

EXECUTIVE SUMMARY

Introduction

For the year 2014, the objectives of the City are to strengthen feedback mechanism through public awareness on the citizen's charter, to resolve gaps in program implementation to make its governance truly responsive and to pursue and attain the strategic map of the City. Still, the focus of Mayor Guia G. Gomez' governance is "San Juan: The City of Excellence" with its mission of formulating and adopting plans and programs of the City, developing human resources through accessible programs from local, national and international sources and enacting relevant legislation responsive to the needs of the City.

The City has a 1,388 personnel complement with breakdown as follows:

Elective Officials	14
Permanent	489
Casuals	262
Contractual	288
Co-terminus	18
Job Order	317
Total	1,388

The following are the major accomplishments of the City for 2014:

1. Construction of three-storey, nine-classroom building (Phase I) in Pinaglabanan Elementary School
2. Land development (Phase II) for the housing project in Barangay St. Joseph
3. Installation of CCTV cameras for quick disaster response and monitoring
4. Free medical check-up and medicines, three-year nutrition program, prevention of malnutrition and worsening nutritional status and anti-dengue campaign
5. Improvements/rehabilitation, maintenance and repair of various roads, drainage systems and buildings
6. Continuous education of Barangay Tanods and other force multipliers in crime awareness, prevention and control of drug abuse and other harmful vices and ensure fire safety measure.

Financial Highlights

	CY 2014	CY 2013
Assets	3,450,364,438	3,371,020,082
Liabilities	807,280,316	1,267,600,874
Government Equity	2,246,685,110	2,103,419,208
Income	1,335,896,346	1,131,176,068
Expenses	1,023,834,684	1,023,488,115

For 2014, the City realized a total income of P1.336 billion from local taxes, internal revenue allotment, permits and licenses, service income, business income and other income. Of the total appropriations of P1.693 billion, P1.233 billion was obligated during the year.

Fund	Appropriation	Obligation
Current Appropriation		
General Fund	P 1,410,147,975.70	P1,090,078,335.07
Special Education Fund	118,400,000.00	110,318,649.47
Sub-total	1, 528,547,975.70	1, 200,396,984.54
Continuing Appropriation		
General Fund	161,248,315.60	29,666,326.88
Special Education Fund	3,709,240.79	3,227,070.00
Sub-total	164,957,556.39	32,893,396.88
Total	P 1,693,505,532.09	P1,233,290,381.42

The operating income of P1.336 billion collected during the year was sourced from the following:

Particulars	General Fund	Special Education Fund	Total
Local Taxes	P 772,473,819.68	P116,464,692.28	P 888,938,511.96
Internal Revenue Allotment	272,292,346.00	-	272,292,346.00
Permits and Licenses	48,954,978.34	-	48,954,978.34
Service Income	20,357,404.83	-	20,357,404.83
Business Income	91,817,607.36	-	91,817,607.36
Other Income	13,068,723.35	466,773.60	13,535,496.95
Total	P1,218,964,879.56	P 116,931,465.88	P 1,335,896,345.44

Scope of Audit

The audit covered the accounts and operations of the City of San Juan for the year ended December 31, 2014. The objectives of the audit are to: (a) be able to lend credence to 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 prior year's audit recommendations.

Auditor's Opinion

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to accounting errors and deficiencies noted in audit. The status of the City's records did not permit the application of alternative audit procedures to establish the

validity, propriety and accuracy of the Property and Equipment accounts, Real Property Tax Receivables, Special Education Tax Receivables, Deferred Tax Income, Accounts Receivable and Cash in Bank accounts discussed in detail in Part II of the report and summarized below.

a) Errors affecting Asset Accounts

Obs. No.	Nature of Errors	Accounts Affected	Amount and Effects on FS Under(Over) stated (In Millions)	% of Error to Account Balance (In Millions)
1	Erroneous recording of dishonored checks to Accounts Receivables	Accounts Receivable Appropriate Income account	0.297	23.87
3	Negative balance in Cash-in-Bank of San Juan Medical Center	Cash-in-Bank	0.503	0.07
<i>Total Errors</i>			0.800	
<i>Total Assets</i>			3,450.364	
<i>Percentage to Total Assets</i>			0.02%	

b) Deficiencies

Obs. No.	Nature of Errors	Accounts Affected	Accounts Balance Affected (In Millions)	Amount Involved
1	Unreliable balance of real property tax receivables and deferred tax income due to: a. No breakdown of RPT/SET Receivables resulting in inaccurate tax receivables and deferred tax income	RPT Receivables SET Receivables Deferred Tax Income	168.744 48.464 217.208	168.744 48.464 217.208

Obs. No.	Nature of Errors	Accounts Affected	Accounts Balance Affected (In Millions)	Amount Involved
2	a. Unreconciled variance between the Report on the Physical Count of PPE and the City Accounting Department Schedule of PPE	Hospital Equipment Motor Vehicles Land Improvements Buildings Hospital and Health Centers Electrification, Power and Energy Structures Office Equipment Furniture and Fixtures IT Equipment and Software Communication Equipment Disaster Response and Rescue Equipment Medical, Dental and Laboratory Equipment Military and Police Equipment Sports Equipment Other Machineries and Equipment Total	25.920 48.132 13.615 1,088.893 59.060 54.869 21.099 80.839 50.646 3.151 52.526 1.962 1.249 0.940 <u>41.740</u> 1,544.641	(4.920) (11.563) 14.792 20.009 0.080 0.192 19.749 38.459 41.353 2.536 18.589 0.001 1.443 0.364 <u>15.718</u> 156.802
	b. Non-inclusion of PPE items in the RPCPPE	Library Books Technical and Scientific Equipment Watercrafts Other Transportation Equipment Other PPE Total	4.147 144.274 19.757 0.545 <u>69.931</u> 238.654	4.147 144.274 19.757 0.545 <u>69.931</u> 238.654

For the errors and deficiencies noted, we have recommended the following:

For the unreliable balance of the Real Property and Special Education Tax Receivables, Deferred Tax Income and Accounts Receivable:

City Accounting Department to –

- a. Secure from the City Treasury Department (CTD) to submit a schedule of Certified List of Taxpayers as an attachment to the Summary Report transmitted/submitted;

- b. Set-up the correct tax receivables and deferred tax income based not only on the Summary Report or the adjustment on the difference between the reported collectibles by the CTD and prior year's ending balances of the tax receivable accounts recorded in the books, but on the certified list of taxpayers indicating the amount due and collectible for the current year;
- c. Prepare Journal Entry Voucher (JEV) taking up the dishonoured checks to restore the Real Property Tax (RPT)/Special Education Tax (SET) Receivables and corresponding income accounts;
- d. Review all accounts/entries reflected in the general journal through journal entry vouchers to ensure that all recorded adjustments are correct and complete; and
- e. Make sure that encoded corrections in the computerized accounting records are authorized and have valid supporting documents, and have paper trail for reference/audit purposes.

City Treasury Department to –

- a. Compute for the real property tax due for the ensuing year for each individual taxpayer based on the assessed value of the property;
- b. Regularly update the manually maintained RPT Account Register/Taxpayer's Index Card for proper monitoring of individual taxpayer's account;
- c. Regularly undertake reconciliation of the data in the index cards and the files in MS Excel format as well as the manual files against the City Assessor's Office records;
- d. Accept manager's or cashier's checks, and post-dated checks only for those covered by a compromise agreement, but not personal checks as payment of local taxes and other charges to comply with government rules and the memorandum of the then City Treasurer, and more importantly to avoid bank dishonor and non-collection;
- e. Cancel the compromise agreement when the taxpayer incurred default in the payment of his obligation and consequently demand the full amount of taxes and penalties due;
- f. Cancel the official receipts (hard copy and in the computerized system) immediately after receipt of the notice from the bank that the checks have been dishonoured;
- g. Undertake reversion or restoration of collectibles in the index cards of the taxpayers with dishonored checks; and make sure that the deduction from the respective delinquent account is done only upon replacement of the dishonored check;
- h. Submit the certified list of all real property tax delinquencies to the Sangguniang Panlungsod on or before December 31 of the year immediately succeeding the year in which the delinquencies were incurred to request for assistance in the collection of the same;
- i. Exert more efforts and formulate strategies to be able to collect the unpaid RPT for more than 10 years;
- j. Regularly send demand letters to delinquent taxpayers to avoid prescription of the period within which to collect the tax;

- k. Consider enforcing remedies for collection of the unpaid taxes for more than 10 years, such as subjecting the property to public auction; and
- l. Ensure that the list of taxpayers being generated by the system as the basis for the set-up of receivables is accurate.

For the Property and Equipment:

City General Service Department to –

- a. Reconcile the result of inventory taking with property and accounting records and account for the remaining variance amounting to P156,734,972.17; and
- b. Prepare and use the proper format of the IIRUP for the unserviceable property, and facilitate its proper disposal in accordance with government rules.

City Accounting Department to –

- a. Exert more effort to reconstruct the details of the beginning balances; and
- b. Complete the reconciliation of the accounting records with the updated/reconciled property records to arrive at the correct balance of PPE.

Other Significant Observations and Recommendations

Summarized hereunder are the other significant observations and recommendations contained in the report:

The City's computerized systems attendant of deficiencies, such as:

- 1.1 Lack of data back-up kept off-site for the computerized systems
- 1.2 Contract deficiencies
- 1.3 Absence of turn-over of ownership of the computerized systems
- 1.4 Absence of system up-grade as mentioned in the contract
- 1.5 Unfavorable effect to City revenues
- 1.6 Cost to maintain significantly higher
- 1.7 Non-monitoring of the computerized systems by the City
- 1.8 Non-observance of control requirements and lack of security features

We have recommended that Management:

- a. Always keep and maintain an off-site back-up for the database of the computerized systems as a part of a disaster recovery plan to ensure reloading in case of catastrophe, accidental error or system crash;
- b. Refrain from entering into open-ended contracts not only pertaining to computerization but in all aspects of City operations to have enough room to exercise multiple options for its benefit;

- c. Opt for shorter contract periods so that in case of unacceptable service rendered, the City will be easily able to engage other service providers;
- d. Require the City Legal Department to thoroughly review the agreement prior to its approval, and make sure to include the following and other relevant matters for the City's protection:
 - a penalty clause for non-performance which may include rescission of the contract;
 - a safety provision in case of discontinuance of operation and maintenance of the systems, and penal clause in case of unauthorized data take out;
 - inventory of hardware (terminals, servers, etc.) and software applications/systems provided by the Service Provider;
 - corresponding replacement of the hardware/equipment in case of repair or pull out;
 - contingency planning by the Service Provider to ensure continuous service to the City;
 - work plan with timelines as basis for monitoring of accomplishments;
 - definition of interfacing with the Service Provider's partner;
- e. Determine the capability of the City and the cost to operate and maintain the computerized systems on its own, and establish a core unit for such an endeavor keeping in mind economy and efficiency;
- f. Demand for the turn-over of the ownership of the computerized systems to protect the City's interests;
- g. Require the Service Provider to install the latest and necessary upgrades as stipulated in the agreements to ensure that the computerized systems do not become outdated. Upgrades do not only take the form of additional command or feature or change of user, but modern or up-to-date versions of the applications;
- h. Exercise due diligence pertaining to costs/contract price always taking into consideration value for money, ultimate advantage, product quality and the best interests of the City and its constituents;
- i. Require for inclusion in the computerized systems of internal controls, such as audit trail for change in system and data, system's computation and other security features;
- j. Establish and apply – 1) Information Technology policies and procedures that relates to the City's relationship with the Service Provider; 2) Policies specifically addressing contracts, definition of content of contracts, owner or relationship managers responsible for ensuring contracts are created, maintained, monitored and renegotiated as required; 3) Definition in the contract or in other official document interfaces with the partner of AB Net, the Systems and Plan Integrator and Development Corporation; and
- k. Monitor on a regular basis the accomplishments of the Service Provider and its partner and issue feedback through an Assessment Report making follow up on issues that need to be immediately addressed.

Summary of Suspensions, Disallowances and Charges

The suspensions and disallowances totaling P77,226,423 includes unsettled disallowances amounting to P7,402,706 issued prior to the implementation of COA Circular 2009-006. For Calendar Year 2014, there were seven Notices of Suspension totaling P69,373,717 issued during the period. Out of the total amount, P28,877,457 were settled on January 21, 2015, leaving a balance of P40,496,260.

Status of Implementation of Prior Years' Audit Recommendations

Of the 20 recommendations contained in the previous year's Annual Audit Report, 10 were fully implemented, nine were partially implemented and one was not implemented.