

EXECUTIVE SUMMARY

Introduction

By virtue of Republic Act No. 3271, Lucena was made into a Chartered City through the efforts of the late Congressman Manuel S. Enverga. It was officially inaugurated on August 19, 1962 during the 84th anniversary of Manuel Luis Quezon and on July 1, 1991, Lucena became a Highly Urbanized City.

The City of Lucena has a vision of becoming a premier City in Southern Tagalog providing sustainable development, creating opportunities for socio-economic, agro-industrial and technological growth, ensuring a peaceful and safe environment and improving the quality of life of its people.

Its mission is to uphold honest and transparent governance, boost investment opportunities, improve the quality of health and education, create employment through establishment of technological and agro-industries, ensure protection and sustainability of the environment, and promote peace and order that will uplift the Lucenahin's quality of life.

The Organizational Structure of the City is as follows:

a. Key Officials

City Mayor	-	Hon. Roderick A. Alcala
Vice Mayor	-	Hon. Philip M. Castillo

Members of the Sanggunian:

1. Anacleto A. Alcala III
2. Rhaetia Marie C. Abcede-Llaga
3. William M. Noche
4. Rey Oliver S. Alejandrino
5. Ramil C. Talaga
6. Nicanor G. Pedro, Jr.
7. Danilo R. Zaballero
8. Benito J. Brizuela
9. Nilo Q. Villapando
10. Victor U. Paulo
11. Jacinto A. Jaca

City Treasurer	-	Ruby T. Aranilla
OIC-City Accountant	-	June Kean G. Garcia

b. No. of Personnel Complement

Permanent	-	479
Casual	-	33
Contractual/JO	-	839
Elective Officials	-	13
Coterminous	-	19
Part-time	-	<u>29</u>
Total		<u>1,412</u>

Financial Highlights

The City generated a total income of ₱1,129,522,851 from local taxes, permits and licenses, service and business income, miscellaneous income and Internal Revenue Allotment (IRA) which increased by ₱150,894,864 as compared to last year's total income of ₱978,627,987. The total funds utilized for the year amounted to ₱1,004,760,403 out of the total current appropriation of ₱1,698,504,572. The City had a continuing appropriation balance of ₱182,917,681 at the beginning of the year, of which ₱122,362,308 was obligated.

The City's financial position and results of operations for Calendar Year (CY) 2017 compared with that of the preceding year are summarized below and shown in detail in the attached audited financial statements.

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Total Assets	₱1,849,621,441	₱1,548,856,753	₱300,764,688
Total Liabilities	563,439,002	568,830,397	(5,391,395)
Total Net Assets/Equity	1,286,182,439	980,026,356	306,156,083
Total Income	1,129,522,851	978,627,987	150,894,864
Total Expenses	863,249,483	796,031,541	67,217,942

Scope of the Audit

Financial and compliance audit was conducted, on a test basis, on the accounts and operations of the City Government of Lucena for CY 2017. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the City with laws, rules and regulations as well as the economical, efficient and effective utilization of resources.

Auditor's Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements as of December 31, 2017 of the City Government of Lucena due to the following:

- The valuation and existence of Property, Plant and Equipment (PPE) with a reported net book value of ₱1,268,815,791.69 representing 69% of the total assets could not be ascertained due to incomplete details on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and inclusion of unserviceable properties costing ₱12,132,668.23 despite its disposal.
- Other Receivables totaling ₱2,646,436.38 out of the balance of ₱2,705,542.55 as of December 31, 2017 are dormant, thus unreliable and affecting its fair presentation in the financial statements.
- Guaranty/Security Deposits Payable of ₱2,855,111.27 which have been outstanding for more than two years were not reverted to the Unappropriated Surplus of the General Fund, thus casting doubt on the validity and reliability of the account balance presented in the financial statements.
- Excess collections from the sale of bidding documents amounting to ₱583,712.75 remained in the Trust Fund books, thus overstating the Trust Liabilities account and understating the affected income account by the same amount.

Significant Observations and Recommendations

For the exceptions cited above, the Auditor recommended that the City Mayor require the:

- OIC-General Services Officer to complete the details of properties in the RPCPPE by securing copies of Acknowledgement Receipt of Equipment (ARE) and comply with the procedural and documentary requirements for property disposal.
- OIC-City Accountant to prepare the request for authority to write-off dormant receivables following the guidelines and procedures provided under COA Circular No. 2016-005 and file the same to the Commission on Audit.
- OIC-City Accountant to revert the account to the Unappropriated Surplus of the General Fund pursuant to the provisions of Section 98 of PD No. 1445, subject to the authority from the Sangguniang Panlungsod (SP) with a condition that appropriation shall be made available in the event that claim arises in the future.

- OIC-City Accountant to transfer the amount of ₱583,712.75 to the General Fund and henceforth, comply with DBM Budget Circular No. 2004-5A.

The following is the summary of the other significant audit observations and recommendations in the audit of the City Government of Lucena for the year 2017:

1. The non-segregation of special accounts in the General Fund (GF) resulted in an abnormal balance of ₱72,536,883.11 in the subsidiary ledgers for Cash in Bank, Local Currency, Current Account (LCCA) of the GF-Proper, Auction Market and Transportation System, contrary to Sections 123 and 124 of Presidential Decree (PD) No. 1445 and Section 105 of the Manual on the New Government Accounting System (MNGAS), Volume I for Local Government Units (LGUs).

We recommended that the City Mayor require the OIC-City Accountant to review the Subsidiary Ledger (SL) of Cash in Bank-Local Currency, Current Account by tracing the cause/s of abnormal balances totaling ₱72,536,883.11 and the City Treasurer to maintain separate account for each special account to facilitate monitoring of the cash balance.

2. Funds totaling ₱4,250,000.00 from National Government Agencies (NGAs) remained unutilized due to non-implementation of the projects, while unexpended balance of ₱1,322,455.14 from completed projects remained idle because these were not returned to the source agencies, contrary to COA Circular No. 94-013, thus depriving the intended beneficiaries of immediate use and enjoyment of the project, and the source agencies of resources that could be used in other projects or by other agencies needing assistance.

We recommended that the City Mayor instruct the City Planning and Development Coordinator and OIC-City Engineer to coordinate with the source agency for the immediate implementation of the projects, if still feasible.

We also recommended to return immediately the excess funds of ₱1,322,455.14 to the source agencies and the fund of ₱1,000,000.00 for cancelled project to the BTr so that it could be used in other projects or by other agencies needing assistance.

3. The appropriation for 20% Development Fund (DF) totaling ₱172,096,145.05 was not optimally utilized due to several unimplemented projects as of year-end, contrary to Department of the Interior and Local Government (DILG) -Department of Budget Management (DBM) Joint Memorandum Circular (JMC) No. 2017-01, hence the constituents were deprived of the desired socio-economic development and environmental management outcomes.

We recommended that the City Mayor direct the:

- City Planning and Development Coordinator (CPDC) or the designated program coordinator to monitor the implementation of the projects under the 20% DF to ensure timely completion; and
 - City Budget Officer to provide specific or itemized projects for PPAs with lump sum appropriation in close coordination with the end-user.
4. Only 57% or ₱19,572,422.62 of the Mitigation Fund of ₱34,366,002.30 was utilized during the year, hence the aim of Republic Act (RA) No. 10121 or the “Philippine Disaster Risk Reduction and Management Act of 2010” to strengthen the capacity of the City for disaster risk reduction and management was not fully achieved. Moreover, the regularity and propriety of the transactions amounting to ₱29,668,734.65 or 61.62% of the total disbursements of ₱48,149,348.02 could not be ascertained due to delay in the submission of some disbursement vouchers involving the amount of ₱28,087,114.65 and incomplete documentation of transactions worth ₱1,581,620.00, contrary to Section 4 (6) of Presidential Decree (PD) No. 1445.

We recommended that the City Mayor require the:

- Local Disaster Risk Reduction and Management (LDRRM) Officer to monitor the implementation of the projects that remain unimplemented and take action on the cause/s of the delay or partial implementation; and
 - OIC-City Accountant to submit immediately the required supporting documents for the disbursements amounting to ₱1,581,620.00 for post-audit and evaluation.
5. The budget for Special Education Fund (SEF) of ₱110,898,131.76 was not fully utilized as of December 31, 2017 due to non-implementation of projects and programs and non-identification of specific projects, hence defeating the purpose of DepEd-DBM-DILG Joint Circular (JC) No. 01, s. 2017 and depriving the students of the benefits from the projects. Further, disbursements amounting to ₱4,871,104.32 have incomplete documentation contrary to Section 4 (6) of Presidential Decree (PD) No. 1445, thereby rendering the regularity of transactions doubtful.

We recommended that the City Mayor advise the:

- Local School Board (LSB) Co-Chairman to maximize the utilization of SEF by identifying specific priority projects and effective monitoring of its implementation to address the actual needs of the schools; and

- OIC-City Accountant to submit the required supporting documents for the disbursements amounting to ₱4,871,104.32 for verification of the Audit Team.
6. The payments to casual and job order (JO) personnel cannot be readily validated and ascertained due to incomplete documentation and deficiencies in the supporting documents, contrary to Section 4 (6) of Presidential Decree (PD) No. 1445 and COA Circular No. 2012-001.

We recommended that the City Mayor instruct the Human Resource Management Officer (HRMO) or designated personnel to ensure that complete documents are submitted by the casual and JO personnel in support to their claims, programs/projects are indicated in the payrolls and appointments are supported with statements of duties and responsibilities of the personnel to facilitate validation of their accomplishments.

7. The City's Schedule of Market Values (SMVs) of real properties was not revised since 2001 and the general revision of real property assessments was not conducted every three years thereafter, contrary to Section 219 of Republic Act (RA) No. 7160 and Department of Finance (DOF)-Department of the Interior and Local Government (DILG) Joint Memorandum Circular (JMC) No. 2010-01, thus deprived the City of the opportunity to increase its revenues which could be used in the delivery of basic services for the benefit of its constituents.

We recommended that the City Mayor support the OIC-City Assessor to cause the preparation of a Tax Impact Study that will be the basis of the revised schedule of fair market value for mass appraisal of real property units of the City. The sooner the revision is done, the sooner for the City to realize additional income from the expected increase in real property tax collection.

8. Shares from Real Property Tax (RPT) and Community Tax Certificate (CTC) collected by the City totaling ₱31,601,789.24 were not remitted promptly to the 33 barangays, contrary to Section 271(d) of Republic Act (RA) No. 7160 and Section 36 of COA Circular No. 92-382, hence deprived the barangays of the immediate use of the fund which could be used to finance their projects or programs.

We recommended that the City Mayor instruct the OIC-City Accountant to assign another Accounting personnel who will be responsible in the timely preparation of the disbursement voucher for remittances and remit to barangays the shares of ₱371,586.09 from RPT/CTC and ₱391,399.24 from penalty on CTC and sanitation violation.

9. The City incurred delays in the submission of disbursement vouchers and payrolls, contrary to Section 347 of RANo. 7160 and Rules and Regulations on Settlement of Accounts (RRSA) prescribed by COA Circular No. 2009-006, thus preventing the Audit Team from performing post audit and timely communication of any reportable deficiencies to the Management.

We recommended that the City Mayor require the OIC-City Accountant to submit immediately the remaining DVs and hereafter, observe the due dates of submission of disbursement vouchers and supporting documents.

10. The City has been generally compliant with the revenue regulations on the withholding and remittance of taxes, however taxes withheld amounting to P1,296,590.55 were not fully remitted to the Bureau of Internal Revenue (BIR), contrary to BIR Revenue Memorandum Circular (RMC) No. 23-2012.

We recommended that the City Mayor require the OIC-City Accountant to analyze the Due to BIR account to establish the amount of taxes for refund to the employees and amount that still for remittance to BIR.

The above observations and recommendations contained in the report were discussed with the concerned City officials and staff during the exit conference conducted for the purpose on April 24, 2018. Management's views and reactions were considered in the report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the 27 prior year's audit recommendations embodied in the 2016 Annual Audit Report (AAR), 17 were fully implemented, three were partially implemented and the remaining seven were not implemented.