

EXECUTIVE SUMMARY

A. Introduction

The City of Manila was founded on June 24, 1571 as a municipal government, it became the first chartered City by virtue of the Philippine Commission Act 183 on July 31, 1901 and gained autonomy with the passage of Republic Act No. 409 or the “Revised Charter of the City of Manila” on June 18, 1949. For Calendar Year 2014, the City has envisioned the following goals:

- a) To create a business–friendly environment while it enjoys the built-in potentials of its history, and its natural as well as physical beauty to sustain its stature as the country’s premier center for trade and commerce.
- b) To serve empowered and healthy Manilans living in a peaceful and environment-friendly community.
- c) To enjoy the fruits of a dynamic and responsive local governance embedded in the lifestyle of every career and elective officials as they work together and serve with the stakeholders of all the sectors of society in shaping the envisioned development.

Reported significant accomplishments, among others, during the year were as follows:

- a) Raised revenue collection by 32.54% or P1.08 billion higher than that of 2013;
- b) Installed an integrated Command and Control Center for the disaster management and response traffic control and peace and order improvement to curb corruption especially by the police, fight criminality and traffic violations and also to improve Manila’s disaster preparedness and response;
- c) The City Government have equipped the Manila Disaster Risk Reduction Management Office with amphibious vehicles, rescue boats, ambulances and other equipment under City Ordinance No. 8323;
- d) Implemented the socialized charging in city hospitals through the Orange Card System wherein indigent and the poorest of the poor can get free and adequate health care services and made sure that those with the ability to pay will contribute to the cost of health care services. More than 100,000 poor city residents have been given orange cards for them also to get free dialysis while others will be entitled to substantial discounts based on the ability to pay;
- e) Awarded lots to 135 awardees under the “Land for the Landless Program”;
- f) Provided medical consultation and treatment to at least 2.64 million patients;

- g) The City also managed to bring closure to the disastrous Luneta hostage taking incident and paved the way for better relations between Hongkong and Manila; and
- h) Implementation of early childhood care and development program, children in need of special protection, family and women welfare program and crisis intervention program, among others, by the Manila Department of Social Welfare.

The personnel complement of the City in 2014 totaled as follows:

	Executive Office	City Council	Total
Elected	2	37	39
Permanent	8,972	127	9,099
Co-Terminus	37	462	499
Temporary/Casual	274	805	1,079
Contractual/Job Order	1,198	5	1,203
Total	10,483	1,436	11,919

B. Financial Highlights

The approved budget of the City of Manila for Calendar Year 2014 totaled P12.600 billion. The appropriations for the General and Special Education Funds and obligations charged against these appropriations amounted to P9.124 billion, as follows:

<u>Fund</u>	<u>Appropriations</u>	<u>Obligations</u>
Current Appropriations		
General Fund	P10,900,000,000	P7,830,150,920
Special Education Fund	<u>1,700,000,000</u>	<u>1,293,841,399</u>
Grand Total	<u>P12,600,000,000</u>	<u>P9,123,992,319</u>

The total income of P12.781 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	P5,831,389,960	P1,768,404,469	P7,599,794,429
Internal Revenue Allotment	1,962,647,357		1,962,647,357
Permits and Licenses	457,978,133		457,978,133
Service Income	319,387,469	46,550	319,434,019
Business Income	445,294,322		445,294,322
Subsidy Income	1,814,568,804		1,814,568,804
Other Income	<u>175,528,974</u>	<u>6,049,348</u>	<u>181,578,322</u>
Total Income	<u>P11,006,795,019</u>	<u>P1,774,500,367</u>	<u>P12,781,295,386</u>

C. Scope of the Audit

The audit covered the accounts and operations of the City for the period January 1 to December 31, 2014. The objectives of the audit are to (a) determine the level of assurance that may be placed on management's assertions on the financial statements; (b) verify the propriety of financial transaction and on a limited extent, determine the level of compliance with applicable laws, rules and regulations; (c) recommend agency improvement opportunities; and (d) determine the extent of implementation of prior year's audit recommendation.

D. Auditor's Opinion on the Financial Statements

The Auditor rendered a disclaimer of opinion on the fairness of presentation of the financial statements because (a) the validity, correctness and existence of the reported balance of the Property Plant and Equipment (PPE) account amounting to P12.019 billion could not be ascertained due to the failure of the City to conduct a complete physical inventory of its properties and no inventory report to ascertain the veracity of the PPE book balances; and (b) Disbursement Vouchers (DVs) and supporting documents covering calendar year 2014 for all funds totaling P1.625 billion were not accounted and submitted to the Auditor's Office for audit, contrary to Section 6.05 of COA Circular No. 95-006 dated May 18, 1995, thus the propriety and validity of the said disbursement was also not ascertained.

We have recommended the following:

That Management create an Inventory Committee to conduct a complete physical inventory of the properties of the City. Likewise, the Inventory Committee be required to complete the inventory reports of all offices/departments of the City Government of Manila as of December 31, 2014 and furnish the City Auditor's Office, the City Accountant's Office, and the City General Services Office of the physical inventory report of PPE. The inventory reports be reconciled with the stated accumulated balance of the PPE accounts to establish the correct balances as presented in the financial statements. We further advise that the appropriate NGAS PPE account titles be uniformly used in the inventory reports.

Management cause the immediate submission of the unaccounted and unsubmitted DVs paid in calendar year 2014 pursuant to existing regulations to be able to establish in audit the propriety, validity and regularity of transactions.

E. Other Significant Observations and Recommendations

The following are the other significant observations and recommendations in the audit of the accounts and operations of the City Government of Manila for the year 2014:

1. The Cash in Bank – Local Currency, Current Account is overstated due to unrecorded/unadjusted reconciling items totaling P589.007 million resulting in the unreliability of the reported balance.

We have recommended the following:

- a. The Office of the City Accountant exert effort to locate related documents to the identified unrecorded/unadjusted reconciling items so that necessary adjusting entries be recorded in the books;
 - b. The Office of the City Accountant coordinate with the City Treasurer’s Office to address any issues identified in the preparation of the bank reconciliation statements and that the City Treasurer constantly communicate with the depository banks for the needed documents to ensure timely recording of the adjustments identified;
 - c. The City Accountant review all reconciling items specially unrecorded deposits and stale checks that are still listed as outstanding; and
 - d. The City Accountant promptly prepare and submit to the Auditor the bank reconciliation statements for review.
2. The validity and accuracy of Real Property Tax (RPT) and Special Education Tax (SET) Receivables recognized during the year in the amount of P2.503 billion and P1.429 billion, respectively, is doubtful because these amounts represents the actual tax collected during the year instead of an estimate based on the certified list of taxpayers with the corresponding amount of taxes due from them contrary to Sec. 20 of the New Government Accounting System (NGAS) Manual, Volume I. Moreover, the Deferred Real Property Tax Income with an ending balance of P1.882 million is also inaccurate because it has no corresponding Real Property Tax Receivable balance as of year-end.

We have recommended the following:

- a. The City Treasurer, upon the City Assessor’s completion of its cleansing and editing of the Assessment Roll, come up with the certified list of taxpayers showing the real property taxes due to the City to allow the City Accountant to obtain the correct basis in the setting up of RPT and SET Receivables; and
 - b. The City Accountant conduct verification, analysis and adjustment on the balance of the Deferred Real Property Tax Income account without any corresponding Real Property Tax Receivable balance.
3. The unexpended Priority Development Assistance Fund (PDAF) totaling P58.683 million was not returned to the Bureau of the Treasury for reversion to the unappropriated surplus of the general fund contrary to the Supreme Court Decision.

We have recommended the immediate return of the unexpended PDAF balance to the Bureau of the Treasury for reversion to the general fund of the national government.

4. The appropriation and actual expenses of the City for Personal Services in 2014 exceeded the 45 per cent limitation set under Section 325(a) of the Local Government Code by P1.596 billion and P821.254 million, respectively.

We have recommended that Management ensure that the appropriation and expenses for Personal Services are limited to the required 45 per cent of the total annual income from regular sources realized by the City in the next preceding fiscal year.

5. Fund transfers from the Department of Health (DOH) amounting to P7.254 million remained unliquidated as of December 31, 2014, resulting in the denial of the benefit/s from the program to the intended beneficiaries or the use by the DOH of the unexpended balance on other priority programs and projects.

We have recommended the following:

- a. The City determine the status of all the projects to be financed by the fund and the plan of the City thereon; and enjoin strict compliance with the requirements of COA Circular 94-013; and
 - b. Funds transferred from the DOH be used only for the intended purpose, that proper accounting and reporting be made; and that unused funds allotted for projects that are already completed be returned to the source agency.
6. Affiliation Fees totaling P23.691 million were recorded in the Trust Fund contrary to Section 3(4) of Presidential Decree (PD) 1445, otherwise known as the Government Auditing Code of the Philippines and Section 309 (b) of Republic Act 7160 denying the City to appropriate the same for needed programs and projects.

We have recommended that Affiliation Fees be recognized as revenue and record the same in the General Fund and be included in the City's annual or special appropriation ordinance.

7. Financial Assistance from PAGCOR totaling P213.602 million was allocated to the City Mayor and members of the City Council without legal basis and were spent, without the required joint approval of the City Mayor and the City Council, for projects which are not in line with the specific purpose for which it was extended/granted in violation of Section 309 (b) of Republic Act No. 7160.

We have recommended that management consolidate the Trust Liability for PAGCOR funds into a single account to stop the allocation to individual City Council members. The City Mayor and the City Council jointly approve the project to be funded and the amount of funding required. The approval must include general guidelines to guide the executive in its implementation.

8. Copy of the approved contract and its supporting bidding and technical documents for garbage collection and disposal amounting to P512.507 million was not submitted to the Auditor's Office within five days from its execution. As a result, prompt auditorial and technical review of the contract was not duly conducted.

We have recommended that the Chairman of the Bids and Awards Committee (BAC) and the Head of the Department of Public Services (DPS) ensure that the contract and all its supporting documents, including those required in the auditorial and technical review, be submitted to the Auditor's Office within five (5) calendar days as required under COA Circular No. 2009-001.

9. Taxes withheld from all sources in 2014 and prior years amounting to P41.195 million were not remitted in full to the Bureau of Internal Revenue (BIR) within the period prescribed by BIR Revenue Regulation No. 2-98 dated April 17, 1998. Likewise, a BIR assessment, which has become final and executory in the amount of P560.368 million for taxable year 2007, was unrecorded in the books. In effect, the recorded balance of the account Due to BIR (Code 412) was incorrect.

We have recommended the following:

- a. Management ensure strict compliance with BIR regulations on the prompt and full remittance of taxes withheld within the prescribed period to avoid payment of interests and penalties;
 - b. The City Accountant verify and reconcile the balance of the account Due to BIR under the General Fund with the balances of the other funds for error/s in recording of remittances to the BIR after December 31, 2014;
 - c. The City Accountant record/recognize in the books of accounts the amount of tax liability resulting from a BIR Assessment which has become final and executory and which constitute a valid liability by the City; and
 - d. The City create a team under the Office of the City Accountant consisting of personnel competent on tax matters to monitor and handle tax issues whose primary responsibility is to ensure that the City strictly adheres with BIR regulations, especially with respect to the correct imposition of tax rates and timely remittance of taxes to the BIR.
10. The year-end balance of Due to GSIS amounting to P70.134 million were not remitted in full as required under Section 3.4, Rule II, Implementing Rules and Regulations of GSIS Act of 1997 (RA No. 8291).

We have recommended that Management remit in full the amount due to GSIS within the prescribed period. Otherwise, appropriate penal sanctions may be imposed upon the City officials for violating pertinent provisions of RA No. 8291.

F. Status of Implementation of Prior Year's Audit Recommendations

Of the 37 audit recommendations contained in the CY 2013 Annual Audit Report, nine were implemented, 26 were partially implemented and two were not acted upon.