

## EXECUTIVE SUMMARY

### A. INTRODUCTION

The City of Laoag was created by virtue of Republic Act No. 4584 dated June 19, 1965. It has a total land area of 12,747.35 hectares and is composed of 80 barangays.

The vision of the City government is for Laoag 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, 2017, it has a total work force of 1,138 employees, comprising of 13 elective officials, 720 permanent; 8 co-terminus, 341 contract of service, 24 Contractual, 23 casual and 9 temporary.

### B. FINANCIAL HIGHLIGHTS

The table below presents the comparative data on the Financial Position, Financial Performance and Sources and Application of Funds for CYs 2017 and 2016.

Particulars	2017	2016	Increase (Decrease)	
			Amount	%
<b>Financial Condition</b>				
Assets	1,287,213,980.00	1,081,454,565.24	205,759,414.76	19.03
Liabilities	642,364,332.40	614,024,828.73	28,339,503.67	4.62
Equity	644,849,647.70	467,429,736.51	177,419,911.19	37.96
<b>Financial Performance</b>				
Gross Income	846,563,133.51	781,680,909.25	64,882,224.26	8.30
Expenses	695,889,573.28	654,495,296.90	41,394,276.38	6.32
Net Income	150,673,560.23	127,185,612.35	23,487,947.88	18.47
<b>Sources and Application of Funds</b>				
Current Legislative Appropriations:				
Allotments	774,378,470.52	686,482,251.28	87,896,219.24	12.80
Obligations	645,152,733.43	602,285,484.59	42,867,248.84	7.12
Balance	129,225,737.09	84,196,766.69	45,028,970.40	53.48
<b>Continuing Appropriations:</b>				
Allotments	65,047,051.81	56,277,863.42	8,769,188.39	15.58
Obligations	14,890,109.31	11,550,222.60	3,339,886.71	28.92
Balance	50,156,942.50	44,727,640.82	5,429,301.68	12.14

### C. OPERATIONAL HIGHLIGHTS

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

<b>Programs/Projects/Activities</b>	<b>Expenditure</b>	<b>% of Completion</b>	<b>Date Completed</b>
1. Construction of water supply at Barangays Dibua North, Dibua South and Madiladig	P 7,802,754.02	65.04%	On-going
2. Installation of Streetlights along La Paz Road	10,524,833.00	100%	02/16/2017
3. Construction of Rehabilitation Center for Children in Conflict with the Law	2,747,500.00	100%	10/23/2017
4. Establishment of Village Type Rice mill	2,197,885.47	100%	12/20/2017
5. Construction of Evacuation Center at Barangay No. 1 San Lorenzo	1,464,790.22	100%	12/21/2017
6. Rehabilitation of Seawall Caaocan	1,163,978.00	100%	2/12/2017
7. Purchase of 1 Unit L300 Exceed w/ FB Dual Aircon	820,000.00	N/A	8/17/2017
8. Purchase of 1 Unit L300 Exceed w/ FB Dual Aircon	860,000.00	N/A	5/17/2017

### D. SCOPE OF AUDIT AND METHODOLOGY

A financial and compliance audit and value for money audit were conducted on the accounts and operations of the City Government of Laoag for the calendar year 2017.

The audit was done on a sampling basis and it consisted of reviews of operating procedures, interviews with concerned government officials and employees, verifications

and analysis of accounts, test of accounting records and such other procedures considered necessary in consonance with this year's audit thrust

## **E. AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS**

The Auditor rendered an adverse opinion on the presentation of the financial statements of the City of Laoag as of December 31, 2017 because the accuracy of reported balances of 29 trial balance accounts totaling to P977.86 million was uncertain due to absence of supporting schedules; accuracy and existence of asset accounts amounting to P769.09 million were uncertain due to prior years' issues not addressed by management and accuracy, propriety and existence of Accounts Payable amounting to P66.3 million were unreliable due to incomplete documentation.

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

### **Favorable Observations:**

For CY 2017, the City Government of Laoag garnered the following awards and recognition:

- a. One of the Most Livable Cities (Emergency and Disaster Management) in the Philippines (Top 13), The Manila Times, May 2017
- b. 3rd Place, Most Competitive City in Government Efficiency, Infrastructure and Resiliency in Region 1, Department of Trade and Industry, National Competitiveness Council and DILG
- c. Seal of Good Local Governance (SGLG, conferred to Laoag City by the Department of Interior and Local Government
- d. Regional Gawad Kalasag Award 2nd Place 2016 awarded by NDRRMC and OCD
- e. Freedom of Information, Recognition

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

1. Twenty-nine (29) trial balance accounts were without corresponding supporting schedules contrary to Section 72 of the Manual on the New Government Accounting System (MNGAS) for LGUs, thus the accuracy of their reported balances totaling to P 977,861,777.53 is uncertain.

We recommended that management submit the supporting schedule to aid us in the conduct of the audit of the aforementioned accounts.

2. Prior years' issues on Inventory, Property, Plant and Equipment (PPE) and Biological Assets accounts were not addressed by management, thus the accuracy and existence

of the reported carrying value of these assets amounting to P 769,093,866.18 is uncertain.

We recommended that management comply strictly with the pertinent provisions of COA Circular Nos. 92-036 and 80-124 and the Manual on the New Government Accounting System for LGUs for the proper management and handling of the agency assets.

3. Transactions were recorded as accounts payable although not supported with complete documents which is not in compliance to Section 46 of PD 1177, thus the accuracy, propriety and existence of the Accounts Payable account amounting to P 66,327,731.68 is unreliable.

We recommended that management require the Accountant to:

- a.) Refrain from certifying to Accounts Payable claims not supported with complete documents and revert those that are not supported with valid claims and aged two years or more in order to ascertain that only valid accounts are included in the Accounts Payable account; and
  - b.) Submit all the remaining claim vouchers comprising the Accounts Payable account to complete our verification.
4. Funds are inadequate to finance current liabilities and continuing appropriations by P115,386,501.51 due to management's failure to observe the limitations provided in Sections 305, 337 and 344 of RA 7160, thus will cause delay in the payment of current obligations and limit funds for future operations.

We recommended that management strictly observe the provisions of Sections 305, 337 and 344 of RA 7160, adopt a plan in the allocation of available funds, intensify collection of receivables and exercise prudence in the disbursement of expenses to avoid further incurrence of cash overdraft.

5. Transactions amounting to P22,687,233.64 were entered into with the Government of Laoag Employees Development Cooperative (GLEDCO) in violation of Section 108 of PD 1445; Section 1, Rule IX of RA 6713, Item 1, Sec. 89 of RA 7160, and Item h and i, Section 3 of RA 3019 hence, creating a conflict of interest and discouraging competitiveness in government procurement.

We recommended that the City Government:

- a) Refrain from transacting business with GLEDCO, as provided for in AOM 2017-012 dated April 21, 2017, pending the response to the query of management from COA Regional Office No. 1, San Fernando City, La Union on a letter dated August 14, 2017 of City Mayor Chevylle V. Fariñas, requesting for legal basis why the City Government of Laoag, Ilocos Norte cannot enter into a contract with

the Government of Laoag Employees Development Cooperative (GLEDCO). However, the proper evaluation of the issues raised by management is dependent on the submission of certified true copy of pertinent documents as contained in the letter of COA Regional Office No. 1 dated November 22, 2017 to management, to wit:

- ❖ GLEDCO Articles of Incorporation and any amendments thereto;
  - ❖ GLEDCO By-laws and any amendments thereto;
  - ❖ GLEDCO General Information Sheet for 2016;
  - ❖ List of GLEDCO officers and members for 2016;
  - ❖ GLEDCO plantilla for 2016;
  - ❖ Joint Venture Agreements between the City government of Laoag and GLEDCO covering the operations of the latter at the Laoag City General Hospital;
  - ❖ Necessary documents for the consignment of medicines and medical supplies as well as the fuel supply arrangement for which the BAC had participation;
  - ❖ Memorandum CVF-II-2017 No. 237, dated May 24, 2017; and
  - ❖ City Resolution No. 2002-007, series of 2002.
- b) Submit the bidding documents for the Supplemental Feeding Program, dietary and laundry services, consignment of medicine and medical supplies with GLEDCO and Fuel Supply Arrangement;
- c) Require the accounting personnel to quit from their functions with GLEDCO so as not to impair government function and avoid financial loss on the part of the government;
- d) Submit properly and correctly accomplished drivers' trip tickets and Monthly Report of Fuel Consumption; act on the immediate repair or replacement of nonfunctioning odometers; and let all city vehicles be plated red;
- e) Adhere to EO 821 and to the Drug Price Reference Index prescribed by DOH in order to deliver affordable and effective medicine to the public;
- f) Strictly adhere to RA 9184 in the procurement of services as preferential right cannot be invoked when there is conflict of interest; and
- g) Bill the GLEDCO for the water and electricity consumption.

**G. STATEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES  
AS OF DECEMBER 31, 2017**

Particulars	Suspensions	Disallowances	Charges
Balance, Dec. 31, 2016	P 9,728,847.94	P 1,848,015.50	P 0.00
Issued	1,414,360.10	1,277,356.11	0.00
Settled	<u>353,762.81</u>	<u>588,782.69</u>	<u>0.00</u>
Balance, Dec. 31, 2017	<u>P 10,789,445.23</u>	<u>P 2,536,588.92</u>	<u>P 0.00</u>

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

Of the 39 recommendations embodied in 2014-2016 Annual Audit Reports, five (5) were implemented, twenty-three (23) were partially implemented and eleven (11) were not implemented.