

## EXECUTIVE SUMMARY

### A. Introduction

Nested at the foot of the Caraballo Mountain Range is City of San Jose which was formally organized on August 10, 1969 pursuant to Executive Proclamation No. 595. San Jose City belongs to the Second District and is one of the six cities in the province of Nueva Ecija, one of the seven provinces of Region III. As of November 2013, it is populated by 137,711 San Josenians with a total land area of 18,725 hectares divided into 38 barangays with the rural barangays occupying 89% of total land area, which shows significant potential for urban development.

Farming is the primary source of livelihood and rice milling is one of the most developed business activity with at least 28 rice millers in the city producing quality rice supplied locally and for export. The City of San Jose caters 12 banking institutions, 14 private elementary schools, 16 public and private high schools, two college institutions and six technical schools within the City of San Jose. The Economic Enterprises operating are (1) Public Market that houses the Wet Market, Dry Goods, Grocery Stores and SMEs; (2) Slaughterhouse; (3) Lying-In Maternity Hospital; (4) Cemetery; and (5) Central Terminal.

The City of San Jose is under the able leadership of Mayor Mario O. Salvador and assisted by Vice-Mayor Glenda F. Macadangang, City Treasurer Arnold A. Escudro and City Accountant Frediz B. Daquila and the rest of the City officials.

### B. Financial Highlights

The following data show the financial position, financial performance and the sources and application of funds of the City of San Jose for the years 2017 and 2016 are shown below:

Accounts	2017	2016	Increase/ Decrease	Percentage
<b>Financial Position</b>				
Total Assets	₱ 1,544,626,986.11	₱1,305,174,115.65	₱239,452,870.46	18.34%
Total Liabilities	406,858,280.55	406,222,458.99	635,821.56	.15%
Total Equity	1,137,768,705.56	898,951,656.66	238,817,048.90	26.56%
<b>Financial Performance</b>				
Total Revenues	723,582,820.51	666,387,737.31	57,195,083.20	8.58%
Total Expenses	602,262,286.19	529,015,519.26	73,246,766.93	
Surplus (Deficit) for the Period	83,200,600.28	132,795,414.48	(49,594,814.20)	(37.34%)

### C. Scope of Audit

Our audit was conducted in accordance with Philippine Public Sector Standards on Auditing and we believe that it provides reasonable bases for the results of audit.

The audit covered, on a test basis, the accounts and financial transactions of City of San Jose for the year 2017. The objectives of the audit were to (a) ascertain the level of assurance that may be placed on Management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's unimplemented audit recommendations.

In compliance with the Unnumbered Memorandum dated October 12, 2017 by the Commission on Audit Assistant Commissioner for Local Government Sector (LGS) and in pursuance of COA Memorandum No. 2016-023 dated November 14, 2016, which identify the CY 2017 audit foci, we audited the Cash and Cash Equivalents, Financial Liabilities, Fund Transfers (Due from/Due to NGOs/POs, NGAs, GOCCs and LGUs), Funds Directly Released by the DBM to LGUs From the Appropriations for Local Government Support Fund (LGSF) (including Bottom-Up Budgeting and Assistance to Disadvantaged Municipalities, Governance Fund releases CY 2016 KALSADA and CY 2017 Conditional Matching Grant to Provinces, PAMANA, and Salintubig), Local Disaster Risk Reduction Management Fund, Compliance and Performance Audit of 20% Development Fund, Solid Waste Management/Environmental Compliance, Special Education Fund, and Local Council for Protection of Children Revenue Generating Program, Payment to casual, job orders, contractuales and consultants, Enforcement of COA Disallowances and Charges, Compliance to Tax Laws, Remittance of Mandatory Contributions (GSIS, PhilHealth and Pag-IBIG), Compliance with Programs and Projects related to Gender and Development, and Statement of Audit Suspensions, Disallowances and Charges. Result of audit with significant observations were discussed in Part II of this Report.

#### **D. Independent Auditor's Report**

As discussed in Part of the report, the balances of the Real Property Tax (RPT) Receivables and Special Education Tax (SET) Receivables reported in the books at 9,671,408.04 and ₱15,391,278.66, respectively, are not reliable due to improper bases of setting up the receivables.

For the above deficiencies, we recommended that Management (a) instruct the (i) City Treasurer and City Assessor to continuously coordinate for the updating of the list of taxpayers; and (ii) City Accountant to make appropriate adjustments in the receivable balances of each taxpayer, as warranted; and (b) address the inadequacy of personnel at the City Treasurer's Office but taking into consideration the Personal Services limitations in the Local Government Code.

#### **E. Summary of Other Significant Audit Observations and Recommendations**

The audit of the accounts and operations of the City of San Jose disclosed the following

favorable observations:

The City of San Jose posted satisfactory compliance with the provisions of (a) laws and rules on Gender and Development (GAD) pertaining to planning, budgeting, implementation of PPAs and reporting, which translated to the efficient delivery of benefits to the identified sectors of the community; (b) Republic Act No. 9003 on the formulation and implementation of ecological solid waste management plans and programs, thus, protection of the environment and general welfare of the constituents has been significantly attained; and (c) laws on the withholding and remittance of taxes, and contributions and loan installments due to the GSIS and Pag-IBIG.

We commended Management for their adherence to the related laws, rules, and regulations (LRRs) and further recommended to continue to be compliant with these related LRRs.

On the other hand, the observations which need Management action are briefly summarized as follows:

1. The reliability of Property, Plant and Equipment (PPE) balance of ₱1,288,077,577.27, which accounted for 83% of the City of San Jose's total assets as of December 31, 2017 remained doubtful due to (a) the absence of property records that would corroborate the accounting balances; and (b) incomplete physical validation of the PPE's existence, hence Management's assertion on the fair presentation of the PPE balances is weakened. Moreover, unserviceable PPEs with an assessed value of ₱2,381,052.66 remained not disposed, thus continued to occupy significant storage space while depriving the LGU of possible additional income from its sale. (**Observation No. 2**)

We recommended that Management instruct the (a) General Services Officer (GSO) to (i) fast track the recording of individual PPEs in the property cards (PCs); and (ii) based on PCs, extract a list of all PPEs that will be used in the physical validation of these assets; and (b) Inventory and Disposal Committee to facilitate the (i) conduct of physical count of PPEs in CY 2018 in accordance with prescribed rules and timelines; and (ii) disposal of unserviceable items based on the guidelines set. Likewise, we advised management to ensure that all the functionalities of the proposed PPE inventory system meet their actual requirements.

2. The City of San Jose, although compliant with the guidelines set forth in Department of Interior and Local Government – Department of Budget and Management (DILG-DBM) Joint Memorandum Circular No. 2017 – 1 dated February 22, 2017 on the appropriation and utilization of the 20% Internal Revenue Allotment (IRA), have not optimally attained its desired socio-economic development and environmental management outcomes for failure to fully implement and complete all the projects identified in the Annual Investment Plan on its target date of completion. (**Observation No. 3**)

We recommended that Management direct the (a) City Engineer, City Budget Officer and the City Treasurer to resolve the identified causes of the missed timelines in project

implementation and to act on these accordingly; and (b) City Planning and Development Officer or the concerned officer to henceforth ensure that the documentary requirements of future and similarly-funded projects are timely provided.

3. The City of San Jose was not able to meet the minimum standards on risk reduction and management in terms of structure, reporting systems, and service delivery contrary to existing rules and regulations which may result in the non-fulfilment of the desired goals and objectives of reducing disaster risk and enhancing disaster risk preparedness and response capabilities of the City. Moreover, ₱110,000.00 were spent on expenses that were not related to Disaster Risk Reduction and Management (DRRM), which may result in non-availability of sufficient funds for calamity purposes. (*Observation No. 4*)

We recommended that Management instruct the (a) Local Disaster Risk Reduction and Management Officer (LDRRMO) to monitor, evaluate and enhance performance on DRRM, as warranted, based on the Disaster Preparedness Minimum Standards on Disaster Risk Reduction and Management; (b) City Accountant to (i) cause the refund to Local Disaster Risk Reduction and Management Fund (LDRRMF) from appropriate trust fund the amount paid for BAC honoraria; and (ii) refrain from using Disaster Risk Reduction and Management Fund (DRRM) for programs/projects/activities which are not directly related to disaster preparedness, mitigation, response and rescue operations; and (c) BAC to explore other legal procurement options such as “Ordering Agreement” in the procurement of relief goods and food packs.

4. In CY 2017, deficiencies were still observed in the use of Special Education Fund (SEF) which included the charging of ₱2,095,469.00 for expenses incompatible to the provisions of DepEd-DBM-DILG Joint Circular No. 01 (JC), s. 2017 dated January 19, 2017. Moreover, due to incomplete documents, there was no assurance that charges totaling ₱48,333,718.66 were already net of DepEd budget as required in the same JC. (*Observation No. 6*)

We recommended that the Members of the City Local School Board (a) ensure that future plans and budgets for SEF are consistent with DepEd-DBM-DILG Joint Circular No. 01, s. 2017 dated January 19, 2017 and other pertinent rules that may be issued henceforth; (b) secure certification from the DepEd Budget Officer that the charges to SEF were already net of the approved DepEd Budget; and (c) refrain from accommodating expenditures for activities for which the DepEd has the direct mandate to execute. We also advised that the invalid charges to SEF be restored to the fund from the General Fund after the requisite legislation is secured.

5. The City of San Jose was able to accomplish Programs, Projects and Activities (PPAs) for the protection of children with total attributed cost of ₱8,443,685.42, which is equivalent to 1.6% of the City of San Jose’s IRA, in compliance with Section 15 of R.A. No. 9344 otherwise known as the Juvenile Justice and Welfare Act of 2006. However, it was not able to fully comply with the requirements of the same law and the DILG Memorandum Circular (MC) Nos. 2008-126 and 2012-120 in (a) providing the required

members of the Local Councils for the Protection of Children (LCPC); (b) adopting a comprehensive plan on delinquency prevention; and (c) preparing accomplishment reports and other required documents, thus services of a more responsive LCPC was not assured while Senior Management was deprived of standards against which to measure the reported accomplishments, among others, which could derail the efficient and effective use of the fund. (*Observation No. 7*)

We recommended that Management (a) reconstitute the LCPC after ensuring that the required membership qualification are met; and (b) instruct the LCPC to (i) prepare a comprehensive plan on delinquency prevention, and to oversee its proper implementation; (ii) continuously ensure that at least 1% of the City's annual IRA is attributed to child protection related activities and in the development of a child-friendly environment; and (iii) prepare accomplishment reports and other necessary documents required under the MC Nos. 2008-126 and 2012-120.

6. The extension of contract duration from 210 calendar days to 300 calendar days of an infrastructure project with a contract cost of ₱19,187,683.38, which resulted from a lapse in planning, was bereft of authority contrary to Item 9, Annex E of Revised Implementing Rules and Regulation of Republic Act No. 9184. Moreover, payments for the above project together with 22 other infrastructure projects with a total cost of ₱55,464,109.40 were not adequately documented contrary to pertinent law, rules and regulations, which weakened Management's claim for regularity of these payments. (*Observation No. 8*)

We recommended that Management (a) instruct the (i) the concerned City Engineer to submit the approved request for extension for the project, Construction of LDRRMO Building; otherwise, impose on the contractor liquidated damages; (ii) BAC and City Engineer to ascertain readiness of the project site and satisfaction of other requirements before the procurement proceedings are initiated; (iii) City Accountant, the BAC and the contractors concerned to immediately submit the above-indicated documents to the Audit Team for a facilitated audit action on the said transactions; and (b) ensure that the use of government funds are adequately documented and are in accordance with laws and regulations.

#### **F. Statement of Audit Suspensions, Disallowances and Charges**

The Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2017 showed unsettled disallowance of ₱70,000.00 and none for suspension and charges.

#### **G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations**

Out of the 31 audit recommendations embodied in the CY 2016 Annual Audit Report, 16 were fully implemented, ten were partially complied with and five were not fully

implemented, which were reiterated in the current year's audit report.