

EXECUTIVE SUMMARY

1. INTRODUCTION

Legazpi City became a city for the third time on June 12, 1959 by virtue of Republic Act (RA) No. 2334. It is a second class city with a total land area of 153.70 square kilometers and is composed of seventy barangays.

Our audit included analysis of accounts and review of certain transactions and test of compliance with applicable laws, rules and regulations, aimed to ascertain the fairness and reliability of the agency's financial position and the results of its operations.

A financial and compliance audit was conducted on the financial statements and operations of the City Government of Legazpi for Calendar Year (CY) 2016. Also, the results of the Value-for-Money (VFM) audit conducted are included in this report.

2. FINANCIAL HIGHLIGHTS

A. Financial Position

Particulars	CY 2016	CY 2015	Increase (Decrease)	
			Amount	Percentage (%)
Assets	₱ 1,482,738,432.73	₱ 1,104,573,954.50	₱ 378,164,478.23	34.24%
Liabilities	341,251,761.57	207,281,475.41	133,970,286.16	64.63%
Government Equity	1,141,486,671.16	897,292,479.09	244,194,192.07	27.21%

B. Financial Performance

Particulars	CY 2016	CY 2015	Increase (Decrease)	
			Amount	Percentage (%)
Total Income	₱ 903,565,753.96	₱ 825,954,621.27	₱ 77,611,132.69	9.40%
Total Expenses	762,553,771.68	696,231,323.49	66,322,448.19	9.53%
Excess of Income Over Expenses	141,011,982.28	129,723,297.78	11,288,684.50	8.70%

C. Appropriation/Allotment/Obligations

Particulars	CY 2016	CY 2015	Increase (Decrease)	
			Amount	Percentage (%)
Appropriation	₱ 941,936,383.48	₱ 786,476,085.43	₱ 155,460,298.05	16.5%
Allotment	941,936,383.48	786,476,085.43	155,460,298.05	16.5%
Obligations	795,181,340.91	681,913,151.15	113,268,189.76	14.24%

3. INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the City of Legazpi for the year 2016.

4. SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The City of Legazpi showed an efficiency rating of 57.53 per cent on the general implementation of the proposed development projects/programs funded from their CY 2016 and Continuing Appropriation of 20 per cent Development Fund amounting to ₱168.49 million, hence, some of the prioritized projects aggregating ₱71.56 million geared toward the social, economic and environmental development were not fully attained or optimized, thus depriving the intended beneficiaries of the immediate benefits that could be derived therefrom, contrary to Section 5.0 of DILG-DBM Joint Memorandum Circular NO. 2011-1 dated April 13, 2011.

We recommended that the City Mayor direct the City Offices concerned to prioritize and fast track the implementation of the unimplemented socio-economic and environmental development projects under the 20 per cent Development Fund of the City, if still found feasible and beneficial to undertake, in order to recover from the low efficiency rate that might otherwise adversely affect the efficiency for the following year.

2. The Special Education Fund (SEF) Budget for CY 2016 amounting to ₱36.00 million lacked the affirmative votes of the majority Members of the City School Board, contrary to Sections 98(b)(2) and 100(b) of Republic Act (R.A.) No. 7160, thus was not enforced and remained inoperative.

We recommended that Management and the City LSB strictly adhere to the pertinent provisions of the Local Government Code of 1991 or R.A. No. 7160, in approving the SEF Budget to make it enforceable and operative, in order for the LSB to properly implement the projects, activities and programs included in the said Budget, for the benefit of the school children in public schools, for which the fund was intended and created.

3. Had the City of Legazpi updated and revised its Real Property Assessment based on the approved schedule of Market Value of all Real Property per approved Sangguniang Panlungsod (SB) City Ordinance No. 0021-2014 and pursuant to Section 219 of the Local Government Code of 1991, it could have significantly augmented its revenues from the collection of Real Property Taxes to finance more programs, projects, and activities geared towards the social, educational and economic development of the City.

We recommended that Management:

a. *Direct the Office of the City Assessor to effect/implement the approved schedule of Market Value of all Real Property of the City as embodied under the City Ordinance No. 2021-2014 and revise/update the Real Property Assessment in the City Tax Roll based on the same Ordinance for the efficient collection of the Real Property Tax; and*

b. *Require the City Assessor to furnish the City Treasurer with the revised/updated City Tax Roll based on the aforesaid new City Ordinance, as basis for the latter in the computation of Real Property Tax Receivables of the City.*

- 4. The erroneous understatement of the ten per cent retention money on progress payments for infrastructure projects procurement resulted in insufficient amount retained to cover uncorrected discovered defects and third party liabilities, contrary to Annex E of the IRR of R.A. No. 9184.**

We recommended that Management require the OIC-City Accountant to comply with the correct computations of retention money to be deducted from progress billing of infrastructure projects and adjust the understated amount of retention money on the progress billing of still on-going infrastructure projects, particularly those with long contract duration to correct the supposed amount of retention money.

- 5. Payments of ineligible expenses amounting to ₱7.8 million were charged against the Special Education Fund (SEF) of the City for CY 2016, contrary to the provisions of R.A. No. 5447, Section 272 of the Local Government Code (LGC) of 1991 (R.A. No. 7160) and DECS-DBM-DILG Joint Circular No. 1, s. 1998 as amended, thus resulting in inefficiency in the utilization of the scarce government resources on SEF.**

We recommended that the Local Chief Executive:

a. *Direct the City Accountant to stop paying honoraria to DepEd personnel engaged in the ALS Program of DepEd, which are not among the eligible expenses chargeable against the SEF and also paying ineligible expenses charged against the SEF, otherwise this warrant the issuance of audit disallowances; and*

b. *Instruct the City School Board, that in the preparation of the Annual City School Board Budget for SEF, they should prioritize the programs, projects and activities pursuant to and aligned with the pertinent provisions of R.A. No. 5447, R.A. No. 7160 and DECS-DBM-DILG JC No. 01, s. 1998, as amended, in order to be beneficial to the intended recipients of SEF and to avoid the issuance of Notices of Suspensions and Disallowances to these ineligible expenses.*

6. The City Government of Legazpi did not observe the appropriate accounting treatment for reclassification of a Real Property to Investment Property costing ₱49.45 million thereby casting doubt on the propriety of Statement of Financial Position.

We recommended that Management direct the Office of the City Accountant to reclassify the above-mentioned Real Property of the City to Investment Property and take into consideration PPSAS 16- Investment Property, in similar circumstances in order to create a proper financial position report, thereby producing a clear and correct financial report in general.

7. Disbursements of the City for CY 2016 amounting to ₱14.82 million were not supported with complete documentations, contrary to Section 4 (6) of P.D. No. 1445 and Section 138 of the Government Accounting and Auditing Manual (GAAM) Volume I, thus, casting doubt on the validity and propriety of the transactions.

We recommended that Management:

- a. *Direct the OIC-City Accountant to cause the immediate submission of the lacking documents enumerated in Annex I hereof, otherwise, the non-submission of the required supporting documents shall warrant the issuance of Notice of Suspension/Disallowance in audit; and*
- b. *Henceforth, enjoined the OIC- City Accountant to process and pay only those disbursement vouchers supported with complete documentations in full compliance with Section 4, Paragraph 6 of P.D. No. 1445.*

5. SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

The table below presents a summary of the total suspensions, disallowances and charges issued during CY 2016 and the balances thereof as of December 31, 2016.

Particulars	Suspensions	Disallowances	Charges
Balance, January 1, 2016	₱ 2,309,640.00	₱ 0.00	₱ 0.00
Issued during the period	0.00	0.00	0.00
Total	₱ 2,309,640.00	₱ 0.00	₱ 0.00
Settlements during the period	0.00	0.00	0.00
Balance, December 31, 2016	₱ 2,309,640.00	₱ 0.00	₱ 0.00

6. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the 23 prior years' audit recommendations, 23 or 100% were implemented by Management.