

## EXECUTIVE SUMMARY

### Introduction

The City of Lapu-Lapu was created through Republic Act No. 3134, otherwise known as the Charter of Lapu-lapu City. It was approved on June 17, 1961. On May 12, 2007 the City of Lapu-Lapu was declared as Highly Urbanized City, which was ratified in a plebiscite conducted on the same date.

Pursuant to RA 7160, known as the Local Government Code of 1991, the city, like the other government units, enjoys total independence in managing, deciding and planning its own administrative, fiscal and development affairs in conformity with the national government's thrust for sustainable social economic growth.

To accelerate the social and economic development of the city, management focused in the implementation of its infrastructure projects for the year 2013 as shown in **Annex F**.

### A. HIGHLIGHTS OF FINANCIAL OPERATION

#### A.1. Sources of Funds

Total income realized during the year amounted to ₱1,291,447,137.67, an increase of ₱117,351,034.27 or 10% compared to that of the preceding year of ₱1,174,096,103.40. A comparative schedule is shown below:

INCOME	2013	2012	Increase/ (Decrease)	%
Internal Revenue Allotment	479,576,172.00	410,493,728.00	69,082,444.00	16.83
Local Income	503,179,403.89	463,379,425.40	39,799,978.49	8.59
Permits and Licenses	33,393,759.39	35,434,053.91	(2,040,294.52)	(5.76)
Service Income	37,409,018.61	33,098,136.74	4,310,881.87	13.02
Business Income	27,251,288.36	24,851,673.59	2,399,614.77	9.66
Other Income	210,637,495.42	206,839,085.76	3,798,409.66	1.84
<b>TOTAL</b>	<b>1,291,447,137.67</b>	<b>1,174,096, 103.40</b>	<b>117,351,034.27</b>	<b>10.00</b>

#### A.2. Appropriations

For calendar year 2013, total appropriation of the city amounted to ₱1,578,505,891.32 compared with last year's ₱1,651,440,773.02, showing an decrease of ₱72,934,881.70 or 4.42%. See **Annex E** for details. A comparative fund distribution is shown as follows:

FUNDS	2013	2012	Increase/ (Decrease)	%
General Fund	1,467,341,782.32	1,560,058,773.02	(92,716,990.70)	(5.94)
SEF	111,164,109.00	91,382,000.00	19,782,109.00	21.65
<b>TOTAL</b>	<b>1,578,505,891.32</b>	<b>1,651,440,773.02</b>	<b>(72,934,881.70)</b>	<b>(4.42)</b>

### A. 3. Obligations

During the year, the city incurred an obligation of ₱1,245,896,970.29 a decrease of ₱47,870,834.11 or 3.7% compared to that of the preceding year of ₱1,293,767,804.40. See **Annex E** for details. A comparative schedule is shown below:

FUNDS	2013	2012	Increase/ (Decrease)	%
General Fund	1,179,874,418.95	1,226,601,855.39	(46,727,436.44)	(3.81)
SEF	66,022,551.34	67,165,949.01	(1,143,397.67)	(1.70)
<b>TOTAL</b>	<b>1,245,896,970.29</b>	<b>1,293,767,804.40</b>	<b>(47,870,834.11)</b>	<b>(3.70)</b>

### A.4. Financial Ratios

Liquidity	Formula	2013	2012
Current Assets Ratio	Current Assets/Current Liabilities	2,415,659,235.03/481,963,566.29 5.01:1	1,459,430,416.92/450,611,244.78 3.24:1
Quick (Acid Test) Ratio	Current Assets less Inventory/Current Liabilities	2,372,255,936.60/481,963,566.29 4.92:1	1,406,494,620.19/450,611,244.78 3.12:1
Net Working Capital	Current Assets less Current Liabilities	2,415,659,235.03 - 481,963,566.29 1,933,695,668.74	1,459,430,416.92 - 450,611,244.78 1,008,819,172.14

## B. SCOPE OF AUDIT

A financial and compliance audit was conducted on the accounts and operations of the City Government of Lapu-lapu for the year ended December 31, 2013. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

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

The auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Lapu-lapu City Government in view of the misstatements observed in the accounts as follows:

- Reliability of Property, Plant and Equipment accounts costing ₱2,058,711,135.33 cannot be ascertained due to: incomplete accounting and property records showing a net unreconciled difference of ₱599,912,216.16; failure to conduct a complete physical inventory of all assets to validate their existence, location and actual physical condition; and accounting errors/omissions in recording contrary to applicable accounting standards and policies.
- Out of total depreciable Property, Plant and Equipment (PPE) of ₱1,830,525,142.96 as of December 31, 2013, only 53% or ₱962,091,021.34 were provided with Accumulated Depreciation, resulting in the material overstatement of the net PPE and Government Equity, especially considering that those with no provision were acquired prior to CY 2003, most of which should have been fully depreciated by CY 2013. Moreover, validity and correctness of Accumulated Depreciation account balances were doubtful due to errors in computation and application of related accounting policies.
- Releases of PDAF funds from Cong. Radaza to Vicente Sotto Memorial Medical Center (VSMMC) and to the Kababayen-an sa Opon nga Nagkahiusa alang sa Kalamboan (KONKA), a People's Organization (PO), totaling ₱14,100,00.00 and ₱2,258,819.50 respectively, were directly debited to the trust liability account, Due to NGAs, without recognizing a receivable, Due from NGAs/Due from NGOs/POs, thus eliminating from the City's books any record of accountability over the funds released prior to actual utilization and liquidation by VSMMC and KONKA.
- Non-adherence by management to the policies and procedures provided under the NGAS Manual in reporting and recording inventory transactions caused the breakdown of internal control over inventories resulting in the overall unreliability of the account balance of ₱43,403,298.40.
- Accrued interest expenses on loans as of December 31, 2013 amounting to ₱3,078,289.02 were not recognized in the books resulting in the understatement of expenses and current liabilities (Interest Payable) and misstatement of net income/government equity.
- Consolidated balances of reciprocal accounts, Due from Other Funds and Due to Other Funds showed an unreconciled difference of ₱52,705,809.68, indicating some neglect by the Accounting Office in monitoring and reconciling the accounts, thus unrecorded transactions were not promptly discovered and

adjusted, resulting in the understatement of the Trust Liability–DRRM by ₱52,592,898.00 and misstating balances of other affected accounts by undetermined amounts.

- Validity of Other Assets account book balance of ₱26,537,109.65 under the Special Education Fund (SEF) is doubtful due to dormancy and absence of a detailed schedule/listing identifying the assets comprising the amount.
- Checks issued and cleared by bank totaling ₱123,342.07 were not recorded in the books due to non-submission by the Treasurer of the Report of Checks Issued and corresponding disbursement vouchers and supporting documents to the Accountant, resulting in the overstatement of Cash in Bank–LCCA by the same amount and the misstatement of other accounts affected by these transactions.
- The erroneous practice of recognizing as expense at every year end, all unliquidated cash advances for traveling/training and other special purposes and crediting the total to the Accounts Payable account resulted in the recognition of a liability that is non-existent, which accumulated to ₱2,187,046.89 in violation of the Generally Accepted Accounting Principles. In addition, the erroneous recording of unpaid inventory purchases at year end and subsequent payment thereof resulted in the overstatement of Accounts Payable by ₱7,980,436.07.
- The accuracy and reliability of the Due to GSIS, Pag-ibig and Philhealth accounts representing contributions withheld from its employees amounting to ₱10,639,696.45 as of December 31, 2013 are doubtful due to various errors in the recording of transactions and unreconciled/unremitted current and prior years' contributions, thus depriving the member beneficiaries from the availment of the privileges and benefits due them.
- Various reconciling items in the bank reconciliation statement since 2007 are still carried in the report and left unadjusted as of December 31, 2013 due to the inability of management to determine the nature of transactions and secure proper documentation from the bank as basis for adjustments in agency books, contrary to Sections 58 and 74 of PD 1445, thus making the cash account balances inaccurate and unrealistic.

## **D. SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

### **FINANCIAL AND COMPLIANCE AUDIT**

1. Reliability of Property, Plant and Equipment accounts costing ₱2,058,711,135.33 cannot be ascertained due to: incomplete accounting and property records showing a net unreconciled difference of ₱599,912,216.16; failure to conduct a complete physical inventory of all assets to validate their existence, location and actual physical condition; and accounting errors/omissions in recording contrary

to applicable accounting standards and policies, resulting in misstatement of account balances.

We recommend that Management requires:

- the City Accountant to maintain complete and updated PPE ledger cards, to support the GL account balances and the General Services Officer to keep corresponding property cards for control purposes. These records should contain complete details/description of the properties to facilitate identification.
- the Accounting Office and GSO to conduct periodic reconciliation of their records.
- the Inventory Committee, to conduct the inventory of all PPE noting down the location, persons accountable and the physical condition of the properties and reconcile the physical count with the accounting records.
- the GSO to prepare the Inventory and Inspection (I & I) Report of all identified unserviceable properties and facilitate processing thereof as basis for reclassification of items to Other Assets and immediate disposal to prevent further deterioration.
- the City Accountant to reclassify unserviceable properties listed in the I & I Report to Other Assets, and review accounting records for erroneous entries and book the required adjustments, where necessary to reflect the correct account balances.

2. Out of total depreciable Property, Plant and Equipment (PPE) of ₱1,830,525,142.96 as of December 31, 2013, only 53% or ₱962,091,021.34 were provided with Accumulated Depreciation, resulting in the material overstatement of Net PPE and Government Equity, especially considering that those with no provision were acquired prior to CY 2003, most of which should have been fully depreciated by CY 2013. Moreover, validity and correctness of Accumulated Depreciation account balances were doubtful due to errors in computation and application of related accounting policies.

We recommend that the City Accountant: reviews accounting records in order to come up with a complete listing of all assets comprising the PPE GL balance; reviews and computes accumulated depreciation of all assets in accordance with the existing policies in the NGAS Manual and other COA issuances taking into consideration the deficiencies cited; and makes proper adjustments in the accounts, where necessary.

3. The City failed to undertake the Punta Engaño resettlement project on the lot purchased for the purpose out of the ₱2M loan availed in January 2008 contrary to the provisions of the Memorandum of Agreement (MOA) with the National Housing Authority (NHA). Moreover, it was remiss in causing the transfer of the title to the lot in its name, despite full payment to the seller in May 2008 yet. As a

result, the City was placed at a losing end for incurring unnecessary expenses in terms of interests totaling ₱821,068.67 as of December 31, 2013 and shouldering the burden of repaying the loan effective CY 2009 without having taken full possession of the lot and deriving any benefit there from, to the disadvantage of the intended beneficiaries.

We recommend that management facilitates the transfer of the title to the property in the name of the City and the acquisition of the right-of-way thereto. More importantly, the City government should hasten the development of the project in order to solve the plight of the displaced families. We further recommend that in future transactions involving property acquisition by the City, management ensures that all possible areas of concern over the property, such as title, boundaries, right of way, etc. be cleared prior to final payment.

Moreover, management is advised to ensure that decisions involving the availment of loans, being onerous to the City are based on considerations of necessity and urgency to avoid wastage of government funds.

4. Releases of PDAF funds from Cong. Arturo Radaza to Vicente Sotto Memorial Medical Center (VSMMC), and likewise to the Kababayan-an sa Opon nga Nagkahiusa alang sa Kalamboan (KONKA), a People's Organization (PO) totaling ₱14,100,00.00 and ₱2,258,819.50 respectively, were directly debited to the trust liability account, Due to NGAs, without recognizing a receivable from the recipients, thereby eliminating from the City's books any record of liability/accountability for the funds released prior to actual utilization and liquidation, in violation of COA Circular No. 94-013 and COA Circular No. 2007-1. Moreover, the release to KONKA was not supported with a sworn affidavit of its Secretary that none of the incorporators, organizers, directors or officials is an agent of or related by consanguinity or affinity up to the fourth civil degree to the officials of the GO (City) authorized to process and/or approve the proposal.

We recommend that henceforth, the City Accountant follows the foregoing accounting entries in recording similar transactions in the future. We also recommend that she monitors submission by VSMMC of the original RCI and RD evidencing actual utilization of the PDAF. The trust liability and the receivable account shall be closed only upon complete submission of required liquidation documents by the IA and the PO.

We also recommend that management submits the required sworn affidavit of the Secretary of KONKA in compliance with COA Circular No. 2007-001 and monitors the implementation of the project and liquidation of the funds in accordance with the MOA.

5. Unused/excess funds totaling ₱21,945,742.18, received in CY 2010 and prior years as financial assistance for certain programs/projects were not liquidated in full or returned to the source agencies as required under COA Circular No. 94-013, upon completion/attainment of the intended purposes or upon finding that the intended projects could not be implemented or are no longer needed, thus depriving the source agencies of their use in more important and urgent projects.

We recommend that henceforth, management immediately liquidates financial assistance received, once the purposes are accomplished or served and return to the grantor all excess or unused funds so that these may be utilized in other more important and urgent projects. Management should also exert efforts in identifying and documenting long outstanding unspent fund balances/excess amounts so that settlement with the source agencies may be facilitated.

6. Trust Funds totaling ₱176,000,000.00 were placed in Time Deposit accounts with several banks in violation of Section 21, COA Circular No. 92-382, instead of using them for the specific intended purposes, or returning excess and unused funds to the fund sources/owners in accordance with Section 4 (3) of P.D. 1445 and COA Circular No. 94-013 respectively, thus depriving beneficiaries of the benefits they could have enjoyed from implemented projects, and other fund owners from utilizing their funds.

We recommend that management discontinue placing trust funds in time deposits and restore the funds to regular depository accounts to make them readily available for the intended purposes. Further, hasten the implementation of projects/purposes for which the funds were created for the benefit of intended beneficiaries, or return to the source agencies/fund owners excess and unused funds so they can utilize them.

7. Irregular use of financial assistance received from the Philippine Amusement and Gaming Corporation (PAGCOR) to pay for CY 2012 electricity bills and Christmas cash gift of senior citizens of the City in the aggregate amount of ₱28,890,000.19 had depleted the funds from ₱31,804,559.91 to only ₱2,914,559.72 as of December 31, 2013, and defeated the intended purposes for which the funds had been received.

We recommend that the City government appropriates funds from available savings of the general fund and reimburse/restore the amount improperly disbursed from the trust fund. Henceforth, refrain from using trust funds for purposes other than those intended to avoid disallowances in audit.

We further recommend that the City invests the funds in projects contemplated in the guidelines provided by PAGCOR and comply with the guidelines in the

proper handling of the fund, so that the purposes for which the fund had been received may be attained. Thereafter, submit to PAGCOR the required quarterly report on the projects financed and the amounts involved.

8. Non-adherence by management to the policies and procedures provided under the NGAS Manual in reporting and recording inventory transactions caused the breakdown of internal control over inventories resulting in the overall unreliability of the account balance of ₱43,403,298.40.

We recommend that Management:

- Require the City Accountant to maintain complete and updated supplies ledger cards for all inventory items, as basis in computing and controlling the costing of issuances of supplies and ensure that total of the ledger cards always reconcile with the general ledger inventory control account;
  - Require all inventory custodians to maintain complete stock cards with assigned stock number for every inventory item and prepare and submit a weekly report of issuances to the GSO, who should consolidate the reports by inventory type and submit the consolidated report to the City Accountant for recording and posting to the ledger cards.
  - Require the City Accountant and the GSO to regularly reconcile their records on inventories to check the correctness of both records.
  - Require the inventory team to conduct a physical count of all inventory items at every year end and reconcile the count with the stock cards and accounting ledger cards and investigate discrepancies.
  - Require the City Accountant to reclassify to other assets the cost of obsolete items found on stock and book other required adjustments, where necessary, to validate the correctness of the reported inventory account balances.
9. Accrued interest expenses on loans as of December 31, 2013 amounting to ₱3,078,289.02 were not recognized in the books resulting in the understatement of expenses and current liabilities (Interest Payable) and misstatement of net income/Government Equity.

We recommend that the City Accountant recognize in the books, accrued interest expenses and the corresponding liability at every year end to ensure that all expenses are recorded in the year of their incurrence and correctly present the actual result of the City's operations for a particular year and its financial condition at year end.

10. Consolidated balances of reciprocal accounts, Due from Other Funds and Due to Other Funds showed an unreconciled difference of ₱52,705,809.68, indicating some neglect by the Accounting Office in monitoring and reconciling the accounts, thus unrecorded transactions were not promptly discovered and adjusted, resulting in the understatement of Trust Liability–DRRM by

₱52,592,898.00 and misstating balances of other affected accounts by undetermined amounts.

We recommend that the City Accountant reconciles the balances of the reciprocal accounts under the three Funds and book the necessary adjustments to bring their balances into agreement. Henceforth, the City Accountant should closely monitor transactions affecting reciprocal accounts and ensure that these are recorded in the different funds simultaneously to avoid any error of omission. Moreover, whenever possible, settle immediately transactions between funds to minimize efforts in monitoring and reconciliation and more importantly avoid erroneous account balances.

11. Cash advances granted to Disbursing Officers for salaries, allowances and other similar payments were notably excessive in violation of Section 4.2 of COA Circular No. 97-002 and Section 5.1 of Treasury Circular No. 02-2009, thus exposing excessive cash in the hands of the accountable officers to risks of losses through theft, unauthorized use and/or misappropriation.

We recommend that henceforth, management ensures that the amount of cash advances granted are within the bond coverage of the accountable officer and are equal to the net amount of the supporting approved payrolls to be paid to avoid risks of losses of government funds. Cash advances should be drawn/granted only after the payrolls are completed and approved so that excessive grants can be avoided, thereby strengthening the internal control over cash disbursements.

12. Management did not strictly enforce the laws, rules and regulations governing the grant, utilization and liquidation of cash advances, thus the amount of ₱3,369,074.26 remained unliquidated as of year-end, consisting of current year and prior years' balances totaling ₱1,460,260.49 and ₱1,908,813.77 respectively.

We recommend that management:

- Strictly requires the liquidation of previously granted cash advances as a condition prior to the grant of another cash advance and enforce the full liquidation of all cash advances at the end of each year or within the prescribed periods.
- Communicates and coordinates with the admin offices of the mother agencies of the concerned non-LGU personnel who have long outstanding cash advances, in demanding for the liquidation so that appropriate disciplinary action may be imposed by the mother agencies in case of non-compliance.
- Henceforth, consider the policy of granting assistance for travel expenses to non-LGU employees, only on a reimbursement basis instead of through cash advances, since the LGU has no control over these personnel.

13. Cash totaling ₱160,957,991.70, which is equivalent to 21.53% of total Cash in Bank was on deposit with PNB, a privately-owned bank, contrary to the provisions of DOF Department Order No. 27-05 and BSP Circular No. 110, series of 1996.

We recommend that management complies with DOF Department Order No. 27-05 and BSP Circular No. 110, series of 1996 and submit the required approval to maintain deposits with PNB, from both the DOF and the Monetary Board, otherwise cause the transfer of existing deposits with PNB to designated government-owned banks to minimize risk of losses of government funds.

14. Validity of the Other Assets account book balance of ₱26,537,109.65 under the Special Education Fund (SEF) is doubtful due to dormancy and absence of a detailed schedule/listing identifying the assets comprising the amount.

We recommend that the Accounting Office and the General Services Office join efforts in identifying the assets and come up with a detailed schedule/inventory list of the properties comprising the account balance as basis for disposal and adjustment in the books.

15. Checks issued and cleared by bank totaling ₱123,342.07 were not recorded in the books due to non-submission by the Treasurer of the Report of Checks Issued and corresponding disbursement vouchers and supporting documents to the Accountant, resulting in the overstatement of Cash in Bank–LCCA by the same amount and the misstatement of other accounts affected by these transactions. Moreover, propriety, legality and validity of the subject transactions could not be determined.

We recommend that the City Treasurer submits to the City Accountant the subject disbursement vouchers together with the supporting documents for recording; otherwise these disbursements will be disallowed in audit and will be charged to the accounts of the persons responsible for their loss/non-submission.

16. Honoraria were paid to Chairs and members of the different committees/boards created by the City government in the discharge of its basic functions, in violation of existing laws, rules and regulations, resulting in illegal disbursement of public funds.

We recommend that management stops the grant of honoraria to the designated Chairs and members of the different committees/boards and require the refund by the concerned personnel of the amounts wrongly collected by them.

17. The erroneous practice of recognizing as expense at every year end all unliquidated cash advances for traveling/training and other special purposes and crediting the total to the Accounts Payable account resulted in the recognition of a liability that is non-existent, which accumulated to ₱2,187,046.89 in violation of

the Generally Accepted Accounting Principles. In addition, the erroneous recording of unpaid inventory purchases at year end and subsequent payment thereof resulted in the overstatement of Accounts Payable by ₱7,980,436.07.

We recommend that the accounting office stops the erroneous practice of recognizing Expenses for unliquidated cash advances at year end and crediting Accounts Payable. Require instead the full liquidation of all cash advances at year end so that the actual and correct expenses may be determined and recorded in the accounts of the year.

We further recommend that unpaid purchases of supplies at year end be recorded as Inventories following the perpetual inventory method and crediting Accounts Payable; the Accounts Payable shall be debited upon payment and the Expense accounts upon recording the issuances of supplies.

18. Taxes withheld totaling ₱26,821,679.61, representing 76% of the year-end account balance of ₱35,111,723.67 for all funds were not remitted in accordance with existing revenue regulations due to the failure of the Accounting Office to reconcile actual monthly remittances of withholding taxes with the amounts withheld per accounting records.

We recommend that Accounting undertakes the immediate reconciliation of all remittances against taxes withheld and correspondingly remit to BIR all overdue amounts to avoid personal liability for penalties and surcharges that may be imposed due to non-compliance with revenue regulations. If prior reconciliation cannot be made within the month, this should be done immediately on the succeeding month so that any under/over remittance may be accordingly remitted/adjusted, in which case only the current month will remain unreconciled. If this is practiced, unremitted amounts would not accumulate to millions of pesos of funds, which the national government could have utilized in much needed projects had the amounts been remitted on time.

19. Management did not require/follow up the submission of the reports on the utilization of the Local Disaster Risk Reduction Management (LDRRM) funds granted by the City as financial assistance to the DSWD regional offices and LGUs, thus funds granted from CY 2011 to CY 2013 totaling ₱11,000,000.00 remained unliquidated. Out of the balance, a total of ~~₱~~6,500,000.00 or 59 % were granted in previous years.

We recommend that Management require and follow up the submission by the recipient LGUs of the report on the utilization of the LDRRM funds granted by the City pursuant to COA Circulars No. 2012-002 and 94-013.

**E. STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

Of the thirty-seven (37) audit recommendations embodied in the 2012 Annual Audit Report, twelve (12) were fully implemented, seventeen (17) were partially implemented and eight (8) were not implemented.