

EXECUTIVE SUMMARY

Introduction

The City of Caloocan was created on February 6, 1962 by virtue of Republic Act No. 3278, dubbed as the “Gateway to the North” because of its location and proximity to road networks joining towards North.

Pursuant to Republic Act No. 7160 or the Local Government Code of 1991, the City, like other government units, enjoy its autonomy in managing, deciding and planning its own administrative, fiscal and development affairs in conformity with the national government thrust for sustainable social and economic growth.

For CY 2014, the City had 4,492 plantilla positions distributed among the 36 departments/offices. Of the total, 15 are elective, 1,465 are permanent, 93 are co-terminous, 8 are temporary, 422 are contractual and 2,489 are job-orders.

Operational Highlights

The City’s reported major accomplishments for the year include the following:

- a) The Sangguniang Panlungsod successfully enacted 50 ordinances, passed and approved 150 resolutions;
- b) Acquisition of various medical equipments for its Physical Therapy Program;
- c) Opened a new 3-storey building in the City Hall-North compound named as Social Development Center which housed 5 service oriented offices to cater the needs of its constituents;
- d) Implementation of infrastructure projects such as, construction of school buildings and facilities, other structures, waterworks, roads and bridges in the aggregate amount of P1.211 billion;
- e) Free consultations and check-ups of the least privilege constituents under the health care and social services;
- f) Access to low cost education through the University of Caloocan City;
- g) The Labor and Industrial Relations Office in coordination with the private sector provided jobs to 11,600 applicants; and

- h) Extended financial, dental and burial assistance to 93,100 underprivileged residents.

Highlights of Financial Operations

For CY 2014, the appropriations of the City Government of Caloocan for the General and Special Education Funds totaled ₱7.482 billion. Obligations charged against these appropriations amounted to ₱5.417 billion.

<u>Fund</u>	<u>Appropriation</u>	<u>Obligation</u>
General Fund		
Current	₱ 6,241,389,779	₱ 4,496,614,996
Continuing	783,415,255	486,877,338
	₱ <u>7,024,805,034</u>	₱ <u>4,983,492,334</u>
Special Education Fund		
Current	₱ 436,444,150	₱ 417,215,998
Continuing	20,555,850	16,080,000
	₱ <u>457,000,000</u>	₱ <u>433,295,998</u>
Total	₱ <u>7,481,805,034</u>	₱ <u>5,416,788,332</u>

The operating income of ₱3.913 billion collected during the year was sourced from the following:

<u>Particulars</u>	<u>General Fund</u>	<u>Special Education Fund</u>	<u>Total</u>
Local Taxes	₱ 1,420,616,050	₱ 297,095,793	₱ 1,717,711,853
Internal Revenue Allotment	1,728,454,338	-	1,728,454,338
Permits and Licenses	174,847,514	-	174,847,514
Service Income	148,126,919	-	148,126,919
Business Income	90,116,956	-	90,116,956
Other Income	53,567,047	673,544	54,240,591
Total Operating Income	₱ <u>3,615,728,834</u>	₱ <u>297,769,337</u>	₱ <u>3,913,498,171</u>

Scope of Audit

The audit covered the accounts and operations of the City for the year 2014. The objectives of the Audit are: (a) verify the assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; (c) determine compliance with existing rules and

regulations; and (d) determine the extent of implementation of the prior year's audit recommendations.

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 significant effects of the errors and deficiencies noted in some account balances as discussed in detail in Part II of this report and summarized as follows:

a) Errors

Obs. No.	Nature of Errors	Accounts Affected	Amount and Effect on the FS Under (Over) stated
1.9	Discrepancy between reciprocal accounts	Due to Other Funds Due from Other Funds	28,205,965
1.4	Balance of trust account not appearing in the books	Due to NGAS	(2,425,976)
1.5	Lack of physical and documentary evidence to prove validity and accuracy	Other Current Assets account	178,190,275
<i>Net Financial Impact</i>			203,970,264
<i>Total Assets</i>			11,724,310,068
<i>% to total Asset</i>			.02%

b) Accounting Deficiencies

Obs. No.	Nature of Deficiency/ies	Accounts Affected	Account Balance Affected	Amount Involved
1.2	Unreconciled difference between the book balances and the Physical Report of Property, Plant and Equipment	PPE	P8,484,747,775	P4,334,456,501
1.6	Unreconciled difference between balances per books and Engineering Report	Construction in Progress	697,240,132	314,077,042
1.1	Unreconciled difference between balances per books and per bank	Cash	917,974,168	24,059,041
4.1	Unliquidated cash advances	Cash /Receivables	23,618,881 171,533,171 121,169,359	195,152,552
4.2	Undocumented expenditures	Retained Operating Surplus	588,225,460	38,860,434

For the above deficiencies, we have recommended the following:

a) *On the discrepancy between reciprocal accounts:*

- Identify causes of discrepancies and effect immediate adjustments; and
- Conduct periodic reconciliation to ensure accuracy of the recorded financial transactions

b) *On PPE accounts:*

- 1) require the CGSO to expedite the completion of the physical inventory taking of all City's property and to prepare and submit the corrected reports as required;
- 2) direct the CAO and the CGSO to: (i) conduct regular reconciliation of the physical inventory and property reports as against the accounting records; (ii) maintain complete and updated PPE ledger cards and property cards to facilitate reconciliation of fixed assets account; (iii) review and analyze the details of each PPE account as recorded in the books and as reported in the RPCPPE to determine the correctness and consistency in the classification of PPE items; and
- 3) require the Disposal Committee to submit to CAO documents related to the disposal of unserviceable property and instruct the CAO to prepare the necessary adjusting journal entries to drop from the books the 2,474 units of PPE already disposed of.

c) *On Construction in Progress accounts:*

We have recommended that Management exhaust all possible means to locate relevant documents supporting the negative balance composing the CIP account and to verify the actual status of these reported on-going projects so that necessary adjustment could be made to reflect the correct balance of the said account. Likewise, require the CEO to provide the CAO of report on completed projects regularly as monitoring tool in transferring all completed projects to its appropriate Property, Plant and Equipment (PPE) accounts.

d) *On the unreconciled difference between balances per books and per bank:*

- 1) Management to make strong representation with the PNB to secure the needed bank statements to reconcile and adjust the balance appearing in the books;
- 2) The CAO prepare bank reconciliation for the non-moving accounts maintained with LBP and PNB to reconcile the existing difference of the book and bank balances and record the closure of the said amount;

- 3) Require the CTO to coordinate with the depository bank and enquire on the status of the account for its proper disposition. Likewise, cause the retrieval of bank certificates on equivalent documents relative to the accounts:
- 4) Require the CAO to retrieve the necessary documents relative to reconciling items pertaining to outstanding checks, deposit in transit and unrecorded deposit. Verify the same and effect the necessary adjustments as appropriate; and
- 5) The City Accountant coordinate with the City Treasurer and the authorized officials of the LBP to secure needed information and documents to serve as bases in recording in the books of accounts the outstanding balance of deposit under UHNP, MDP and SDC.

e) On the lack of physical and documentary evidence:

Management: a) require the CAO to exhaust all possible means to locate and retrieve pertinent documents to substantiate the recorded amount of Other Current Asset account; and b) proper recording of data in the subsidiary ledger be strictly observed to ensure that sufficient information is provided therein in order to facilitate verification and reconciliation of the same with the general ledger.

f) On the unliquidated cash advances:

- a) that accountable officers strictly comply with the general guidelines in the liquidation of cash advances provided under COA Circular No. 97-002;
- b) the City Accountant and the City Treasurer strictly monitor the liquidation of cash advances by sending demand letters regularly, particularly to accountable officers and employees who are still in active service, and in case of failure to liquidate the same, despite of the demand, withholding of the payment of any money due them may be made pursuant to the afore-cited Circular.

g) On the undocumented expenditures of the Katipunan Floatation Bond

The CAO exert efforts to gather the necessary documentary proof that will establish the validity and propriety of the expenditures as certified by the PNB. In view of the manifestation of the trustee bank that the necessary documents cannot be located anymore due to the lapse of time, it is advised that secondary evidence and other documents that will prove the incurrence of the expenses be presented.

Other Significant Observations and Recommendations

The following are the other significant findings and recommendations in the audit of the City Government of Caloocan for the year 2014:

1. Unutilized balances of trust fund received from the National Government Agencies was not returned to the source agency - P3.595 million. (Observation No. 1.4, page 33)

We have recommended that Management immediately conduct the necessary reconciliation of the balances appearing in the books as against the respective bank accounts of the aforementioned trust liabilities to facilitate the remittance of the same to the source agency as required under Section 6.7 of COA Circular No. 94-013 dated December 13, 1994.

2. Equipments were not turned-over to the City by officials and employees who were separated from the service – P7.901 million. (Observation No. 1.3, page 32)

We have reiterated our previous year's recommendation that: (a) concerned City officials institute legal actions against the subject accountable persons for the return of all property under their custody/accountability; (b) institute penalties for those applying clearance of retiring personnel. Management should adopt "no clearance without turn-over" policy; (c) strict compliance with the provisions of COA Memorandum No. 93-800 dated March 23, 1993 be enforced to protect the interest of the City Government.

3. The City Assessor's Office was not able to undertake the updating of the Schedule of Fair Market Value (SFMV) of properties. (Observation No. 3.1, page 40)

We have recommended that Management facilitate the updating of its existing SFMV and to undertake the general revision of real property assessments and classification pursuant to Section 219 of RA 7160 to generate additional income necessary to fund priority programs and projects of the City.

4. Lack of basis in the computation of business taxes from 1,315 establishments declaring zero sales. (Observation No. 3.2, page 41)

We have recommended the following:

- 1) Management require taxpayers to submit proof of gross sales/income when applying renewal of business permit or exhaust possible means to obtain the business establishments correct gross receipts for the preceding calendar year thru the Bureau of Internal Revenue (BIR) or the Securities and Exchange Commission (SEC) to serve as basis in the computation of correct business tax due; and
- 2) Stop the practice of collecting taxes from businesses with gross receipts of P50,000.00 and below which is within the taxing power of the barangays.

5. Prior year's balances of Due to GSIS, Due to BIR, Due to PAG-IBIG and Due to PhilHealth amounting to P11.258 million, P3.599 million, P.760 million, and P3.966 million, respectively, remained unremitted. (Observation No. 4.3, page 45)

We have recommended the following:

- 1) Management to strictly adhere with GSIS regulation on the timely remittance of trust collections to avoid delay in the processing of claims or forfeiture of benefit due the employees. The City Accountant is also advised to facilitate review and analysis of the negative and dormant balances of the accounts and effect the necessary adjustments thereof.
 - 2) Form a composite team who will be tasked solely to conduct reconciliation of these payable accounts and closely coordinate with the concerned agencies to facilitate the reconciliation. We further recommended that Management set a timeline to complete the reconciliation activities by the team to be created so that management can settle the subject obligations and accordingly establish the correct balances of the accounts.
6. Specific duties and functions of the hired consultants were not indicated in the Contracts of Service. (Observation No. 4.4, page 47)

We reiterated our previous year's recommendation that Management specify the duties and functions of the consultants in the Contracts of Service as bases in the enforcement of their deliverables to maximize the necessity of hiring their services. Likewise, ensure that hiring of consultants be limited to specific work or jobs requiring special or technical skills and expertise that could not be provided by the regular personnel of the City.

7. Lease of units of the Caloocan City Commercial Complex by 15 occupants were not covered with duly executed lease contracts while 52 occupants failed to pay rental obligations of P4.373 million and surcharges were not imposed on late payments. (VFM Observation No. 2, page 53)

We have recommended the following:

- 1) The Complex Administrator enforce the terms and conditions of the contract and to formulate or device effective strategies that could help in the collection of all unpaid rentals and utilities;
- 2) Concerned office sent demand letters and exert effort to locate the whereabouts of the delinquent tenants that have already ceased operations and coordinate with the City Legal Office for any possible legal action that could be undertaken to enforce collection of prior year's receivables;

- 3) The Certifications issued to 15 occupants be immediately replaced with duly executed Contracts of Lease stipulating the terms and conditions advantageous to the Government; and
- 4) Institute a mechanism whereby the Complex Administrator maybe held accountable for unpaid/uncollected rent.

Other deficiencies noted are presented in Part II of the Report.

Status of Implementation of Prior Year's Audit Recommendations

Of the 41 audit recommendations contained in the CY 2013 Annual Audit Report, 21 were fully implemented, 11 were partially implemented while the remaining nine were not acted upon during the year. The partially and unimplemented recommendations are reiterated in this report.