

EXECUTIVE SUMMARY

A. INTRODUCTION

Laoag became the first parish and first town in the northern portion of the old Ilocos, comprising of Ilocos Norte, Ilocos Sur and La Union in 1585. Through the enactment of Republic Act No. 4584 on June 19, 1965, the municipality of Laoag was created as a City. It has a total land area of 12,747.35 hectares with 356.473 kilometers of road network. It is composed of 30 urban barangays and 50 rural barangays.

The City of Laoag is envisioned to be a Metropolitan Center in the north where economic growth and development abound for its people to equitably share and enjoy by year 2022.

As of December 31, 2018, it has a total work force of 1,152 employees, comprising of 13 elective officials, 705 permanent, 7 co-terminus, 379 contract of service, 24 contractual, and 24 casuals.

B. FINANCIAL HIGHLIGHTS

Presented below are the comparative data on the Financial Position, Financial Performance and Sources and Application of Funds for CYs 2018 and 2017:

Particulars	2018	2017	Increase (Decrease)	
			Amount	%
Financial Condition				
Assets	1,895,139,039.72	1,287,213,980.00	607,925,059.72	47.23
Liabilities	739,621,512.43	642,364,332.40	97,257,180.03	15.14
Equity	1,155,517,527.29	644,849,647.70	510,667,879.59	79.19
Financial Performance				
Gross Income	942,081,295.63	846,563,133.51	95,518,162.12	11.28
Expenses	759,627,117.07	695,889,573.28	63,737,543.79	9.16
Net Income	182,454,178.56	150,673,560.23	31,780,618.33	21.09
Sources and Application of Funds				
Current Legislative Appropriations:				
Allotments	987,442,616.79	774,378,470.52	213,064,146.27	27.51
Obligations	744,504,353.19	645,152,733.43	99,351,619.76	15.40
Balance	242,938,263.60	129,225,737.09	113,712,526.51	88.00

Continuing Appropriations:

Allotments	101,251,245.94	65,047,051.81	36,204,194.13	55.66
Obligations	17,681,198.43	14,890,109.31	2,791,089.12	18.74
Balance	83,570,047.51	50,156,942.50	33,413,105.01	66.62

C. OPERATIONAL HIGHLIGHTS

The following are the major accomplishments of the City which were validated by the Audit Team:

Programs/Projects/Activities	Expenditure	% of Completion
Purchase of Endoscopy Machine and Gastroscope, Colonoscope and Bronoscope	₱13,199,000.00	100
Purchase of X-Ray C Arm with Radioscopy and Flouroscopy	13,498,000.00	100
Purchase of Low Temperature Plasma Free Sterilizer	7,998,000.00	100
Purchase of 3 units Patient Monitor	1,494,000.00	100
Purchase of 9 units Mechanical Ventilator 2 in 1	10,926,000.00	100
Completion of Multi-Purpose Hall, City Basketball Court	1,048,500.00	100

D. SCOPE OF AUDIT AND METHODOLOGY

A financial and compliance and value for money audit were conducted on the accounts and operations of the City Government of Laoag for the calendar year 2018. The audit included our audit focus and thrusts as contained in COA – LGS Memorandum dated July 9, 2018. It was conducted to ascertain the propriety of financial transactions and compliance of the agency to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements and the economical, efficient and effective utilization of its resources.

E. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the presentation of the financial statements of the City of Laoag as of December 31, 2018 because the existence of properties under the Property, Plant and Equipment (PPE) accounts as well as the accuracy, reliability and correctness of their balances amounting to ₱234,938,112.41 could not be reasonably ascertained due to various deficiencies uncovered in audit; recognition of Road Networks as Property, Plant and Equipment was undertaken without adhering to the guidelines set forth in COA Circular No. 2015-008 to assure fair presentation of the account Road Networks in the financial statement, thus the said account with carrying amount of ₱240,092,468.22 is unreliable; Accounts Receivable

and Other Receivables totaling ₱18,947,973.24 were not subjected to periodic verification, analysis and validation, hence the validity and collectability of the receivables account reflected in the financial statement is doubtful; and supporting documents for several items in the Accounts Payable schedule amounting to ₱9,848,334.27, were not presented for verification, thus the accuracy of the amount presented as valid and demandable obligation is doubtful.

F. SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

Favorable Observations:

For CY 2018, the City Government of Laoag garnered the following awards and recognition:

- a. 3rd Livable City in the Philippines for 2018 as conferred by Manila Times
- b. Regional Gawad Kalasag Award for 2018, awarded by NDRRMC and OCD
- c. 1st place in the Pillar of Infrastructure in the cities and Municipalities Competitiveness Index, Region 1
- d. City Assessor's Office, Productive Performance at 91.84% by BLGF

However, some transactions which need to be corrected or improved are enumerated in the herein audit observations with the corresponding recommendations as follows:

1. The existence of properties recorded in the books under the Property, Plant and Equipment (PPE) accounts as well as the accuracy, reliability and correctness of their balances amounting to ₱234,938,112.41 as of December 31, 2018 could not be reasonably ascertained due to various deficiencies uncovered in audit.

We recommended that the City Mayor take the following courses of action:

- a. Require the Inventory Committee to conduct the required annual physical count of the PPE in order to establish their physical existence and conditions and prepare a report thereon signed by the Inventory Committee and City Mayor. The results thereof must be reconciled with the accounting records to effect any adjustments, as necessary. In addition, an Inventory and Inspection Report on Unserviceable Properties should be accomplished to account for city properties that are already beyond economical repair to facilitate dropping of these from the books in case they are determined to be of no economic value in order to ensure that the balances of PPE accounts are fairly presented in the financial statements.
- b. Require the General Services Officer to determine the end-users accountable for the unaccounted PPE items, require them to produce the same, otherwise, demand the return of the money value of the missing items.

- c. Require the City Accountant to reclassify the PPE items in accordance with the Revised Chart of Accounts for Local Government Units.
2. Recognition of Road Networks as Property, Plant and Equipment was undertaken without adhering to the guidelines set forth in COA Circular No. 2015-008 to assure fair presentation of the account Road Networks in the financial statement, thus the said account with carrying amount of ₱240,092,468.22 is unreliable.

We recommended that Management follow the accounting and reporting guidelines in the recognition of the various components of the Road Network. The City Accountant, General Services Officer and City Engineer must be mindful and perform their respective duties and responsibilities outlined in COA Circular No. 2015-008 in order to ensure that the Road Network System of the City Government is properly identified, valued and accounted for in the books.

3. Various expenses totaling to ₱106,439,971.72 that should be charged to specific expense accounts as provided in COA Circular No. 2015-009 were charged to Other Maintenance and Operating Expenses, thereby rendering the propriety and accuracy of expense accounts in the financial statements unreliable.

We recommended that Management require the City Accountant and the City Budget Officer to use the proper accounts in recording transactions in compliance to COA Circular No. 2015-009 and strictly comply with the conditions provided in the appropriation ordinance as reviewed by the Sangguniang Panlalawigan.

4. Accounts Receivable and Other Receivables totaling ₱18,947,973.24 were not subjected to periodic verification, analysis and validation as required under COA Circular 2016-005, hence the validity and collectability of the receivables account reflected in the financial statement were doubtful.

We recommended that to verify and validate the accounts receivable and other receivables account, prepare an accurate aging of receivables and set-up allowance for impairment, if necessary, to reflect the actual net realizable value.

5. Supporting documents for several items in the Accounts Payable schedule amounting to ₱9,848,334.27, were not presented for verification as to its existence, validity and compliance with Sec. 46 of Presidential Decree 1177, thus the accuracy of the amount presented as valid and demandable obligation is doubtful.

We recommended that Management require the City Accountant to submit the supporting documents of Accounts Payable listed in Annex "B" for verification and to revert all Accounts Payable not duly supported by complete documentation pursuant to Sec. 46 of P.D. 1177.

6. Contracts covered by the lump-sum appropriation for the Aid to Barangays amounting to ₱12,408,394.70 lack prior authority from the Sangguniang

Panlungsod which is contrary to Section 22 (c) of R.A. No. 7160 and Section 20 of the General Provisions of 2018 Annual Budget and jurisprudence, thus irregular and illegal. In addition, the unexpended balance was not reverted to the unappropriated surplus of the general fund which is contrary to Section 322 of R.A. No. 7160, thus the corresponding disbursement thereof is deemed unauthorized.

We recommended that Management:

- a. ensure that the local chief executive has prior authority from the SP before she enters into a contract whose fund is to be charged to lump-sum appropriations;
 - b. consider non-payment of contracts entered into by the local chief executive amounting to ₱12,408,394.70 for being irregular and illegal and facilitate return of the amount already paid amounting to ₱186,250.00;
 - c. adhere strictly to Section 22 (c) of R.A. No. 7160 and other pertinent laws, rules and regulations; and
 - d. discontinue treating Aid to Barangays covered by lump-sum appropriations as continuing appropriation unless and until the appropriation ordinance has identify the specific projects and cost of the projects funded.
7. Financial Assistance/Cash Incentives totaling ₱3,347,500.00 granted to barangay officials, barangay nutrition scholars, barangay service point officers and barangay tanods were made contrary to COA Circular 2015-009, Resolution No. R2018-2350 of the Sangguniang Panlalawigan of Ilocos Norte, Section 95 R.A. 7160 and COA Circular 2012-003, thus illegal, irregular and disadvantageous to the city government.

We recommended that Management facilitate the return of the amount of ₱3,347,500.00 from those who participated in the transactions, enjoin the compliance of the City Budget Officer and City Accountant to COA Circular 2015-009 and strictly comply with the provisions of COA Circular 2012-003 and the Local Government Code of 1991.

8. The Approved Budget for the Contract for the purchase of the Rapid Response Vehicles amounting to ₱9,100,000.00 was not submitted in accordance with the Procurement Manual for Local Government Units, hence the reasonableness of the purchase price of the vehicles cannot be ascertained and the most advantageous price may not have been obtained.

We recommended that Management submit a breakdown showing how the budget cost for the Rapid Response Vehicles were determined. For succeeding procurements, management should ensure that end-users prepare the ABC meticulously keeping in mind the cost considerations as prescribed in the Procurement Manual for LGUs. Likewise, the tools/equipment/accessories mounted on the vehicles should be individually accounted for by the GSO to enhance accountability.

9. The Laoag City General Hospital as a local economic enterprise does not generate sufficient income to cover its costs despite being in operation for eight years, which is incompatible to its nature as an income-generating venture as provided in Local Budget Circular No. 111 dated June 10, 2016.

We recommended that Management review the existing policies regarding the operations of LCGH and, if warranted, apply necessary changes to improve its profitability. Consideration should be given to increasing profits by assessing the current pricing structure, especially items that decrease revenues such as discounts. Operating expenses should also be kept at a minimum. Otherwise, the LCGH should be discontinued as a local economic enterprise and reintegrate all its functions and services into the regular LGU operations in accordance with LBC No. 111.

G. STATEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF DECEMBER 31, 2018

Particulars	Suspensions	Disallowances	Charges
Balance, Dec. 31, 2017	₱ 10,789,445.23	₱ 2,536,588.92	₱ 0.00
Issued	1,337,038.00	1,030,486.32	0.00
Settled	170,697.00	160,355.00	0.00
Balance, Dec. 31, 2018	<u>₱ 11,955,786.23</u>	<u>₱ 3,406,720.24</u>	<u>₱ 0.00</u>

H. STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEARS' UNIMPLEMENTED AUDIT RECOMMENDATIONS

Of the audit recommendations contained in the CY 2017 Annual Audit Report and remaining partially implemented and not implemented audit recommendations in CYs 2014-2016 Annual Audit Reports, 10 were fully implemented, 23 were partially implemented, 11 were not implemented, and 5 are reiterated with modifications.