

## EXECUTIVE SUMMARY

### I. Introduction

#### Agency Profile

The Province of Negros Occidental is a first class Province whose economy is mainly agricultural. Its strategic development plan is anchored on self-reliance and self-sufficiency to change the landscape of poverty into prosperity thru the NEGROS FIRST Development Agenda.

NEGROS FIRST stands for Natural Resources Management, Economic Development, Good Governance, Reduction of Poverty, Optimum Health Care, and Strong Support for Education, Food Security, I.C.T Utilization, Roads Improvement, Social Services, and Tourism Promotion. It seeks to optimize the potentials of Negros Occidental as an agricultural province to ensure food sufficiency and agricultural productivity as well as generate livelihood especially for the poor and marginalized, with the principles of sustainable development as envisioned by a God-centered leadership of the incumbent elected officials.

### II. Financial Highlights

#### a) Assets, Liabilities, Equity, Income and Expense

For CY 2017, total assets of the Province is ₱12,889,030,560.18 while total liabilities is ₱5,176,994,497.06 and Government Equity is ₱7,712,036,063.12.

Liquidity ratios measure the ability of the Province to meet its short-term obligations, thus, as shown below, it is less likely to fall into financial difficulties. Financial leverage, likewise, measures the Agency's financial solvency and dependency upon its borrowings. The debt-to-equity ratio below gives indication that the Province has got enough financial resources to cover its financial obligations:

	<u>2017</u>
Current Ratio	1.76:1
Quick Assets Ratio	1.74:1
Debt-to-Equity Ratio	0.67:1
Net Working Capital	₱ 1,490,534,450.31

#### b) Sources and Application of Funds

The Province generated total revenue of ₱3,515,068,938.61 in CY 2017 which is 8.93% higher than last year's ₱3,227,006,771.82. The bulk of which came from the share from Internal Revenue Allotment of ₱2,832,272,341.00 or 80.58%. Service and Business Income, Shares, Grants and Donations, Tax Revenues and Other Income aggregate ₱682,796,597.61 or 19.42%.

This year's operating expenses consists of ₱1,229,047,750.06 for Personal Services, ₱876,925,159.41 for Maintenance and Other Operating Expenses, ₱48,284,863.84 for Financial Expenses and ₱120,472,377.87 for Non-Cash Expenses.

Total current operating expenditures increased by 3.70% or ₱81,175,901.73 from ₱2,193,554,249.45 in 2016 to ₱2,274,730,151.18 in 2017.

Profitability ratios measure the Agency's ability to generate earnings relative to its assets and equity. The following ratios highlight how the Province managed its profitability effectively:

	<u>2017</u>
Operating Income	0.35:1
Net Income	0.28:1
Return on Total Assets	0.08:1

### c) Appropriations

The Province has total current appropriations of ₱7,096,221,536.98 for CY 2017 consisting of ₱6,956,276,246.38 for the General Fund, Economic Enterprise and Hospital Operations Department (HOD), and ₱139,945,290.60 for Special Education Fund broken down as follows:

	<u>Gen. Fund and EEDD &amp; HOD</u>	<u>SEF</u>	<u>Total</u>
Personal Services	₱ 1,692,573,671.00	₱ 2,667,946.00	₱ 1,695,241,617.00
MOOE	3,270,605,378.94	60,332,054.00	3,330,937,432.94
Capital Outlay	1,975,097,196.44	76,945,290.60	2,052,042,487.04
Financial Expenses	18,000,000.00	0.00	18,000,000.00
Total	₱ <u>6,956,276,246.38</u>	₱ <u>139,945,290.60</u>	₱ <u>7,096,221,536.98</u>

### d) Obligations

During the year, the Province incurred total obligations ₱5,980,763,671.50 consisting of ₱5,890,700,296.15 and ₱90,063,375.35 for the General, HOD & EEDD and Special Education Funds, respectively.

	<u>Gen. Fund &amp; EEDD &amp; HOD</u>	<u>SEF</u>	<u>Total</u>
Personal Services	₱ 1,222,343,751.47	₱ 984,772.60	₱ 1,223,328,524.07
MOOE	2,967,331,233.04	40,697,142.45	3,008,028,375.49
Capital Outlay	1,683,453,527.49	48,381,460.30	1,731,834,987.79
Financial Expenses	17,571,784.15	0.00	17,571,784.15
Total	₱ <u>5,890,700,296.15</u>	₱ <u>90,063,375.35</u>	₱ <u>5,980,763,671.50</u>

Appropriations and Obligations incurred out of the Capital Outlay – Continuing Appropriations for the year is ₱ 352,647,732.44 and ₱300,016,717.18, respectively, leaving a balance of ₱52,631,015.26.

### **III. Scope of Audit**

The audit was conducted to ascertain the propriety of financial transactions and compliance to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements. A verification of the implementation of prior years' audit recommendations was also undertaken.

In compliance with unnumbered Memorandum dated October 12, 2017 of the Assistant Commissioner, Local Government Sector, COA, Quezon City, the following are the significant thrust areas that were looked into by the Audit Team:

1. Fund Transfers to Non-Government Organizations (NGOs) /People's Organizations (POs) and Other LGUs
2. Fund Transfers from National Government Agencies (NGAs) to Local Government Agencies (LGUs) – Conditional Matching Grant to Provinces and KALSADA Program
3. Local Disaster Risk Reduction Management Fund (LDRRMF)
4. 20% Development Fund
5. Special Education Fund
6. Gender and Development
7. Procurement
8. Cash and Cash Accounts
9. Revenue

A performance audit was likewise conducted on the 2016 KALSADA Program and CY 2017 Conditional Matching Grant to Provinces. However, due to time constraint, evaluation/inspection of project under the Bottom-up Budgeting (BUB), Salintubig, PAMANA Program, 20% Development Fund, Local Disaster Risk Reduction Management Fund (LDRRMF) and Fund Transfer from National Government Agencies were not conducted.

### **IV. Auditor's Opinion on the Financial Statements**

The auditor rendered a qualified opinion on the fairness of presentation of the accompanying consolidated financial statements of the Province of Negros Occidental as of December 31, 2017 due to its failure to conduct physical count of Property, Plant and Equipment (PPE) in the amount of ₱6,045,954,954.44, Investment Property of ₱32,439,080.00 and Biological Assets of ₱41,961,335.60, rendering aforesaid accounts unreliable.

## Summary of Significant Observations and Recommendations

1. The Provincial Government failed to conduct physical count of Property, Plant and Equipment (PPE) in the amount of ₱6,045,954,954.44, Investment Property of ₱32,439,080.00 and Biological Assets of ₱41,961,335.60 in CY 2017, contrary to the provisions of Section 124 of the Manual on the New Government Accounting System (MNGAS) for LGUs, Volume I and Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume I, thereby, rendering the accounts doubtful.

We recommended that:

1. The Provincial Governor direct the Inventory Committee and the Provincial General Services Office (GSO) to conduct yearly physical count of its properties and submit a complete Report on the Physical Count of PPEs, Investment Property and Biological Assets pursuant to Section 124 on the MNGAS for LGUs, Volume 1, so that the Audit Team could validate the reported balances of the above properties.
  2. Moreover, the Acting Provincial Accountant and the Provincial GSO implement the immediate reconciliation of their records in as much as this deficiency has long been reported in the Annual Audit Report.
  3. It is also recommended that any discrepancy between accounting records and actual inventory report for Biological Assets be immediately reconciled, so that any unbooked assets pertaining to breeding stocks, plants and trees could be appropriately recognized in the books.
  4. The Inventory Committee ensure that the Physical Inventory Report must contain sufficient and actual information on items counted as to complete description, condition, whether serviceable or unserviceable, number of items counted and specify whether there is an overage or shortage.
2. Transfers to Hospital Operations Division (HOD) by the Provincial Government reached to ₱931,115,004.38 as of November 15, 2017, which were primarily used to fund Personal Services (PS) requirements of the 13 hospitals, in violation of Item 3.3 of DBM Local Budget Circular (LBC) No. 100 dated October 1, 2012.

We recommended that the Provincial Government adhere strictly to 3.3 of LBC No. 100 dated October 1, 2012 on the use of LGU Transfers/Advances to LEE/PUs.

In the event that the existing HOD with income could not fully fund its PS requirements, the Province may consider the options suggested in Section 3.4, LBC 100 to ensure that 45% PS limitations as prescribed under Section 325(a) of RA 7160 consistently remain in force, such as:

- 3.4.1 Adoption of cost-cutting measures or implementation of measures resulting in improved systems and efficiencies;

- 3.4.2 Transfer of some or all permanent personnel of the LEE/PU to the Plantilla of Personnel under the General Fund of the LGU concerned, but said personnel may be detailed to the LEE/PU, when necessary;
- 3.4.3 Downsizing or restructuring of the LEE/PU;
- 3.4.4 Discontinuance of the LEE/PU as such and the reintegration of all its functions and services into the regular LGU operations
  - 3.4.4.1 Accordingly, all permanent personnel of the LEE/PU will be transferred to the Plantilla of Personnel under the General of the LGU concerned;
- 3.4.5 Privatization of the operation of the activities of the LEE/PU as authorized under Sections 3(1), 17 and 18 of the Code;
- 3.4.6 Inter-local government cooperation and resource sharing as authorized under Section 3(f) of the Code;
- 3.4.7 Corporation of the LEE/PU;
- 3.4.8 Other appropriate measures

- 3. Payment of Collective Negotiation Agreement (CNA) Incentive to HOD employees totalling ₱14,976,000.00, was found excessive by ₱6,386,500.00 because such payment was more than the ₱8,589,500.00 allowable amount or valid source for CNA incentive.

We recommended that the HOD employees shall refund or return the amount of ₱6,386,500.00 representing appropriation not allowable for the payment of CNA incentive.

- 4. Remittance of sales proceeds to 44 consignors for the utilized consigned goods and medicines at the 11 hospital pharmacies in the aggregate amount of ₱121,221,252.63 were not supported with list of patients, thereby, casting doubt on whether the consigned items were actually received by the patients.

We recommended that the Provincial Governor make representation to the SP for the enhancement of SP Ordinance No. 009, Series of 2007 or an Ordinance Institutionalizing the Negros Occidental Consignment System to include the list of patients who availed or purchased of the consigned items, as one of the requirements to support the consignment remittances. Likewise, the Accounting Department shall ensure completeness of supporting documents as required in Annex A before certifying the remittance.

5. The validity of the performance bond posted by the contractor for the construction and renovation of the Negros First Food Terminal at a contract cost of ₱114,651,446.30 was only for one year, contrary to the requirements of Section 39.1 and 39.4 of R.A. No. 9184, thus, there is an absence of guarantee of the faithful performance by the contractor of its obligations under the contract from the time of the expiration of the bond up to final acceptance of the project.

We recommended that the Provincial Government require the contractor to submit additional performance security from the date of expiration of the original performance bond up to the issuance by the Provincial Government of the Certificate of Final Acceptance pursuant to Section 39.4 of the 2016 Revised IRR of RA 9184.

In addition, the Project Engineer ensure that all winning contractors who will be issued notices of award shall comply with the requirement of Section 39.4 of the said IRR.

6. ₱37,529,500.00 or 36.52% of the ₱102,760,000.00 Mitigation Fund under the Provincial Disaster Risk Reduction and Management (PDRRM) Fund remained unimplemented and ₱37,638,500.00 or 36.63% was unprogrammed depriving the intended beneficiaries of the benefits that could have been derived therefrom.

The PDDRMC monitor and evaluate the implementation of the PDRRM Plan and ensure that all planned projects are implemented based on the timelines and must see to it that DRRMF is utilized in accordance with the purpose for which it was appropriated.

The PDDRM Office ascertain that the amount allocated for PDRRMF are totally programmed on priority projects that would reduce, avoid, respond and manage the adverse impacts of disasters in order to achieve the country's overall goal of "safer, adaptive and disaster resilient communities towards sustainable development."

7. Project proposals totaling ₱80,007,900.00 were not properly and thoroughly prepared because percentage of women beneficiaries and participation in some development programs and projects of the Province were not identified contrary to Rule 1 Section 2 of the Implementing Rules and Regulations (IRR) of Republic Act (RA) 7192.

We recommended that the PPDO shall ensure that all project proposals are GAD responsive and promote women empowerment so that women benefit equally and participate directly in the implementation of the development projects of the Provincial Government.

8. Advances to Officers and Employees and Special Disbursing Officers (SDO) totalling ₱66,992,321.34 remain unsettled as of December 31, 2017 contrary to the provisions of Section 89 of Presidential Decree (PD) 1445 and COA Circular No. 97-002 dated February 10, 1997.

We recommended that:

1. The Provincial Governor and the Provincial Accountant demand immediate liquidation/settlement of unliquidated cash advances pursuant to Item 6.0 of COA Circular No. 2012-004 for those granted before December 31, 2011.
  2. Henceforth, they must strictly impose the liquidation of cash advances granted to officers and employees and SDO within the prescribed period pursuant to Section 89 of PD 1445 and 5.1 of COA Circular No. 97-002, must be strictly imposed. Otherwise, cause the withholding of salaries from those in active service after the prescribed period has elapsed.
  3. The Provincial Accountant make representation with the Commission on Audit-Office of the Chairperson for the issuance of credit notices for cash advances granted in CY 2014 and prior years for Confidential/Intelligence Fund so that the asset and prior period adjustment accounts are accordingly adjusted.
  4. Bills must be send to personnel working in other government agencies demanding liquidation or refund of their outstanding cash advances. Make representation with this regard to the Accountant and the Head of Agency.
  5. Periodic evaluation and validation of all unliquidated cash advances must be conducted. If necessary, write-off of dormant cash advances following the procedures of COA Circular No. 2016-005 dated December 19, 2016, maybe requested.
  6. Lastly, the Provincial Government institute control measures by requiring the retiring officials and employees to execute authorization (in affidavit form) to deduct all financial obligations including outstanding cash advances from their terminal leave benefits claims pursuant to Section 5.13 of COA Circular No. 2012-001 dated June 14, 2013.
9. The Province failed to record in its books of accounts the CYs 2012-2013 as well as CY 2017 unpaid obligations totaling ₱24,308,710.00 with PhilHealth for the premium contributions of all identified beneficiaries to the Province-Sponsored Health Insurance Program (PSHIP), contrary to Section 119 of PD No. 1445, resulting in the understatement of its payable account.

We recommend that:

1. The Provincial Accountant set up in the books of the Province the amount of ₱24,038,710.00 representing its unpaid insurance premium obligations to PhilHealth for CYs 2012-2013 as well as current year's 2017 in order to have a fair presentation of said account in the financial statements.
2. If the amount of unrecorded liabilities is not booked up, it shall be disclosed in the Notes to the 2017 Financial Statements.

3. The Negros Occidental Comprehensive Health Program (NOCHP) Coordinator shall ensure submission of enrollment forms or any pertinent documents in order to have proper basis in the set up of obligations to Philhealth.
10. CY 2017 Special Education Fund (SEF) budget included allocation of ₱9,402,000.00 and disbursed the total amount of ₱8,515,525.00 for the payment of tuition and other allowances of DepEd teachers who enrolled in post-graduate courses at the University of St. La Salle (USLS), Bacolod City, which is not among the allowable expenses chargeable against the fund, contrary to Joint Circular No. 1 of DEPED, DBM, and DILG, series of 2017.

We recommended that:

1. The Provincial School Board (PSB) approve a resolution requesting the Provincial Governor to charge the already paid stipend and tuition fee of teachers amounting to ₱8,515,525.00 against the General Fund budget to ensure that SEF budget could only be used for purposes authorized under the provisions of the Joint Circular No. 1 of the DEPED, DBM, and DILG, series of 2017 on the use of the SEF.
  2. In addition, the LSB of the Province refrain from charging non-related expenses to SEF.
  3. It is also recommended that amount appropriated for tuition and other allowances of teachers who pursued post graduate studies at USLS shall be realigned to other priority projects based on the approved SIP and DEDP of the PSB after the SEF shall have been refunded by way of transfers from the General Fund.
11. Grants and donations totaling ₱7,517,520.00 charged against the 20% Development Fund (DF)' allocation of LGUs were appropriated for projects which are not among the allowable development projects chargeable against the 20% DF contrary to Joint Memorandum Circular No. 2017-01 dated February 22, 2017.

We recommended that the PDC evaluates judiciously the project proposals to ensure that only those identified under Item 3.0 of the DILG-DBM JMC 2017-1 guidelines are accordingly approved and released.

Likewise, all projects already released that were not qualified under the 20% DF shall be subsequently reclassified provided appropriate funds are available to ensure that what remains in the fund are primarily for the social, economic and environmental development of the constituents of the province.



12. Discrepancies between the Report of Collections and Deposits (RCD) against actual remittances were not detected by the personnel assigned to review the report due to their failure to thoroughly review the said reports. In addition, weaknesses/lapses were noted on the control measures instituted in the collection system, resulting in the under remittance and under recording of collections and income totaling ₱17,242.50.

We recommended that:

1. The Provincial Treasurer direct the Provincial Imposition Collection System (PICS) Administrator to enhance the computerized system on collection by giving the personnel assigned in the Review Division limited review access on the system simply to check the manually encoded data in the Abstract of Collections and RCD and the totals of the two reports.
  2. In addition, the PICS Administrator to institute stringent control measures so that any manual revision or insertion could be easily detected by the system.
  3. The OIC - Provincial Accountant shall direct the review division in the Accounting Office to thoroughly check the RCDs and Abstract of Collection before JEV preparation to ensure that similar incident will not happen in the future.
  4. The collector shall remit the collection deficiency of ₱17,242.50 soonest and shall be relieved of any collecting and review functions in the PTO.
13. Project deficiencies were not minimized/and or avoided due to lack of strict supervision on the project implementation of Conditional Matching Grant to Provinces (CMGP) projects by the Project Engineers designated to supervise implementation of said projects.

We recommended that:

1. The Provincial Governor require the five contractors to make the necessary corrective measures to address the deficiencies noted during the inspection of the DILG Team and the PEO.
2. In addition, a full time Project Engineers/Inspectors or a Project Supervision Team composed of not less than three technical staff shall be designated to strictly supervise the day-to-day construction activities/implementation pursuant to Joint Circular No. 2017-2 of DILG and DBM dated April 26, 2017.

## **Summary of Audit Suspensions, Disallowances and Charges**

During the year, the Province of Negros Occidental issued Notices of Suspension in the total amount of ₱26,735,523.08 as an addition to the beginning balance as of December 31, 2016 of ₱366,143,358.79. Settlements during the year reached ₱60,733,118.66, leaving an outstanding balance of ₱332,145,763.21 as of December 31, 2017.

Total disallowance remained at ₱666,739.22 as of December 31, 2017.

## **Status of Implementation of Prior Years' Audit Recommendations**

Of the 43 audit recommendations contained in the prior years' Audit Reports, 18 were fully implemented, 10 were partially implemented and 15 were not implemented.