

EXECUTIVE SUMMARY

A. Introduction

By virtue of Republic Act No. 7854 dated January 2, 1995, the Municipality of Makati was converted into a highly urbanized city to be known as City of Makati. The City has a total land area of 27.36 square kilometers or 2,736 hectares and composed of two congressional districts and is further subdivided into 33 barangays. The mission of the City is to be the model for world-class local governance, providing for the well-being of its citizenry through delivery of the highest level of basic, social and economic services with breakthrough technologies, sustainable financing, and competent, responsible and professional civil servants.

The City Government is headed by Hon. Mayor Jejomar Erwin S. Binay, Jr. together with his Vice-Mayor and 16 City Councilors.

As of December 31, 2014, the City has a total personnel complement of 8,374 consisting of 3,593 regulars, 4,135 casuals, 156 contractuales, 419 job orders and 71 consultants.

B. Financial Highlights

For the Calendar Years 2014 and 2013, the City Government of Makati's assets, liabilities, equity, income and expenses are as follows:

Particulars	2014	2013
Assets	P 42,869,903,677	P 41,322,113,181
Liabilities	8,408,378,742	8,754,717,050
Equity	34,461,524,935	32,567,396,131
Income	11,840,567,304	11,159,949,406
Expenses	9,224,484,474	8,518,879,292
Net Income	2,616,082,830	2,641,070,114

Of the P9.224 billion and P8.519 billion expenses for 2014 and 2013, respectively, the City transferred funds in the form of subsidies to various National Government Agencies, other Local Government Units and Government Owned and/or Controlled Corporations amounting to P708.677 million and P521.471 million, respectively, as follows:

Particulars	2014	2013
Subsidies to:		
NGAs	P 651,117,292	P 492,857,960
Other LGUs	5,033,000	-
GOCCs	<u>52,526,400</u>	<u>28,612,800</u>
Total Subsidies	<u>P 708,676,692</u>	<u>P 521,470,760</u>

The P651.117 million subsidies to NGAs consists of MMDA's share on Internal Revenue Allotment amounting to P463.444 million, salaries and allowances to employees of national government agencies amounting to P125.086 million, incentives to teachers deployed in the various schools in Makati amounting to P42.631 million and assistance to court judges and employees amounting to P19.956 million.

The P5.033 million subsidies to other LGUs pertain solely to the aid granted by the City to the 33 barangays under its jurisdiction.

The P52.526 million subsidies to GOCCs consist of the funds transferred to Philippine Health Insurance Corporation (PhilHealth) as financial assistance.

The appropriations of the City for the General and the Special Education Funds totalled P16.385 billion and P16.042 billion, respectively. Obligations charged against these appropriations amounted to P9.420 billion and P10.230 billion, respectively.

Fund	Appropriations	Obligations
2014		
General Fund	P14,505,825,599	P 8,063,576,171
Special Education Fund	<u>1,878,994,895</u>	<u>1,356,693,155</u>
Total	<u>P16,384,820,494</u>	<u>P9,420,269,326</u>
2013		
General Fund	P14,358,102,988	P 8,707,369,262
Special Education Fund	<u>1,683,956,928</u>	<u>1,522,832,575</u>
Total	<u>P16,042,059,716</u>	<u>P10,230,201,837</u>

C. Scope of Audit

The scope of audit covered the accounts and operations of the City of Makati for the year ended December 31, 2014. The audit was designed to determine the level of assurance that may be placed on management's assertions on the financial statements, to verify the propriety of the financial transaction and, on a limited extent, determine the level of compliance with applicable laws, rules and regulations, to recommend to

the agency improvement opportunities, and to determine the extent of implementation of prior year's audit recommendation.

D. Auditor's Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the City of Makati due to accounting errors and deficiencies that materially affected the reliability of the account balances as discussed in Part II of the report and summarized as follows:

a) Accounting Errors

	Nature of Errors	Account/s Affected	Amount and Effect on the FS Under(OVER) stated (in millions)	% of Error to Account Balance
1	Unserviceable properties still included under the PPE accounts.	Property, Plant and Equipment	P (43.452)	(.15%)
2	Unrecorded accrued interest income at year-end.	Interest Receivable and Interest Income	11.886	14.65%
3	Misclassification of accounts made on projects related to LDRRMF.	Roads, Highways and Bridges	(2.218)	(3.68%)
		Waterways, Aqueducts, Seawells and Riverwells	2.218	39.46%
Total Errors Affecting the FS			P 59.738	-
Total Assets			42,869.904	-
Total Percentage of Errors to Total Assets			.1393%	-

b) Accounting Deficiencies

	Nature of Deficiencies	Account/s Affected	Amount Involved (in millions)
1	Unreconciled discrepancy between the physical count and the reported year-end balance of PPE.	Property, Plant and Equipment	P 647.862
2	Doubtful validity of Accounts Payable due to lack of supporting documents.	Accounts Payable	430.737
3	Unliquidated cash advances and unrecorded expenses.	Due from Officers and Employees	209.825
Total Deficiencies			P 1,288.424

For the above errors and deficiencies, we recommended the following:

For Property, Plant and Equipment:

- All items costing P10,000 and below that was previously classified as equipment be reclassified as supplies inventory;
- That the necessary guidelines in the conduct of inventory be finalized and issued as a guide in the conduct of inventory by the Committee;
- That for the time being that the guidelines are still under review and approval, the GSD and Accounting Department personnel exert effort to reconcile the book and property records and to effect correcting entries when properly supported with documentation; and
- That the GSD inform the Accounting Department of the unserviceable properties and the latter to effect in the books of accounts the transfer of these properties to Other Assets account pending disposal thereof.

For Accounts Payable:

- That the City Government recognize liability only when goods are delivered and/or accepted and when services are rendered.

For Receivable:

- That the City Accounting Department record the accrued interest income in compliance with the applicable legal provisions.

For Due from Officers and Employees:

- Management to strictly adhere with the governing law, rules and regulations on the grant, utilization and liquidation of cash advances;
- Ensure that City employees due for retirement are not be given clearance for money and property accountability unless their unliquidated cash advances are first settled. Failure to do so will make the approving authority primary liable as provided under Sections 102 and 104 of P.D. 1445; and
- Gather all pertinent and relevant documents to support the City's further request for an authority to write off the remaining unliquidated balance of the deceased accountable officers.

E. Other Significant Observations and Recommendations

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

1. The City of Makati maintained deposits with Philippine National Bank (PNB) which has ceased to be an Authorized Government Depository Bank (AGDB).

We have recommended that:

- a. The City Treasurer and concerned City Officials adhere and comply with the Department Order No. 27-05 of the DOF and that time deposits be closed and transferred to an AGDB upon maturity of the term to avoid pre-termination fees and charges; and
 - b. The Current Account with PNB be closed and transferred to an AGDB, either with LBP or DBP at the City's discretion, putting however into consideration the current interest rates offered by LBP or DBP.
2. All projects under the 20% Development Fund for CY 2014 were not implemented.

We have recommended that the City Government see to it that funds allocated to the 20% Development Funds are utilized and expended in accordance with the projects/programs covered under the 20% Development Fund in order to meet the very purpose for which the fund was established.

3. A total of P185.451 million of documentary stamps tax and interest expense had been incurred by the City Government for the Omnibus Term Loan Facility (OTLF) drawdown totalling P2.520 billion which could have been avoided had the City re-appropriated/re-aligned the available cash instead of availing the P5 billion OTLF from the Land Bank of the Philippines (LBP).

We have recommended that:

- a. Management consider pre-terminating its outstanding OTLF with the LBP totalling P2.406 billion as of December 31, 2014 since the balance of time deposit account in the General Fund Proper alone is more than enough to settle the outstanding balance of the OTLF and that payment of P1.041 billion of the projects/taxes chargeable to the Bank Loan has already been paid by the City; and
- b. Before availing a loan, a feasibility study be conducted by the Local Finance Committee or Management to determine the available cash that could be re-appropriated/re-aligned for priority projects since the interest rate of 5 percent imposed to loans is much higher as compared with 1 percent effective rate of

interest given to time deposit. In addition, documentary stamps equivalent to one half of 1 percent is imposed on the gross amount of loan availed, plus assignment of the Internal Revenue Allotment of the City, as collateral/security for the loan, depriving the use of this income during the year of receipt.

4. Audit suspensions and disallowances amounting to P0.943 million and P14.222 million, respectively, remained unsettled as of December 31, 2014.

We have recommended that Management exhaust all remedies provided for by law and regulations in enforcing the settlement of the audit disallowances.

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

Of the 20 audit recommendations contained in the 2013 Annual Audit Report, 9 were fully implemented and 11 were partially implemented by the agency.