

EXECUTIVE SUMMARY

A. Introduction

The City of Olongapo was created by virtue of Republic Act (R.A.) No. 4645 dated June 1, 1966. It was elevated to the status of highly urbanized city on December 7, 1983. Under its charter, the City constitutes a political body corporate and, as such, is endowed with the powers, which pertain to a municipal corporation. Its powers and authority were later modified by R.A. No. 7160 otherwise known as the Local Government Code of 1991.

For the year 2019, the City of Olongapo continued to fulfill its Social Contract with the people in which the following areas of governance were accomplished, such as transparency, good governance, people's participation and financial accountability. The City's Accomplishment Report based on the Social Contract reflected various concrete and tangible achievements which were attained for the benefit of the general welfare of the constituents. These include the area on Social Governance, such as health services, support to education, support to housing and basic utilities; area on Economic Governance, such as support to agriculture, support to fishery services, entrepreneurship, business and industry promotion; and the area on Environmental Governance, such as urban ecosystems management, forest ecosystems and freshwaters ecosystems management.

As of December 31, 2019, the City had a total personnel complement of 2,378 composed of 1,075 permanent employees, 379 casual employees, 909 job order/contract of service employees and 15 consultants.

The City of Olongapo has a total land area of 18,500 hectares with about 2,279.28 hectares or 12.32% as built-up area. Based on the May 1, 2010 census on population conducted by the National Statistics Office (NSO), Olongapo had a total population of 221,178 excluding transients with an annual growth of 2.19%.

B. Financial Highlights

The following data summarize the financial condition, result of operations, and the sources and application of the funds of the City for Calendar Year 2019 with comparative figures in CY 2018:

	2019	2018	Increase/ (Decrease)
Financial Position			
Assets	₱9,880,393,952.78	₱8,952,640,637.28	₱927,753,315.50
Liabilities	7,194,364,625.40	6,776,846,617.08	417,518,008.32
Government Equity	2,686,029,327.38	2,175,794,020.40	510,235,306.98
Financial Performance			
Revenue	1,800,584,317.68	1,588,215,760.13	212,368,557.55
Expenses	1,296,590,778.45	1,188,522,675.86	108,068,102.59

Excess of Income Over Expenses	503,993,539.23	399,693,084.27	104,300,454.96
Sources and Application of Funds - General and Special Education Fund 2019			
	Budget	Actual	Difference
Revenue and Receipts	1,720,915,706.00	1,778,735,323.86	57,819,617.86
Appropriation/ Expenditures	1,812,735,280.00	1,587,239,451.46	225,495,828.54
Surplus	₱ (91,819,574.00)	₱ 191,495,872.40	₱ (283,315,446.40)

C. Scope of Audit

The audit covered the financial transactions and operations of the City of Olongapo for CY 2019 based on the audit instructions of the Local Government Sector (LGS), COA Central Office, as embodied under Unnumbered COA Memorandum dated July 3, 2019. The audit included the examination of disbursement vouchers and supporting documents of pre-selected accounts and areas on a sampling basis, employing various audit procedures and techniques, such as analysis of accounts and review of the financial statements in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) prescribed by the Commission on Audit pursuant to COA Resolution No. 2014-003 dated January 24, 2014. The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertion on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's unimplemented audit recommendations.

D. Independent Auditor's Report

A qualified opinion was rendered on the fairness of the presentation of the financial statements of the City Government of Olongapo for the year ended December 31, 2019 due to the understatement of the Cash and Cash Equivalents by ₱28,927,802.77 for the non-recognition of collections amounting to ₱17,934,924.67 as at year-end and non-adjustment of book reconciling items in the Bank Reconciliation Statements (BRS) totaling to ₱10,992,878.10 which were not in accordance with International Public Sector Accounting Standard (IPSAS) 1.

Moreover, depreciable assets acquired under the General Fund was not provided with cost of depreciation pursuant to the Philippine Application Guidance (PAG) 3 to 6 of IPSAS 17, overstating the carrying value of Property, Plant and Equipment by ₱162,784,287.44. Meanwhile, donated properties worth ₱46,472,940.72 remained unrecognized in the books of accounts, which is inconsistent with the asset recognition policy under IPSAS and Section 63 of P.D. No. 1445.

For the above audit observations, we recommended that the Local Chief Executive advise the City Accountant to:

For Cash and Cash Equivalents

- (a) recognize collections exactly in the period in which the actual receipt of cash and income occurred; (b) initiate the timely preparation of Bank Reconciliation Statements and invariably recognize in the books all valid reconciling items to present fairly the financial statements; and (c) work out for the augmentation of the existing workforce and strengthen the capabilities of the Accounting Office to achieve a more effective and timely financial reporting.

For Property, Plant and Equipment, including Donated Properties

- (a) re-evaluate the computation and the recording of depreciation, prepare a lapsing schedule, and effect the necessary adjustments to the related accounts; (b) coordinate with the Committee on Appraisal to determine the appraised value of the donated properties in the absence of any valid acquisition documents as basis for costing and recognition in the books of accounts; and (c) advise the GSO and Property Custodians of the Hospital and RHU to contact known donors for the retrieval of donation documents to account for all donated properties.

E. Summary of Significant Observations and Recommendations

Summarized below are the other significant observations and corresponding recommendations that are discussed in detail in Part II of this report.

1. The collectability and accuracy of the recorded receivables of the four economic enterprises of the City aggregating to ₱226,008,682.60 as at year-end could not be established for failure of the Accounting Office to update and maintain detailed schedules of borrowers/debtors contrary to paragraph 45 of International Public Sector Accounting Standards (IPSAS) 29. Moreover, had the City Government efficiently imposed stringent collection policies and duly enforced the civil remedies available pursuant to Section 174 of Republic Act (R.A.) No. 7160, additional revenues could have been realized and productively used to finance vital programs and projects, and ultimately ensure the viability and stability of those economic enterprises in the purview of Local Budget Circular (LBC) No. 111 dated June 10, 2016. Likewise, the City did not maintain special accounts for each of the two public markets contrary to Section 313 of R.A. No. 7160. (**Observation No. 3**)

We recommended that the Local Chief Executive instruct the:

- a. City Treasurer to (i) demand payment of rental fees from lessees who were delinquent as at year-end; and (ii) institute the civil remedies available pursuant to Section 174 of R.A. No. 7160;

b. City Accountant to (i) investigate the discrepancy of ₱9,359,579.05 and adjust/correct the amount of income from school fees accruing to Gordon College; (ii) analyze recorded accrued receivables and medical inventory under JLGMMH and other receivables not recorded in the individual economic enterprises that are dormant, long outstanding and unsubstantiated for proper disposition and de-recognition, if warranted; (iii) work back to establish the correct 2017 receivable balances of JLGMMH and update thereafter; (iv) maintain Subsidiary Ledgers and detailed schedules to support the account balances; (v) perform regular reconciliation of records with each economic enterprise; (vi) adhere strictly to the above provisions of law and accounting/reporting standards relating to the maintenance of special accounts for each economic enterprise in the General Fund for purposes of promoting the principles of transparency and full disclosure of government operations; and (vii) reclassify the receivable of ₱168,000.00 from LTO-Olongapo Branch for unpaid rentals from Accounts Receivable to Due from NGA's account; and

c. Market Committee to (i) enforce the cancellation of the lease contract/agreement of delinquent lessees and the revocation of their right to occupy the stalls, except those stallholders of the OCPM governed by the Status Quo Order issued by the court; (ii) execute a contract of lease with each stallholder signed by both parties for the full protection of the interest of the LGU; (iii) administer properly the issuance of business permits to stallholders so that the latter could not operate their business unless covered by an approved contract of lease and arrearages were fully settled; (iv) through the City Treasury Office, submit immediately the schedule of advance rental and security deposits actually paid by OCPM stallholders; (v) provide consistent information to concerned offices to avoid misunderstanding in the usage of the reports submitted; and (vi) consider adopting the DBM Manual as guide in the efficient and effective operation of LEEs to ensure their viability in consonance with the Local Budget Circular No. 111 dated June 10, 2016.

2. The existence and accuracy of the reported inventories aggregating to ₱89,816,521.68 as at year-end could not be established due to (a) failure to conduct physical count; (b) non-maintenance of Supplies Ledger Cards (SLC); thus, reconciliation with property records was not done; and (c) deviations from prescribed accounting procedures and policies relative to pricing/costing of goods and recognition of the issuance of supplies/materials contrary to the Manual on the New Government Accounting System (NGAS) for LGUs, Volume 1. (**Observation No. 4**)

We recommended that the Local Chief Executive instruct the (a) City Accountant to (i) maintain Supplies Ledger Cards (SLCs) for each commodity/stock; (ii) record all purchases of inventory supplies in the books of accounts using the Perpetual Inventory System; (iii) use the moving average method for costing inventories on monthly reports; and (iv) recognize existing unused supplies based on the result of physical count; and (b) General Services Officer to (i) maintain stock cards for each item; (ii) regularly reconcile the stock cards with the SLCs of the Accounting Unit; (iii) report the issuances of supplies thru the Summary of Supplies and Materials issued (SSMI) which shall be the basis of the City Accountant in recording to appropriate Expenses accounts; and (iv) conduct physical count

of stocks of all supplies and materials and submit relative reports to the Office of the Auditor and other offices concerned on a semi-annual basis.

3. The validity and accuracy of the recorded liabilities to the National Government Agencies (NGAs) amounting to ₱19,934,955.93 as of year-end could not be ascertained due to (a) existence of dormant, long-outstanding and unsubstantiated accounts aggregating to ₱9,009,743.99 for lack of subsidiary records and unavailability of source documents; (b) non-reversion of unutilized balance of Priority Development Assistance Fund (PDAF) of ₱1,031,444.06 to the Bureau of Treasury; and (c) unrecorded fund transfer from the Department of Public Works and Highways (DPWH) amounting to ₱3,810,942.71 contrary to the pertinent sections of the Government Accounting and Auditing Manual (GAAM), Volume I, COA Circular No. 2016-005 dated December 19, 2016, Supreme Court Decision in GR Nos. 208566, 208493 and 209251 dated November 19, 2013, and IPSAS 23. (*Observation No. 5*)

We recommended that the City Accountant (a) conduct a thorough review and analysis of the Due to NGAs account; (b) reconcile and coordinate with the source agencies to arrive at the appropriate accounting treatment for each outstanding balance and resolve the differences in the account balances; if any (c) file a request for authority to write-off dormant fund transfers with COA after the conditions and requirements pursuant to COA Circular NO. 2016-005 have been fully satisfied; (d) return to the National Government, thru the Bureau of Treasury, the unutilized balance of PDAF of ₱1,031,444.06; and (e) draw a Journal Entry Voucher (JEV) to recognize the fund transfer amounting to ₱3,810,942.71 as of year-end.

4. Despite adequate funding, the City failed to finish 12 out of 47 targeted projects or 25.53% as at December 31, 2019 due to poor monitoring contrary to Department of the Interior and Local Government (DILG) - Department of Budget and Management (DBM) Joint Memorandum Circular (JMC) No. 2017-1 dated February 2, 2017. As a result, desired development goals were compromised. Moreover, the City continuously failed to maintain special accounts for the 20% Development Fund under the General Fund (GF) contrary to Section 313 of Republic Act (R.A.) No. 7160 or the Local Government Code of 1991 and the pertinent provisions of Chapter 6, Volume I of the Manual on New Government Accounting System (NGAS) for LGUs; thus, the cash flows, financial condition and results of operation of the Fund were not readily determined for decision-making and policy formulation by top-level management. (*Observation 12*)

We recommended that the Local Chief Executive (a) direct the CEO and the CPDO to ensure the effective and efficient implementation of the proposed projects within the set schedule thru close monitoring; (b) require the CBO to (i) coordinate with the CEO, and CAO to obtain an accurate accomplishment and expenditure reports for comparison with planning and budget estimates; and (ii) ensure accuracy of the Utilization Report such that total Appropriations tally with the Annual Budget; and (c) instruct the City Accountant to maintain a special account or subsidiary ledger for 20% Development Fund as a means of control over the expenditures actually incurred and paid, thereby, facilitating reconciliation

with the budget records. Likewise, the use of special account will serve as a reporting mechanism to facilitate feeding of information to policy and decision makers.

5. The desired goals and objectives of reducing disaster risk and enhancing disaster preparedness and response capabilities may not be optimally achieved by the LGU due to (a) allocation of budget for Local Disaster Risk Reduction Management Fund (LDRRMF) at less than the required rate of 5% of the estimated revenue from regular sources; (b) late submission of the Report on Sources and Utilization of Funds; (c) charging of ineligible expenses of ₱905,600.00 to the Fund; (d) deviations from accounting procedures for Trust Liability – DRRMF resulting to the misstatement of assets and equity accounts by ₱15,361,342.43; and (e) weak internal control over relief goods contrary to Republic Act (R.A.) No. 10121, COA Circular No. 2012-002 dated September 12, 2012, and Section IV.C.2 of COA Circular No. 2014-002. (*Observation 13*)

We recommended that the Local Chief Executive (a) instruct the Budget Officer to appropriate and set aside not less than 5% of the estimated revenues from regular sources for LDRRMF; (b) advise the City Accountant to: (i) prepare, certify and submit the monthly Report on Sources and Utilization of LDRRMF to the Audit Team on a regular basis; (ii) strictly comply with the guidelines set forth in COA Circular 2012-002 particularly in accounting for assets procured out of the Trust Liability – DRRMF; (iii) draw a Journal Entry Voucher (JEV) to recognize the transfer of disaster equipment from the Trust Fund to the General Fund in the amount of ₱15,361,342.43. The provision of corresponding depreciation in the amount of ₱1,016,662.27 should likewise be transferred to the GF books; and (iv) prepare and maintain PPE Ledger Cards and Supplies Ledger Cards for all PPEs and relief goods acquired out of LDRRMF and donations, if any; (c) instruct the Head of LDRRMO to refrain from using DRRMF for programs/projects/activities which are not directly related to disaster preparedness, mitigation, response and rescue operations; and (d) direct the GSO to accomplish Property Cards and Stock Cards in the required format and make sure that the balances tally with the accounting ledgers.

6. The City Government failed anew to comply with the rules and regulations governing the procurement of infrastructure projects such as (a) absence of warranty security for completed projects amounting to ₱101,566,093.27; (b) late posting of Notice of Award in the PhilGEPS was prevalent; (c) 59 unsubstantiated contracts amounting to ₱177,822,658.22; and (d) immeasurable delay in the implementation of seven projects with work suspension period of 94 to 458 calendar days; thus, depriving the LGU of adequate protection against defaulting contracts and structural defects that may arise within the warranty period. Likewise, the transparency of the procurement process and the validity and propriety of claims were not established contrary to pertinent Sections of the 2016 Revised Implementing Rules and Regulations (RIRR) of Republic Act (R.A.) No. 9184 and Section 4(6) of P.D. No. 1445. (*Observation 10*)

We reiterated our previous recommendations that management instruct the:

- a. OIC-City Engineer to (i) require the contractor to post warranty security as guarantee to any defects/repairs that may arise from the time of their final acceptance pursuant to pertinent laws, rules and regulations specifically Section 62 of the 2016 Revised IRR of R.A. No. 9184; (ii) submit written justification for the long period of suspension for the seven projects; (iii) ensure that all items in the Program of Works are strictly followed; and (iv) require the contractor concerned to undertake immediate repair on the damage noted and refrain from using sub-standard materials to maintain good quality outputs;
- b. Bids and Awards Committee (BAC) and BAC Secretariat to (i) invite observers from duly recognized private sector and NGOs in every stage of the bidding process; (ii) ensure compliance with the posting of the Notice of Award (NOA) in the PhilGEPS within three calendar days from its issuance; and (iii) post Approved Contracts and Notices to Proceed (NTPs) in the PhilGEPS within 15 days upon issuance thereof pursuant to Section 37.4.2 of the 2016 Revised IRR of R.A. No. 9184; and
- c. City Accountant in coordination with the BAC members to submit the foregoing lacking documents to substantiate the disbursements made and ensure that all payments are supported with complete documentation.

7. The terms and conditions stipulated in the Lease Agreement between the City Government of Olongapo and eight lessees of government-owned facilities/structures were not rightfully enforced, thus, depriving the City of considerable amount of revenues and benefits that can be generated therefrom. Moreover, the “Annexes” were not made as integral parts of the Lease Agreement of SM Prime Holding, Inc.; thus, the validity, legality and proper execution thereof could not be established. Likewise, accrued income from uncollected lease contracts were not recognized which is not consistent with the accrual basis of accounting. (*Observation 15*)

We recommended that the Local Chief Executive instruct (a) the City Treasurer to (i) strictly implement the provisions stated in the lease contracts/profit-sharing agreements; (ii) demand payment of contracts that have remained uncollected as at year-end; (iii) institute the civil remedies available pursuant to Section 174 of R.A. No. 7160; and (iv) follow-up and provide justification for the approval of the proposed new division in charge of contract monitoring and its manning requirement; (b) the City Accountant to (i) draw a Journal Entry Voucher (JEV) to adjust the rental payment made by SM Prime Holding Inc. (SM2); (ii) accrue lease contract receivables that have remained uncollected as at year-end; (c) the Contract Management Committee, spearheaded by the Legal Office, to (i) amend and/or include specific provisions on the contracts/agreements relative to prescribed time/deadline of payment, penalties and/or interests upon default including the right of the City Government to inspect the books of accounts, accounting records and financial reports of the other party; (ii) require the posting of performance/construction bond of the Lessees; and (iii) prepare a written MOA with the LTO - Licensing and LTO-Registration and renew

the MOA with PSA; and (d) the City Planning and Development Officer (CPDO) to submit certified photocopies of all contracts involving government buildings and/or lands leased to private entities/individuals for further review of the COA Regional Technical Services Office in accordance with COA Circular No. 2019-005 dated August 07, 2019.

Our observations and recommendations were discussed with the concerned agency officials and their comments were incorporated in the report, where appropriate.

F. Status of Audit Suspensions, Disallowances and Charges

As of December 31, 2019, the City had unsettled audit suspensions and disallowances of ₱599,522,111.03 and ₱28,732,681.57, respectively. No notices of disallowances, suspensions and charges were issued during the year.

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

Out of the 94 unimplemented recommendations embodied in the previous year's Annual Audit Reports (AARs), 12 or 12.77% were fully implemented, 31 or 32.98% were partially implemented and 51 or 54.25% were not implemented at all.