 6.3 of COA Circular No. 97-002 dated February 10, 1997 and Section 3.3 of COA Circular No. 96-011 dated October 2, 1996.

We recommended that Management require the City Accountant:

- *To reconcile with the City Treasurer the Cash accounts records on a quarterly basis to reflect an accurate and reliable balance at any particular period in compliance to Section 6.3 of COA Circular No. 97-002 dated February 10, 1997;*
 - *To give immediate attention and adjust in the books the reconciling items that are duly supported with valid/complete documents, and coordinate with the concerned depositary bank regarding the bank reconciling items that need to be adjusted in the bank books in conformity with Section 3.3 of COA Circular No. 96-011 dated October 2, 1996;*
 - *To coordinate with LGU's Depositary Banks for the prompt delivery of monthly Bank Statements (BS), but in cases where the BS are not yet available, secure snapshot copy of the bank transactions to facilitate the timely reconciliation of its bank accounts in compliance with COA Circular No. 96-011 dated October 2, 1996; and*
 - *To promptly prepare and submit Bank Reconciliation Statements on all bank accounts, together with the paid checks and original copies of debit/credit memo, pursuant to COA Circular 96-011 to facilitate the immediate preparation of the necessary correction/adjusting entries for any discrepancies/errors or other reconciling items requiring corrections in order to reflect the correct balance of cash accounts in financial statements.*
- 3. The recorded balances of Inventory accounts amounting to P115,893,558.19 at year-end is unreliable and their existence and completeness could not be fully established due to (a) non-conduct of physical count of Inventories; (b) purchases of supplies and materials totaling P158,500,434.74 directly recorded as expenses; and (c) non-maintenance of stock ledger cards and stock cards.**

We reiterated the following recommendations that Management:

- *Create an Inventory Committee to undertake the physical count of inventory items as of June 30 and December 31 of each year; to prepare the Report of the Physical Count of Inventories (RCPI) by inventory account name and distribute the same as prescribed; to reconcile said report with the records of the City Accounting Office in accordance with Section 124, Volume I of MNGAS for LGUs; and to submit to the Office of the Auditor the duplicate copy of the RCPI not later than July 31 and January 31 of each year for the first and second semester, respectively.*
 - *Direct the City Accountant to correct the errors in recording purchases and issuances of inventories and observe the Perpetual Inventory System as method of recording inventories as prescribed under Section 51, Volume I of the MNGAS for LGUs; and*
 - *Instruct the City General Services Officer (GSO) and the City Accountant to maintain updated Stock Cards and Supplies Ledger Cards and regularly reconcile records to detect discrepancies and effect immediate corrections; and for the GSO to promptly prepare and submit the monthly RSMTs to the City Accountant for recording in compliance with Sections 119 and 120, Volume I, of the MNGAS for LGUs.*
- 4. The balances of Accounts Payable and Due to Officers and Employees accounts amounting to P106,812,850.46 and P9,235,654.43, respectively, are unreliable due to (a) variance of P3,270,639.33 and P3,807,658.15 from their respective subsidiary ledgers' balances, and (b) inclusion of long outstanding payable accounts unclaimed for more than two (2) years contrary to existing rules and regulations prescribed under Section 10, Volume II of the MNGAS for LGUs and Section 98 of PD No. 1445.**

We recommended that Management requires the Accounting Department to:

- *Reconcile their records of Accounts Payable and Due to Officers and Employees account to arrive at a correct/reconciled balances and draw the necessary adjusting entries on the errors committed promptly in compliance with Section 10, Volume II, of the MNGAS for LGUs; and*
- *Analyze and ascertain the validity of long outstanding payables. Those found valid should be paid immediately. On the other hand, recorded*

payables without valid documentation and which have been outstanding for two or more years and against which no actual claim had been filed should be, with prior concurrence of the Sangguniang Panlungsod, reverted to Government Equity, to clear payable accounts, as prescribed under Section 98 of PD No. 1445. Henceforth, only obligations with proper and complete documentation should be recorded in the books of accounts.

Value for Money Audit

- 5. The City of Santiago was unable to utilize P1.226 billion or 77% of the programs and projects out of the P1.585 billion appropriations for 20 percent Development Fund (DF) depriving the intended beneficiaries on the consequential socio-economic and environmental benefits that could have been derived there from.**

We reiterate our prior years' audit recommendation that Management meticulously and judiciously consider projects before its inclusion in the Local Development Fund and Annual Investment Program and promptly implement programs/project/activities embodied in the 20 percent DF in order to achieve the desirable socio-economic and environmental benefits as prescribed under DILG & DBM Joint Memorandum Circular (JMC) No. 2017-1 dated 22 February 2017.

- 6. The efficiency and effectiveness of projects implemented from fund transfers from National Government Agencies with a book balance of P59,489,893.09 were not fully evaluated due to absence of subsidiary records and incomplete submission of Memoranda of Agreement, Status Reports, Liquidation Reports and other pertinent documents to facilitate audit contrary to Section 6 of COA Circular No. 94-013 dated December 13, 1994.**

We recommended that Management direct the City Accountant to prepare and maintain subsidiary records of all fund transfers from National Government Agencies. Likewise, direct all concerned personnel who are directly in-charge in the implementation of projects to regularly submit the required reports and complete supporting documents to the City Accountant and to the Office of the Auditor, in compliance with COA Circular No. 94-013.

- 7. The City Government of Santiago failed to maximize its revenue earning capacity due to non-renewal of the expired lease contracts of five hundred seventy (570) market stallholders or 86% of the total market stalls aging from 5 months to more than 20 years of non-renewal.**

We recommended that Management make representations with the Sangguniang Panlungsod to facilitate the enactment of the Market Code and renewal of lease contracts of market stallholders to maximize the revenue earning capacity of the City.

Other deficiencies noted in audit are discussed in Part II of this report.

E. Status of Audit Suspensions, Disallowances and Charges

Management is continuously making efforts to collect partial payments to COA Disallowances and Suspensions for CY 2018. Details of the status shown below:

Particulars	Balance as of January 1, 2018	CY 2018		Balance as of December 31, 2018
		Issued	Settled	
Suspensions	P -	4,912,089.60	4,912,089.60	-
Disallowances	970,014.76	-	223,330.00	P 746,684.76
Charges	-	-	-	-
Totals	P 970,014.76	4,912,089.60	P 5,135,419.60	P 746,684.76

As can be gleaned above, out of the total balance of disallowance amounting to P970,014.76, P223,330.00 or 23% was settled within the year. As for the suspensions, the total settlement is 4,912,089.60 or 100%.

F. Status of Implementation of Prior Year's Recommendations

Out of the thirteen (13) audit recommendations embodied in the CY 2017 Annual Audit Report, two (2) was fully implemented, two (2) were partially implemented and the remaining nine (9) were not implemented.