

EXECUTIVE SUMMARY

A. Introduction

The City of Malolos was created in 1580. Initially, it was composed of three towns namely Malolos, Barasoain and Sta. Isabel. Effective 1584, Malolos finally emerged as a town while the two became barangays under its political jurisdiction. During the Spanish revolution, it became the seat of the first Philippine Republic. This particular event gave the City a special niche in Philippine history.

Malolos has a land area of 7,725 hectares consisting of agricultural, commercial, industrial, water bodies, fishponds and marshes while the rest are roads.

It was classified as a third-class city comprising of 51 barangays. Despite the difficulties posed by a failing economic order, Malolos still remains as one of Bulacan's pride and shall ever be called the "Heritage Town" of the Province.

Republic Act No. 7160 otherwise known as the Local Government Code of 1991 which became effective on January 1, 1992, ushered in a new era of genuine meaningful local autonomy and enabled Malolos and other local government units to attain their fullest development as self-reliant communities and make them effective partners in the attainment of national goals.

On November 8, 2002, Malolos was converted into a component city pursuant to Republic Act No. 8754.

The City, headed by Honorable Mayor Gilbert T. Gatchalian who is ably assisted by Honorable Vice-Mayor Noel G. Pineda, the Sangguniang Panlungsod, the City Department Heads, and employees strive for the attainment of the City's total development as well as the welfare of its constituents.

For the calendar year 2019, the City of Malolos aims to continuously provide its constituents with basic services such as social, health, and economic services, environmental protection, tourism, peace and order, infrastructure and human resources development.

The City maintained three separate books: General Fund, Special Education Fund, and Trust Fund.

B. Financial Highlights

The comparative data on the financial condition, results of operations, and sources and application of funds of the City of Malolos for CY 2019, with comparative figures for CY 2018 are presented on the next page.

	2019	2018	Increase (Decrease)	
			Amount	%
Financial Condition				
Total Assets	₱1,596,088,617.80	₱1,242,910,577.79	₱353,178,040.01	28.42%
Total Liabilities	889,317,454.13	775,389,724.57	113,927,729.56	14.69%
Total Equity	706,771,163.67	467,520,853.22	239,250,310.45	51.17%
Results of Operations				
Total Revenues	1,216,655,843.94	1,107,473,684.31	109,182,159.63	9.86%
Total Expenses	930,000,582.35	961,318,008.87	(31,317,426.52)	(3.26%)
Excess of Income Over Expense	286,655,261.59	146,155,675.44	140,499,586.15	96.13%
Sources and Application of Funds- General Fund and Special Education Fund				
	Budget	Actual	Difference	Percentage
Revenue and Receipts	1,747,774,369.72	1,216,655,843.94	(531,118,525.78)	(30.39%)
Appropriations	1,757,303,396.04	1,027,527,212.92	(729,776,183.12)	(41.53%)
Surplus/(Deficit)	(9,529,026.32)	189,128,631.02	198,657,657.34	2084.76%

C. Scope of Audit

Our audit was made in accordance with International Standards of Supreme Audit Institution (ISSAIs) and we believe that it provided a reasonable basis for the audit results.

The audit covered the financial transactions and operations of the City Government of Malolos for the calendar year 2019, specifically the 2019 audit focus and thrusts for Local Government Sector in compliance with their unnumbered Memorandum dated July 3, 2019 and in pursuance of COA Memorandum No. 2016-023 dated November 14, 2016, as follows:

1. Financial Audit

Audit of Financial Statements

- a. Cash and Cash equivalents
- b. Due from NGO and Other LGUs
- c. Inventories
- d. PPE
- e. Financial Liabilities

2. Performance and Compliance Audit

- a. Fund Transfers from National Government Agencies to Local Government Units
- b. 20% Development Fund (DF)
- c. LDRRMF
- d. Solid Waste Management/Environmental Compliance

3. Audit of Revenue Generating Programs

- a. Local Revenue Code
- b. General Revision Property Assessment
- c. Market Code

4. Inclusion of Evaluation /Audit Observation on the Following Areas:

- a. Payment to casuals, job orders, contractual and consultants pursuant to COA Memorandum NO. 2012-010 dated October 17, 2012, regardless of fund source and account charged;
- b. Enforcement of COA Disallowance and Charges as prescribed in COA Memorandum No. 2009-084 dated November 16, 2009;
- c. Compliance with tax laws;
- d. Remittance of mandatory GSIS and HDMF contributions and remittance of loan amortization; and
- e. Compliance with programs and projects related to Gender and Development.

D. Independent Auditor's Opinion

We rendered a qualified opinion on the fairness of presentation of the financial statements of the City because as discussed in detail in Part II of this report, the reported carrying value of the Property, Plant, and Equipment (PPE) accounts aggregating to ₱948,771,531.14 could not be relied upon due to (a) discrepancy of ₱299,792,809.15 between the PPE account balances per books and per physical inventory report; (b) understated land and road networks account balance; (c) erroneous provision of depreciation expense; and (d) unsupported details of the derecognized PPE in the books. Further, the City Accounting Office (CAO) did not (a) adopt the Modified Accrual Basis in the recognition of Real Property Tax (RPT) and Special Education Tax (SET): and (b) follow the prescribed accounting entries in the recording of RPT and SET collections and distributions of the Basic RPT.

For the above noted exceptions, we recommended that the Local Chief Executive:

- (a) For the unreliable Property, Plant and Equipment, ensure that the Offices of the GSO and CAO are adequately manned and trained in order that they could substantially accomplish their tasks in the recording, documentation, monitoring, inventory taking, reporting, and reconciliation of PPE records;
- (b) require the GSO, CAO, City Assessors

Officer, and City Legal Office to further exert their coordinated efforts in ensuring that the parcels of land acquired by the City through purchase or donation are titled and recognized in the books based on the fair value or acquisition cost to reflect the true financial condition of the City; (c) require the City Engineering Office to forward a copy of the inspection and acceptance documents on completed public infrastructure projects for listing at the GSO ; and (d) require the CAO to effect the necessary adjustments on the (i) Land, Road Networks, and depreciation accounts; and (ii) derecognition of PPE accounts; and

(b) For the non-setting up of Real Property Tax (RPT) and Special Education Tax (SET) Receivables, require the (a) CTO and the City Assessor to combine their efforts to cleanse the data base of the RPT System to generate a reliable assessment roll; (b) CTO to provide a list to the CAO of active RPT taxpayers and amount collectible to serve as basis in the setting-up of RPT/SET Receivable at the beginning of the year, pending cleansing of Assessor's records; and (c) CAO, based on the submitted list of RPT/SET receivables by the CTO, recognize in the books the amount of RPT/SET collectibles for the year, and follow the prescribed accounting entries in the distribution and payment of barangay's RPT share.

E. Summary of Other Significant Audit Observations and Recommendations

Summarized below are the other significant audit observations and recommendations noted during the audit and the corresponding recommendations which were discussed in detail in Part II of the report.

1. The grant, handling and liquidation of cash advances during CY 2019 were still not compliant with pertinent laws, rules and regulations because (a) accountable officers (AOs) did not settle their cash advances within the prescribed period pursuant to COA Circular No. 97-002 dated February 10, 1997 and COA Circular No. 2009-002 dated May 18, 2009; (b) accountable officers were granted additional cash advances despite non-liquidation of the previous one as prescribed in Section 89 of Presidential Decree (PD) No. 1445; and (c) transactions were not properly recorded in the cash book in accordance with Annex 21 of the New Government Accounting System (NGAS) Volume II, thus increasing the risk of loss and misuse of public funds. (*Observation No. 1*)

We recommended that the Local Chief Executive (LCE) (a) require the AOs to strictly follow the prescribed liquidation period for cash advances to prevent the accumulation of outstanding cash advances; (b) require the City Accountant to refrain from granting of multiple cash advances which practice exposes huge funds to possible loss; and (c) instruct the concerned AOs to practice the proper way of recording transactions in the cashbook.

2. Various deficiencies were noted in the keeping of trust funds (TFs) such as (a) unreturned abandoned TFs to the Bureau of Treasury; (b) unreturned unexpended balance of TFs to source agencies; (c) unutilized trust funds; and (d) erroneous classification of

account contrary to pertinent provisions of the New Government Accounting System (NGAS) for Local Government Units (LGUs), Executive Order (E.O.) No. 431, s2005, DOF-DBM-COA Joint Circular No. 4-2012 dated September 1, 2012, COA Circular No. 94-013 dated December 13, 1994, and International Public Sector Accounting Standards No. 1. (*Observation No. 4*)

We reiterated our previous year's audit recommendation that the LCE (a) require the City Treasurer and City Accountant to (i) facilitate the return of the abandoned NALGU funds totaling ₱4,849,505.00 to the account of the National Treasury; and (ii) revert to the General Fund the cash donation amounting to ₱100,000.00, and other identified supposed income totaling ₱3,181,734.92; (b) require the City Accountant to (i) retrieve the records, if possible, to effect the return of the unexpended balances of trust funds to source agencies; and (ii) maintain a detailed subsidiary records for trust funds for reference and proper identification; and (c) ensure that the 20% share from fire code fees is appropriated exclusively for the operations and maintenance of local fire station.

3. There was low utilization rate of the 20% Development Fund (DF) for CY 2019, while various deficiencies were noted in the implementation of development projects aggregating to ₱56,740,958.62 or 40.76% of total appropriations of ₱137,925,063.60 contrary to the Department of Interior and Local Government (DILG) and Department of Budget and Management (DBM) Joint Circular No. 2017-1 dated February 22, 2017, and provisions of the 2016 Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184. (*Observation No. 7*)

We recommended that the LCE as head of the CMDC, hand in hand with the CPDO, ensure that (a) the priority development projects are specifically identified in the AIP through thorough and regular discussion with other sectoral members of the CMDC; (b) the APP is prepared for infrastructure projects; (c) a realistic time-frame is set for their implementation; and (d) public bidding as a mode of procurement is adopted for a smooth implementation of projects according to the Plan.

We also recommended that the BAC Secretariat and City Engineering Office take note of the deficiencies noted in the posting of signboard for information to the general public of on-going project, and the requirements of the 2016 IRR of RA No. 9184 be religiously complied with to ensure the promotion of transparency, competitiveness, integrity and quality of projects implemented by the City.

4. Despite substantial delays in the completion of several development projects aggregating to ₱22,557,798.54 funded under the Continuing Appropriations (CA) of the 20% Development Fund (DF), no legal sanction was introduced by Management to address the negative slippage of Contractors contrary to Department of Interior and Local Government (DILG) and Department of Budget and Management (DBM) Joint Circular No. 2017-1 dated February 22, 2017, and the provisions of the 2016 Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184. Moreover, insufficiency of bidding and contract documents, and non-posting of signboard/billboard on the project

site, for public information were also noted contrary to the same Act and COA Circular No. 2013-004 dated January 30, 2013. (*Observation No. 8*)

We recommended that the LCE (a) investigate the incurrence of negative slippage on several development projects, and take appropriate action to hold liable the City officials concerned, and contractors for the delay; (b) require the City Engineer to request from the contractors concerned a Statement of Work Accomplished, furnished the Audit Team; (c) require the BAC Secretariat (i) to forward to the Audit Team the lacking documents; and (ii) henceforth, submit the perfected contract together with its integral parts within five days from its signing; and (d) require the City Engineering Office (CEO) to (i) exercise regular monitoring of on-going projects to enforce the completion of the projects on time; (ii) strictly observe the posting of billboards on on-going projects for transparency and public information; and (iii) seek the assistance of the officials of the barangay concerned to keep an eye on the signboards to prevent them from being stolen. If possible, impose penalty on takers of the signboard.

5. The failure of Management to establish a fully functional Material Recovery Facility (MRF) and comply with certain provisions of Republic Act (R.A.) No. 9003 or the Ecological Solid Waste Management Act of 2000 resulted in substantial costs for hauling fees despite the availability of several waste processing machine and equipment for source reduction program. (*Observation No. 9*)

We recommended that the LCE support the advocacies of RA No. 9003 by (a) ensuring to make the City MRF fully functional and environmental friendly through established concrete and long-term programs, project and activities to promote waste reduction, recycling, composting, and waste processing in an environmentally sound manner; (b) utilizing the available machineries and keep them intact and in good condition to avoid manual processing of wastes; (c) continuing the education campaign on proper waste management and disposal to all component barangays; and (d) conducting regular meetings with component barangays, and different stakeholders to tackle the current status of the City's compliance with RA No. 9003 and come up with coordinated projects to address the common concerns on solid waste management.

6. Infractions were noted in the allocation, utilization and reporting of the CY 2019 Local Disaster Risk Reduction Management Fund (LDRRMF) of the City such as (a) failure to optimize the utilization of the fund as only ₱4,417,457.25 or 7.83% of the current year's allocation for the 70% Preparedness and Mitigation Fund of ₱56,389,916.00 was obligated/ utilized, leaving a balance of ₱51,972,458.75; (b) non submission of monthly report on sources and utilization of the LDRRMF by the Local Disaster Risk Reduction and Management Council (LDRRMC); (c) failure to revert the unutilized balance of the LDRRMF aged more than five years to the General Fund; (d) failure to transfer the lump-sum amount of the CY2019 QRF to the Trust Fund Books; and (e) non maintenance of separate registry of Appropriations, Allotments, Obligations and Balances for Quick Response Fund (QRF), Maintenance and Other Operating Expenses (MOOE) and Capital Outlay (CO) of the LDRRMF, thereby manifesting lack

of Management's awareness on the provisions of the law pertaining thereto. (*Observation No. 10*)

We recommended that the Local Chief Executive require the (a) CDRRMC to (i) prepare a comprehensive and detailed Local Disaster Risk Reduction Management Fund Investment Plan (LDRRMFIP) that will address risk reduction and management system effectively to meet the needs for prevention and mitigation, preparedness, response, rehabilitation and recovery of the Local Government; (ii) list the PPAs specifically and classify properly the allotment as either MOOE or CO; and (iii) comply with the prescribed format which shall include the details of the projects charged to the previous years' unexpended balance of the DRRMF; (b) CDRRMO to strictly (i) comply with the submission of monthly Report on Sources and Utilization of DRRMF to the COA Audit Team for timely verification and (ii) prepare the report in accordance with the format prescribed under COA Circular 2012-002 with emphasis on the inclusion of balances of previous years' appropriation transferred to the Special Trust Fund and the utilization thereof; (c) City Accountant to (i) follow the reporting requirements for the DRRMF, specifically the proper transfer of previous year's unexpended balances of the DRRMF to the Trust Fund; and (ii) transfer only the expended balances of DRRMF for QRF and MOOE to the Trust Liability account and treat the DRRMF for Capital Outlay as a continuing appropriation in the General Fund books until the projects funded therefrom are completed; and (d) City Budget Officer to maintain separate Registry of Appropriations, Allotments and Obligations (RAAO) for the DRRMF on the following: (i) RAAO - for Quick Response Fund; (ii) RAAO- for Maintenance and Other Operating Expenses; and (iii) RAAO- for Capital Outlay.

F. Summary of Total Suspensions, Disallowances and Charges

The Unsettled Disallowance at year-end totaled to ₱1,469,277.93 which included disallowances in the prior and current year amounting to ₱820,227.93 and ₱799,000.00, respectively and settlement of ₱150,000.00.

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

Of the 73 audit recommendations embodied in CY 2018 Annual Audit Report, 44 were fully implemented; eight were partially implemented while the remaining 21 were not implemented.