

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The City of Naga was created through the enactment of Republic Act (RA) No. 305 which took effect on June 18, 1948. From a municipality in the province of Camarines Sur, Naga was transformed into a chartered city. Representative Juan Q. Miranda sponsored this legislative act which put flesh into the City's bid to become among the only few independent component cities in the country.

The City of Naga, being a political and corporate unit of government, serves as instrument for developmental processes and effective governance of local government units within its territorial jurisdiction.

The City Government of Naga is headed by Hon. John G. Bongat, who was elected for his second term as City Mayor. He is supported by ten (10) City Kagawads in the Sangguniang Panglunsod and by Department Heads manning the different departments of the City.

In CY 2014, the City Government has 13 elected officials and 1,401 personnel complement composed of 601 regular employees, 437 casual and 88 contractual personnel, 2 consultants and 273 personnel on job order.

### B. FINANCIAL HIGHLIGHTS

#### I - Consolidated Status of Appropriations, Allotments and Obligations

For Calendar Year 2014, total appropriation amounted to P920,809,689.50 which was also the same amount allotted for the City's obligations. Total obligations incurred for the year amounted to P830,375,766.57 leaving a balance of P90,433,922.93.

#### II - Comparative Financial Position

Particulars	CY 2014	CY 2013	Increase (Decrease)	
			Amount	%
Assets	P2,545,258,012.82	P2,364,753,783.59	P180,504,229.23	7.63%
Liabilities	728,313,679.77	738,817,274.78	(10,503,595.01)	(1.42%)
Government Equity	1,816,944,333.05	1,625,936,508.81	191,007,824.24	11.75%

### III - Comparative Sources and Application of Funds

Particulars	CY 2014	CY 2013	Increase/(Decrease)	
			Amount	%
Local Taxes (Net of Discounts)	P 352,217,259.82	P 314,029,584.76	P 38,187,675.06	12%
Internal Revenue Allotment	367,962,517.00	332,096,605.00	35,865,912.00	11%
Permits and Licenses	18,308,319.41	14,590,099.11	3,718,220.30	25%
Service Income	22,052,113.81	17,402,398.98	4,649,714.83	27%
Business Income	111,406,873.41	75,761,478.48	35,645,394.93	47%
Other Income	19,727,364.06	16,342,157.86	3,385,206.20	21%
<b>Total Income</b>	<b>P 891,674,447.51</b>	<b>P 770,222,324.19</b>	<b>P 121,452,123.32</b>	<b>16%</b>
Less: Expenses				
Personal Services	P 297,129,058.21	P 299,431,313.58	P (2,302,255.37)	(1%)
Maintenance and Other Operating Expenses	308,903,410.19	280,667,315.23	28,236,094.96	10%
Financial Expenses	10,474,764.46	13,597,909.99	(3,123,145.53)	(23%)
Subsidies and Donations	103,365,267.24	49,694,847.79	53,670,419.45	108%
<b>NET INCOME</b>	<b>P 171,801,947.41</b>	<b>P 126,830,937.60</b>	<b>P 44,971,009.81</b>	<b>35%</b>

#### C. OPERATIONAL HIGHLIGHTS

As testimony to its compliance with the Full Disclosure Policy of the national government, the Naga City Government's website, [naga.gov.ph](http://naga.gov.ph), has been among the most visited government websites and the only local government unit (LGU) website to be included in the prestigious Top Ten list, according to traffic ranking by a US-based site.

Moreover, shown in Exhibit 1 are the enumerated Awards/Citations received by the Naga City Government for CY 2014.

#### D. SCOPE OF AUDIT

A financial and compliance and value for money audits were conducted in the review of financial transactions for all funds of the City for the period January to December 2014. The audit included, but not limited to, the analysis of financial and

accounting records and reports and the determination of the validity and propriety of the agency's transactions. The value for money audit was focused mainly on the 20% Local Development Fund and the Special Education Fund.

An initial validation of the existence of the submitted and reported PPEs was conducted but was only partially made and on a sampling basis due to the delayed submission of the RPCPPE, time constraints, unavailability of records/documents and lack of manpower to perform said inspection. Likewise, we were not able to review/post audit the submitted Journal Entry Vouchers for the liquidation of the Inventories Account due to time constraint and delayed submission of the said documents by Management.

#### **E. INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

The Auditor rendered a qualified opinion on the financial statements of the City because the Reports on the Physical Count of Inventories and Property, Plant, and Equipment (PPE) as of December 31, 2014 submitted to the Office of the Auditor were incomplete and were not completely accomplished and a reconciliation between some of the property and accounting records of the City of Naga were not conducted, hence correctness, validity and physical existence of the Inventories and PPE accounts valued in the books at P20,575,607.87 and P175,793,540.99, or comprising 47% and 10% of the total Inventories and PPE accounts, respectively, as of December 31, 2014 could not be ascertained.

Likewise, the Absence of Requisition Issue Slips (RIS) and Summary of Supplies and Materials Issued (SSMI) amounting to P22,677,318.52 to document the actual issuance and utilization of the Foods Supplies and Other Supplies Inventory account procured in CY 2014 and prior years, with a balance amounting to P21,979,533.03 and P11,302,085.49, respectively, as of December 31, 2014, affected the fair presentation of the subject accounts in the financial statement.

✓ There is a reasonable assurance that the financial statements are free of material misstatement/s and were prepared in accordance with applicable laws, rules and regulations and in conformity with generally accepted state accounting principles.

#### **F. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

For the exception mentioned earlier, the auditor recommended that the agency concerned officials immediately finish and finalize the conduct of inventory taking of all Inventories and PPE of the City and submit an accurate and completely accomplished Report on the Physical Count of Inventories and the Report on the Property, Plant and Equipment as of December 31, 2014 to the Auditor duly reconciled with the accounting records.

Likewise, Management should require the Supply Officer to submit the SSMI supported with RIS/Utilization Reports for all issued Foods Supplies and Other Supplies procured in the previous and current years, to the City Accountant so that proper accounting and adjustments thereof could be made.

Moreover, the following are the other notable observations and the corresponding recommendations.

#### I - FINANCIAL AND COMPLIANCE AUDIT

1. The reciprocal accounts Due from Other Funds (Account 144) and Due to Other Funds (Account 424) amounted to P117,362,273.06 and P127,448,919.54, respectively, with a variance or difference of P10,086,646.48, which indicates errors in the recording of the transactions affecting these accounts, thus casting doubts on the accuracy and reliability of their balances in the financial statements.

*We recommended that the City Accountant requires the bookkeeper to reconcile the balance of the reciprocal accounts Due from Other Funds and the Due to Other Funds accounts in all funds by effecting the necessary accounting entry/adjustments to bring into agreement the balances of the reciprocal accounts. Likewise, the concerned officials/employees must be extra cautious in the recording of the transactions.*

2. The failure of Management to impose settlement of long outstanding cash advances resulted to the accumulation of unliquidated cash advances amounting to P8,323,107.40 as of December 31, 2014.

*We recommended that the City Mayor requires the Accountable Officers to immediately liquidate their outstanding cash advances and to adhere strictly to the pertinent provisions of COA Circular No. 97-002 to avoid suspension of salaries for non-liquidation of cash advances and stop granting additional cash advance to officials and employees unless the previous ones are first liquidated and/or settled. We recommended further that the City Accountant strictly observe the provisions of COA Circular No. 96-004 in the proper monitoring of all cash advances.*

- 3a. Equipment Rental totaling P2,775,730.00, were all made through Negotiated Procurement, hence, were provided solely by Mighty AJ Construction Incorporation.

*We recommended/enjoined the Bids and Awards Committee of the LGU to adopt public bidding as the general mode of procurement in accordance with the Revised IRR of R.A. No. 9184 so that more qualified and eligible bidders can participate and enable the government to obtain the most advantageous contracts in the rental of equipment. Stop the practice of adopting negotiated procurement if all necessary conditions to allow such are not met.*

- 3b. Various guidelines, steps and procedures set forth if the procuring entity decides to enter into negotiated procurement in the selection of NGO were not followed, specifically for the payment of labor and other environmental and janitorial services rendered by the BRFWC amounting to P11,617,064.24.

*We recommended that Management strictly comply with the guidelines and procedures set forth in Annex A of the GPPB and Appendix 8, of IRR- RA 9184 on Negotiated procurement under Section 53 (j) of IRR-A for NGO participation in Public Procurement so that more qualified and eligible NGOs can participate and enable the government to obtain the most advantageous contracts in the labor and other environmental and janitorial services.*

4. The failure of the agency to consolidate the required drugs and medicines to be procured resulted to the adoption of the alternative mode of procurement through negotiated-small value procurement for the purchased drugs and medicines amounting to P4,327,223.81 and P839,875.00 for the City Health Office and the City Population and Nutrition Office (CPNO), respectively. Likewise, it also showed that planning by the requesting office was not meticulously and judiciously done.

*We recommended that Management conduct a thorough planning and estimates for the required drugs and medicines needed for a given period. The concerned Officer should request all their units to prepare their PPMP for their drugs and medicines requirements for consolidation, which should be incorporated in the agency's approved Annual Procurement Plan and shall be used as the basis for the conduct of public bidding; and strictly adhere to the provisions of the RIRR of RA 9184.*

5. A number of deficiencies were observed relative to the procurement of Land, PPE (Goods and Infrastructure Projects) and charges against CIP under the General and Trust funds implemented by the City government.

*We recommended that Management strictly comply with the pertinent provisions of the Revised Implementing Rules and Regulations of RA 9184 and likewise reiterated our prior year's recommendation that copies of perfected contracts and purchase orders be submitted to the Office of the Auditor within five (5) working days upon perfection thereof in compliance with COA Circular No. 2009-001 to facilitate review and evaluation of documents and inspection of projects and deliveries.*

6. Various requisites, procedures, accounting and reporting deficiencies noted in the entitlement, availment, release and utilization of funds, affected the LGU's capacity to put in place the necessary controls, promote transparency and accountability, including monitoring of the implementation of projects funded out of the funds granted and released to various Non-Governmental Organizations (NGOs)/People's Organization (POs) for CY 2014.

*We recommended that Management revisit and strictly comply with the revised guidelines in the granting, utilization, accounting and auditing of the funds released*

*to Non-Governmental Organizations/Peoples Organization enumerated under COA Circular No. 2007-001 dated October 25, 2007.*

## II- VALUE FOR MONEY AUDIT

7. Expenditures amounting to P12,455,436.29 were charged against the Special Education Fund (SEF), hence, other projects, programs and activities that are identified as priorities of the Special Educational Fund were not undertaken and provided with the necessary funds.

*We recommended that Management ensure that the Local School Board appropriate and disburse funds only for expenditures allowable under existing laws, rules and regulations for SEF; and prioritize those expenditures as stated in RA 7160 on SEF and the Joint Circular No. 01 s 1998 dated April 14, 1998 of the DBM, DECS and DIIG.*

The foregoing observations, together with the other findings and recommendations contained in this report, were discussed with the City officials and employees concerned in a conference held on June 2, 2015. Management views and comments were considered in this report, where appropriate.

## G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

A review of management's actions on previous years' audit recommendations disclosed that out of 39 audit recommendations, five were fully implemented, 31 were partially implemented and three were not implemented.