

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 is geared towards the promotion of the general welfare of Naguenos as mandated in the Local Government Code of 1991 (RA 7160) and uplifting of their quality of life.

Sixty-five years after it became a chartered city, Naga City has evolved into a national and global community, primarily for its award winning best practices and innovations initiated domestically and abroad. It has evolved into a world model vibrant city with a more dynamic role. It is now a City with world class governance system, a robust local economy, and a solid City Administration. Likewise, Naga City is among the most awarded cities of the country.

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 2013, the City Government has 14 elected officials and 1,284 personnel complement composed of 506 regular employees, 420 casual and 86 contractual personnel, 3 consultants and 269 personnel on job order.

B. FINANCIAL HIGHLIGHTS

I – Consolidated Status of Appropriations, Allotments and Obligations

For Calendar Year 2013, total appropriation amounted to ₱859,740,540.23 which was also the same amount allotted for the City's obligations. Total obligations incurred for the year amounted to ₱767,025,799.68 leaving a balance of ₱92,714,740.55.

II - Comparative Financial Position

Particulars	CY 2013	CY 2012	Increase (Decrease)	
			Amount	%
Assets	₱2,364,753,783.59	₱2,222,214,186.02	₱142,539,597.57	6.41%
Liabilities	738,817,274.78	671,292,447.38	67,524,827.40	10.06%
Government Equity	1,625,936,508.81	1,550,921,738.64	75,014,770.17	4.84%

III - Comparative Sources and Application of Funds

Particulars	CY 2013	CY 2012	Increase (Decrease)	
			Amount	%
Internal Revenue Allotment	P332,096,605.00	₱305,392,758.00	₱26,703,847.00	8.74%
Local Taxes	314,029,584.76	277,690,337.89	36,339,246.87	13.09%
Permits and Licenses	14,590,099.11	16,292,672.11	(1,702,573.00)	(10.45%)
Service Income	17,402,398.98	16,528,294.75	874,104.23	5.29%
Business Income	75,761,478.48	71,790,325.03	3,971,153.45	5.53%
Other Income	16,342,157.86	15,640,452.19	701,705.67	4.49%
Total Income	P770,222,324.19	₱703,334,839.97	₱66,887,484.22	9.51%
Personal Services	₱299,431,313.58	₱276,289,152.13	₱23,142,161.45	8.38%
Maintenance and Other Operating Expenses	280,667,315.23	285,707,191.62	(5,039,876.39)	(1.76%)
Financial Expenses	13,597,909.99	14,227,615.29	(629,705.30)	(4.43%)
Total Expenses	P593,696,538.80	₱576,223,959.04	₱17,472,579.76	3.03%
Operating Income	P176,525,785.39	₱127,110,880.93	₱49,414,904.46	38.88%
Subsidies and Donations	49,694,847.79	39,340,737.40	10,354,110.39	26.32%
Net Income	P126,830,937.60	₱87,770,143.53	₱39,060,794.07	44.50%

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, has been ranked seventh 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.

On this website, the City's executive and legislative issuances, budget, expenditures, contracts and loans, procurement plans, governance highlights and practices, city hall activities and many more are posted in consonance with the city's advocacy for good local governance, public transparency and accountability and performance management.

Bearing its tagline "Pagkilala sa Katapatan at Kahusayan ng Pamahalaang Lokal," the Seal of Good Local Governance (SGLG) is set to raise the standard of performance among LGUs. The SGLG is a total award or recognition conferred to provincial, city and municipal governments that exemplified above-benchmark performance not only on financial housekeeping

but also on the other facets of governance particularly on the delivery of basic services that directly benefit the people.

Just recently, Naga City was one of the three LGUs in Region V to be conferred the Silver Seal of Good Local Governance.

Another recognition for the City of Naga came from the Regional Development Council in its Resolution No. 16, series of 2014, "commending Daet, Camarines Norte and Naga City as among the Top Ten Municipalities and Cities in the Philippines for 2013."

Naga City also placed 9th in the overall competitiveness ranking among the 122 cities in the country for Calendar Year 2013.

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 2013. 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.

We were not able to review/post audit three hundred eighty seven (387) disbursement vouchers in the total amount of ₱151,600,894.57 and five (5) payrolls in the total amount of ₱7,405,853.70, a total of ₱159,006,748.27 which were not submitted for audit. This amount represents 24.71% of the total expenditures of ₱643,391,386.59.

E. INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the financial statements of the City because the report of actual count conducted on Property, Plant and Equipment (PPE) and Inventories pertained only to CY 2013 acquisitions of ₱9,833,352.28 and ₱573,611.89 representing only .69%, (less than 1%) and 1.34% of the balances of ₱1,416,365,656.87 and ₱42,749,003.86 of PPE and Inventories, respectively, as presented in the financial statements as at December 31, 2013.

The said report on the physical inventory conducted is not substantial enough to vouch for the total amount of PPE and Inventories reflected in the financial statements at year end.

In addition, three hundred eighty seven (387) disbursement vouchers in the total amount of ₱151,600,894.57 and five (5) payrolls in the total amount of ₱7,405,853.70 or a total of ₱159,006,748.27 were not submitted for audit. This amount represents 24.71% of the total expenditures of ₱643,391,386.59.

F. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

I – FINANCIAL AND COMPLIANCE AUDIT

- 1. Procurement of goods was decentralized, procurement activities were undertaken by each department/section, the mode of which was mostly through the alternative mode of procurement, resulting in a fragmented system of procurement and accountability which may prove to be disadvantageous to the City Government and in violation of Sections 10 and 48 of the IRR of RA 9184.**

We recommended the following:

a. Require the BAC Secretariat to consolidate all requests from approved PMPs as to nature of item into a single APP and incorporate therein information to facilitate the systematic flow of procurement activities, as follows:

- name of the procurement/project;*
- end-user unit;*
- general description of the procurement;*
- procurement method to be adopted;*
- time schedule for each procurement activity;*
- source of fund; and*
- approved budget for the contract.*

b. Compliance by the BAC with the provisions of Section 10 on the conduct of competitive bidding, Section 48 of the IRR of RA 9184 on the conditions for the use of alternative mode of procurement and the required publication in the PhilGEPS website and posting at conspicuous places in the premises of the City. The BAC Secretariat should indicate the date of publication or posting in certifications issued.

c. The BAC Secretariat be required to prepare the contract, Purchase Order or Job Order sequentially numbered for approval of the appropriate authorities, and serve the same to the winning supplier. This should not be done by the department/office/unit where the purchase request originated for control purposes.

e. Require the BAC to strictly comply with the required timetable relative to various stages in procurement of goods;

f. Management designate an Inspector for each type of goods to be procured. The goods should pass through an inventory system and storage so that proper accountability can be pinpointed.

g. Reimbursement for payment made by end-users for goods should not be allowed, except in very exceptional cases and with prior approval from the City Mayor or his authorized representative.

- 2. Cash advances for salaries, wages, allowances and other similar payments, were granted way ahead of the pay period and in excess of the net amount of payrolls for**

a pay period in violation of the guidelines set in Section 175, Volume I of the Government Accounting and Auditing Manual (GAAM), resulting in the refund of excess cash advances and accumulation of unliquidated cash advances, thus exposing funds to risk of misappropriation and/or loss.

We recommended that management:

a. Require the Cashier and Disbursing Officers to draw cash advances for salaries, wages and other similar payments equal to the net amount of the payroll for a pay period, and to support these with a list of payrolls and names of payees with their net payments so that these can be properly and easily monitored.

b. Stop the practice of granting cash advances way ahead of the pay period to avoid exposing these to misappropriation or loss.

- 3. The actual physical inventory conducted was only for acquisitions made during the year contravening Section 124, New Government Accounting System (NGAS) Manual, Volume I for LGUs which requires an annual inventory on Property, Plant and Equipment (PPE) and Inventories with year-end balances of P1,416,365,656.87 and P42,749,003.86 respectively. The said balances could not be fairly established if said physical inventory taking is not conducted.**

We reiterated our recommendation that concerted efforts be exerted to conduct a physical count or inventory taking of all inventories and properties of the City and to submit the reports thereon using the prescribed format, not only for current year's acquisitions, but also for those acquired in previous years.

We also recommended that reconciliation between property records and accounting records be regularly undertaken in order to fairly present the Inventories and PPE accounts on the City's financial statements.

- 4. Three hundred eighty seven (387) disbursement vouchers covering the period from November 2012 to April 2013 with a total amount of P151,600,894.57 and five (5) payrolls for March 2013 in the total amount of P7,405,853.70 were not submitted for audit, in violation of Section 122 of PD 1445, Section 347 of RA 7160 and Sections 7, 8 and 9 of COA Circular No. 94-001, thus, preventing the Audit Team from conducting review and verification of the transactions.**

We recommended that immediate submission of the disbursement vouchers, official receipts and other required reports as prescribed in the abovesited provisions of law, rules and regulations be strictly enforced by management to facilitate the timely review and examination of the therein transactions covered.

We also recommended that the Accountant and all concerned officials ensure the regular and complete submission of disbursement vouchers, receipts and other required reports on their prescribed dates of submission and for appropriate action to be instituted by management against concerned personnel to enforce compliance of this recommendation as provided under the above cited provisions of law.

5. **Important dates relative to some documents of three (3) infrastructure projects did not conform to the provisions of Section 37 of the Revised IRR of RA 9184, thus providing misleading information as to actual dates of contract implementation.**

We recommended strict conformity to the provisions of Section 37 of the Revised IRR of RA 9184 especially on the dates relative to implementation of infrastructure contracts as a means of ensuring the propriety of the transactions on the matter.

6. **Disbursements totalling P1,378,300.00 and P5,751,418.86 from the Local Disaster Risk Reduction and Management Fund (LDRRMF) and Special Education Fund (SEF) were not supported with complete documentation in violation of Section 4 (6) of PD No. 1445, thus were suspended in audit.**

We recommended that management strictly require the submission of complete documents to support claims of creditors against the LDRRMF.

We also recommended that deficiencies in the supporting documents be corrected and submitted to the Audit Team for audit pursuant to the provisions of Section 4(6) of PD No. 1445, otherwise, these shall be disallowed in audit.

We further recommended that the Administrator of the Naga City School Board abide with basic requirements under laws, rules and regulations on supporting claims of creditors against the SEF, to vouch for their propriety and validity.

7. **Disbursements totalling P1,754,702.56 were charged to the Special Education Fund (SEF) contrary to the provisions of Sections 272 and 100 of RA 7160, Section 4 (2) of PD 1445 and COA Circular No. 2012-003 dated October 29, 2012, thus irregularly allocating funds from the SEF for purposes other than priority activities/projects as mandated.**

We recommended that the Naga City School Board abide with the provisions of Sections 100 and 272 of RA 7160 on the proper charging of expenses against the SEF and for concerned officials of LGU-Naga City to desist from approving expenditures which are not legitimate charges against the SEF to avoid suspensions and disallowances in audit.

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 May 30, 2014. 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 twenty two (22) audit recommendations, three (3) were fully implemented, fourteen (14) were partially implemented and five (5) were not implemented.