

Executive Summary

Quezon City, the largest city in Metro Manila in terms of population and land area, was created on October 12, 1939 pursuant to Commonwealth Act No. 502. The mission of the Quezon City Government is to provide quality service which will make it an ideal community where people live, work, and do business in a hospitable, progressive and peaceful environment. It envisions itself to be a model of effective governance and responsible leadership, working in partnership with the citizenry in building a quality community.

As of December 31, 2014, the Quezon City Government has a total personnel complement of 15,042 consisting of 4,756 permanent, 377 consultants, 7,758 contractual and 2,151 job contract employees.

Financial Highlights

For CY 2014, the appropriations of the Quezon City Government for the General and Special Education Funds totaled P17.034 billion. Obligations charged against these appropriations amounted to P12.752 billion.

Fund	Appropriations	Obligations
General Fund	P 15,514,544,616	P 11,462,742,001
Special Education Fund	<u>1,520,000,000</u>	<u>1,289,599,160</u>
	<u>P 17,034,544,616</u>	<u>P 12,752,341,161</u>

The operating income of P13.881 billion collected during the year was sourced from the following:

Particulars	General Fund	Special Education Fund	Total
Local Taxes	8,377,124,851	1,066,238,208	9,443,363,059
Internal Revenue			
Allotment	3,156,526,258		3,156,526,258
Permits and Licenses	351,257,112		351,257,112
Service Income	294,579,715		294,579,715
Business Income	187,013,898		187,013,898
Other Income	443,933,763	4,398,968	448,332,731
Total Operating Income	<u>12,810,435,596</u>	<u>1,070,637,176</u>	<u>13,881,072,772</u>

Scope of the Audit

The audit covered the accounts and operations of the City for the year ended December 31, 2014 and was aimed at determining whether management presented fairly the financial statements of the City in adherence to the generally accepted accounting principles in the Philippines; whether prevailing laws, rules and regulations have been

complied with; and whether funds were utilized in the most efficient, effective and economical manner. Financial and compliance audits which included the common audit thrusts per Audit Instructions for CY 2014 were conducted to achieve these audit objectives. Performance evaluation was conducted and disclosed that major programs of the City for CY 2014 were substantially accomplished.

Auditor's Opinion on the Financial Statements

The Auditor did not render an opinion on the fairness of presentation of the financial statements because of the following: (a) the existence/validity of the assets and liabilities totaling P8.761 billion and P113.377 million, respectively, initially recorded as “unreconciled beginning balances” in the eNGAS subsidiary ledgers could not be ascertained due to the inability of the City Accounting Department to reclassify them to their appropriate subsidiary ledger accounts and provide details as required under Section 10, Volume II of the NGAS Manual; and (b) the overstatement/understatement of the Cash in Bank, Investment and Government Equity accounts due to unrecorded paid vouchers/payrolls and unsupported prior years reconciling items totaling P225.515 million, cash in bank account on real property tax collections of P19.181 million, bond premium on investment amounting P31.014 million; and interest income on investment of P23.395 million. These precluded the Auditor to perform audit procedures to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

We have recommended the following:

A. On the unreconciled beginning balance

- The City Accounting Department (CAD) in coordination with the other concerned departments particularly the City Treasurer's Office, General Services Department and the Engineering Department continue to exert effort in the retrieval of records/reports from their respective files that would establish the details of the transactions that took place before CY 2003 in order to reclassify the “Unreconciled Beginning Balances” to the appropriate subsidiary ledgers.
- The concerned Inventory Committee expedite the completion of the reconciliation of the results of the physical inventory of property with the records of the CAD pursuant to COA Circular No. 92-386 dated October 20, 1992.
- Management require the appraisal of all property with no acquisition costs to provide reference for their estimated values, remaining useful lives and dates constructed/acquired.

B. On the overstatement/understatement of the Cash in Bank, Investment and Government Equity accounts due to:

- Unrecorded paid vouchers/payrolls and unsupported prior years reconciling items-
 - City Treasurer
 - Exert extra effort in locating the missing DVs/Payrolls and other supporting papers pertaining to prior years. Cause the reconstruction of said documents, if necessary, by obtaining secondary evidence to account for actual disbursements;
 - Require the immediate submission of documents on the unrecorded transactions to CAD;
 - Secure from the bank copies of bank credit and debit advices/memos for recording by the CAD in the books.
 - City Accountant
 - Prepare necessary entries for reconciling items already identified to be adjusted in the books;
 - Coordinate with the City Treasurer's Office (CTO) for the immediate clearing of reconciling items that need to be consulted with the bank concerned and for appropriate action/adjustment in their records; and
 - In coordination with CTO, exert effort to analyze further the accounts, determine the reasons for the non-movement and make necessary adjustments to correct the balances per books.
- Unrecorded cash in bank account on real property tax collections-
 - CTO request the concerned accredited banks for the submission of data to support the said collections of RPTs in order for the CAD to record them in the books.
- Unrecorded bond premium and interest income on investments-
 - CAD in coordination with the CTO
 - Analyze and make the necessary adjustment to close the Investment account in the amount of P31.014 million and correct the interest earned thereon; and
 - Request from Security Bank Corporation for data/documents on the current status of the said investment in bonds to update/correct the balance of said account in the books.

Other Significant Observations and Recommendations

The following are the other significant observations and recommendations included in Part II of the report:

1. Unreconciled and non-moving PPE accounts – P22.024 billion. (Finding No. 7 page 54)

We have recommended the following:

- The Inventory Committee in coordination with the City General Services Department (CGSD) and CAD exert efforts in the completion of the reconciliation of the physical inventory with the property and accounting records;

- Management assign an appraisal committee or consider hiring an independent appraiser to establish the reasonable costs or appraised values of the PPEs particularly the real property in order to record them in the books;
- Property Officer, CGSD, CAD determine and effect the proper documentation and immediate disposition of all the unserviceable property.

We have also reiterated the following recommendations:

- The Property Officer of each department maintain updated and properly accomplished property cards for property accountabilities; and
 - The CAD, CGSD and Property Officer of each department to set-up an effective system by which:
 - They could keep track and capture the related transactions on PPE;
 - Their PPE records are reconciled regularly and adjusted accordingly; and
 - The results of the physical count of PPE are promptly reconciled with accountabilities recorded in the books of accounts and the property cards.
 - The CAD to:
 - Include pertinent details in the property description (e.g. serial, plate, motor and chassis numbers, etc) in the recording of the PPE in the eNGAS; and
 - Exert effort in locating or producing the documents to support the legitimacy of the undocumented PPE account balances and henceforth, strengthen the control over documentation of all financial transactions.
2. Management was not able to meet its revenue projections for the year by P405.864 million. (Finding No. 9, page 62)

We have recommended that the City Treasury:

- Update the databases for reference in the review of performance.
- Keep an updated database for amusement places and monitor amusement activities to ensure that these establishments/promoters pay the correct amount of taxes.
- Closely monitor income generated from Markets and Slaughterhouses to ensure efficient collection. Prepare recommendation for the Sangguniang Panlungsod for the updating of the Ordinance in the operation of slaughterhouses particularly the enforced fees and charges; for the time being, strictly implement the existing policies on the manner and time of payment by the taxpayers.
- Continue to look for possible ways by which funds that are in the depository banks be placed in financial institutions acceptable under existing rules and regulations to assure high yielding interest income.
- Intensify further the collection of business tax. Offices in charge with assessment and collection of business tax should undertake the following courses of actions:
 - Endeavor to match the database of business establishments in the City with those barangays issuing clearances for the purpose of securing permits to operate. Matching of business establishments can both help the City to track business establishments operating without the required permits/licenses; and

- Require the submission of complete documentation of the financial records from taxpayers for validation of the correct amount paid. Consider the possibility of establishing linkage with the Bureau of Internal Revenue through modern technology in order to do away manual intervention in the assessment of business taxes.
- Recommend for the amendments to the ordinance granting discount to advance payments pursuant to Article 342 of the Local Government Code.
- Require the Budget Department to correctly capture in their records the estimates of income from owners of real property units that remained idle and taxable pursuant to the provisions of the Revenue Code. This is in order to account fully the increases or decreases in revenue generation for responsive decision making.
- Implement a collection drive from owners/proprietors of businesses that utilized trucks/vans/motor vehicles in the delivery of any product or servicing business customers within the City and who did not pay the correct tax for this purpose particularly those identified in the COA audit. Require the declaration of gross receipts of taxpayers to include information on the delivery trucks and vans used in business operations.
- Provide facility to segregate proceeds from Tax on Printing and Publication for accurate presentation of account in the financial statements.
- Be sensitive on issues involving personnel in the assessment and collection of taxes as to whether they are performing their mandated functions on public accountability and seeing to it that revenues or income are correctly imposed, assessed, collected and remitted to the coffers of the government. Appropriate action should be initiated against personnel not complying with the requirements of law, rules, regulations and existing policies of the City.

Summary of total suspensions, disallowances and charges

Unsettled audit suspensions and disallowances amounted to P198.974 million and P8.248 million, respectively, at the end of the year.

We have reiterated that the City Accountant immediately enforce the settlement of all audit suspensions and disallowances in compliance with Sections 5.4 and 7.1.1, Chapter II of COA Circular No. 2009-006 dated September 15, 2009; and Management to be more vigilant in the implementation of the existing accounting and auditing rules and regulations in the processing of claims to avoid possible audit suspensions and disallowances.

Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Monitoring of the implementation of the 55 audit recommendations contained in the CYs 2011, 2012 and 2013 Annual Audit Reports revealed that six or 11% were fully implemented, 34 or 62% were partially implemented while 15 or 27% were not acted upon.