

EXECUTIVE SUMMARY

A. Introduction

Our audit was conducted in accordance with Philippine Public Sector Standards on Auditing and we believed that it provided a reasonable basis for the results of audit. The audit covered the financial, compliance and value for money audit on the transactions and operations of the City Government of Palayan for Calendar Year 2016. The objectives of the audit were to: a) ascertain the level of assurance that may be placed on management assertions on the financial statements; b) recommend agency improvement opportunities; and c) determine the extent of implementation of prior year's audit recommendations.

B. Financial Highlights

The City Government's financial conditions, results of operations and sources and application of funds for CY 2016 are as follows:

	<i>CY 2016</i>	<i>CY 2015</i>	<i>Increase (Decrease)</i>
Financial Conditions			
Assets	₱ 637,459,353.12	₱ 577,357,016.26	₱ 60,102,336.86
Liabilities	155,584,222.13	154,271,397.42	1,312,824.71
Government Equity	481,875,130.99	423,085,618.84	58,789,512.15
Results of Operations			
Income	302,412,376.61	276,984,216.97	25,428,263.64
Expenses	242,159,324.96	232,128,065.06	10,031,259.90
Excess of income over expenses	60,253,051.65	44,856,047.91	15,397,003.74
Sources and Application of Funds			
Appropriations	₱ 301,422,434.00	₱ 273,432,497.00	₱ 28,989,937.00
Allotments	314,019,387.00	322,144,497.00	(8,125,110.00)
Obligations	219,959,597.65	265,465,678.15	(45,506,080.50)
Balances	94,059,789.35	56,678,818.85	37,380,970.50

C. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the City of Palayan for the year ended December 31, 2016 due to deficiencies and errors noted in the audit of the accounts, namely: a) cash advances totaling ₱7,296,199.78 remained unliquidated as of December 31, 2016 affecting the expense and government equity accounts; b) Other Receivables and Due from Non-Government Organizations/ Peoples Organization amounting to ₱11,401,539.18 and ₱2,658,637.90 respectively as of December 31, 2016 are long overdue which renders uncertainty of its collections; and c) non-conduct of physical inventory and incomplete

maintenance of property ledger cards of ₱349,077,891.34 affecting reliability of the PPE accounts.

For the above observations, we recommended the following:

1. observe fully the provisions of COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances
2. exert efforts for the collection of payments thru issuance of demand letters to various loan beneficiaries/debtors and comply with COA Circular No. 2016-005 dated December 19, 2016 on the guidelines and procedures on the write-off of dormant receivables; and
3. prepare and maintain complete property ledger cards and schedules for the PPE and regularly conduct reconciliation thereof so that any discrepancies noted could be promptly adjusted and reconciled.

D. Summary of Other Significant Observations and Recommendations

Summarized hereunder are the other significant observations and recommendations that are discussed in detail in Part II of this report. Management comments and views including those given during the exit conference were incorporated in the report, where appropriate.

1. The City maintains an account with Philippine National Bank (PNB) which is not an Authorized Government Depository Bank (AGDB) contrary to Department of Finance Circular No. 001-2015, dated June 1, 2015. Moreover, the said deposit which amounts to ₱96,322.95 have been inactive for five years, reaching dormancy and putting the government fund to unnecessary depletion due to bank imposed charges and the eventual loss of LGU's rights and ownership as ordered under Bangko Sentral ng Pilipinas (BSP) Circular Letter No. CL-2008-054 dated August 29, 2008.

We recommended that the Local Chief Executive direct the City Accountant and the City Treasurer to immediately cause the closure of the dormant deposit account and the transfer of the balance to an active account maintained in an Authorized Government Depository Bank.

2. Controls over the grant and liquidation of cash advances were inadequate which may pose risk of misuse and misappropriation of the funds contrary to COA Circular No. 97-002 dated Feb 10, 1997.

We recommended that the Local Chief Executive require the Accountant to (a) limit the grant of special cash advances to officials other than the designated special disbursing officers; (b) require bonding of special disbursing officers; and (c) require the settlement of cash advances as soon as the purpose for it was drawn has already been served.

3. The Priority Development Assistance Fund (PDAF) received by the City amounting to ₱1,000,000.00 which has been declared unconstitutional was still not remitted/refunded to Department of Finance (DoF) / Bureau of Treasury (BTr) as required by the Supreme Court in its decision under Gr NO. 208566 dated November 19, 2013. Moreover, unexpended balances from Disbursement Acceleration Program and PDAF totaling ₱135,111.10 were not yet returned to BTr contrary to Section 4.9 of COA Circular No. 94-13.

We recommended that the City Government return the unutilized PDAF in the amount of ₱1,000,000.00 which has been declared unconstitutional by the Supreme Court to the DoF/DTr and remit the unexpended balances from DAP and PDAF totaling ₱135,111.10.

4. The City Accountant failed to prepare and/or submit the monthly Bank Reconciliation Statements (BRS) contrary to Section 3.2 of the Commission on Audit Circular No. 96-011 dated October 2, 1996, and Section 74 of PD 1445 thus the correctness of the Cash in Bank Accounts as of December 31, 2016 amounting to ₱175,344,381.43 cannot be ascertained.

We recommended that Local Chief Executive direct the Accountant to update the preparation and/or submission of the monthly bank reconciliation statements pursuant to Section 3.2 of COA Circular No. 96-011 and Section 74 of PD 1445. Likewise, prepare the necessary journal entry vouchers (JEVs) to record the reconciling items affecting the accounts.

5. The validity, completeness and accuracy of the recorded transactions could not be established due to delayed/non-submission of accounts and its supporting documents, to the Audit Team as required under Section 347 of RA No. 7160 and COA Circular No. 2009-006 dated September 15, 2009 which hindered the conduct of post-audit and the timely communication to the Management of any deficiencies and/or observations that may be noted.

We recommended that the City Accountant and the City Treasurer (a) strictly comply with the regulation on the rendition of accounts and financial reports in order not to delay in the verification and post-audit activities; and (b) observe the due dates of submission of the required financial reports and documents to the Audit Team.

6. Optimum utilization of the 20% development fund appropriated for the past five years was not achieved by the City due to non-implementation of several development projects, thus the City's constituents have been deprived of the early enjoyment of the intended benefits therefrom. Moreover, for CY 2016, a total of ₱1,548,200.00 were disbursed for projects that were not capital in nature contrary to DILG-DBM Joint Memorandum Circular No. 2011-1 dated April 13, 2011, thus, depleting the amount available for other eligible capital investment projects.

We recommended that Local Chief Executive (a) ensure coordination among officials involved in planning, execution and monitoring of the development projects to achieve the desired outcomes; (b) immediately look into the unimplemented projects and identify

causes of non-implementation and develop specific solution to effectively implement the projects; (c) refrain from appropriating/allocating funds for programs/projects/activities (PPAs) under the 20% Development Fund which are not capital in nature; and (d) submit the lacking documents.

7. The City has partially complied with the provisions of Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000 on the formulation and implementation of economic solid waste management program.

We recommended that the Local Chief Executive to (a) fully comply with the five basic environmental laws on preserving and protecting the environment required under R.A. No. 9003; (b) direct the City Solid Waste Management Board to prioritize the finalization of the ten-year SWMP for the early identification of issues/gaps and the prompt resolution thereof and (c) continue effective projects and programs that support the City's ecological solid waste management program to sustain economic development that is in harmony with the environment.

8. Quick Response Fund (QRF) of the Local Disaster Risk Reduction and Management Fund (LDRRMF) in the amount of ₱375,000.00 were utilized for the procurement of fifteen (15) carabao breeder which is not among those projects and activities stated in Section 21 RA 10121 and Circular No. 2012-02, thus may result in non-availability of funds for relief and recovery programs in times of calamity.

We requested that Management submit the aforementioned documents to establish the validity of the transaction. We also recommended that management refrain from using the 30% Quick Response Fund for programs/projects/activities which are not directly related with relief and recovery projects and activities.

9. The Special Education Fund (SEF) with an aggregate amount of ₱522,018.61 was utilized for expenditures other than those authorized under Section 1 of RA No. 5447, Sections 100 and 272 of RA 7160 and DepEd/DBM/DILG Joint Circular No. 01 s. 1998 dated April 14, 1998, thereby depleting the SEF by that amount supposedly to be used for authorized priority programs, projects and activities only.

We recommended that the Local Chief Executive: (a) instruct the members of the City Local School Board to prepare and cause the approval of the annual School Board Budget for SEF by prioritizing programs, projects and activities as stipulated in Section 1 of R.A. No. 5447, Sections 100 and 272 of R.A. No. 7160, Deped-DBM-DILG Joint Circular Nos. 01, s. 1998 dated April 14, 1998, and No. 01-A, March 14, 2000; and (b) stop the practice of utilizing the fund for payment of MOOE of the DepEd Office and other expenses not related to or included in the list of prioritized expenses chargeable against SEF.

10. The City had appropriated ₱20,728,568.00 for Gender and Development (GAD) Fund for CY 2016 but was not fully utilized for GAD related projects, contrary to Republic Act No. 7192 and PCW-NEDA-DBM Joint Circular No. 2012-1, thus defeating

the intent of the program to pursue women's empowerment and gender equality in the country.

We recommended that Management utilize Gender and Development Fund on programs/projects and activities in accordance with the mandates of Republic Act No. 7192 and PCW-NEDA-DBM Joint Circular No. 2012-1 to all government agencies to pursue women's empowerment and gender equality.

11. Utilization of PhilHealth Capitation Fund did not follow what was stipulated in the guidelines prescribed in PhilHealth Circular No. 16 s-2004 on disposition of PhilHealth Capitation Fund (PCF), thus resulting in irregular disbursements amounting to ₱38,873.00.

We recommended that management refrain from utilizing the fund for expenses not related to or included in the list of expenses chargeable against PhilHealth Capitation Fund.

12. Disbursements for the conduct of oath taking of city officials in a total amount of ₱540,820.00 were incurred by the city government thru direct contracting in violation of the Government Procurement Reform Act (R.A. 9184), thus depriving the government of availing the most advantageous prices. Moreover, some of the expenses maybe considered unnecessary and quite excessive contrary to COA Circular No. 85-55A dated September 8, 1985 as amended by COA Circular No. 2012-03 dated October 29, 2012, thus casting doubt on the validity of the transactions.

In order to come up with our audit decisions, we required the management to submit supporting documents for the payment of event host and justifications for all the payments made for the conduct of oath taking.

We also recommended that the Local Chief Executive (a) ensure that all officials exercise due prudence in the management of government funds to prevent unnecessary and excessive expenditures; (b) require all concerned officers/employees to prepare and attach sufficient supporting documents to the disbursement vouchers when processing claims for their programs, projects and activities to substantiate the validity and legality of their transactions; and (c) strictly adhere with the provisions of RA 9184 Government Procurement Act, otherwise known as the Government Procurement Act.

E. Summary of Total Suspensions, Disallowances and Charges as of Year-End

As per Statement of Audit Suspensions, Disallowances and Charges (SASDC) for the City Government as of December 31, 2016, audit suspensions totaling ₱7,320,760.24 were all settled while audit disallowance in the amount of ₱30,390.00 remained unsettled as of year-end.

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

Out of the 38 prior year's audit recommendations contained in the 2015 Annual Audit Report, 16 were implemented, 13 were partially implemented while 9 were not implemented.