

## EXECUTIVE SUMMARY

### A. Introduction

1. Republic Act No. 5262 dated June 15, 1968 created the municipality of San Luis. It is composed of twenty-five (25) barangays with a land area of a little more than 95,000 hectares of which 85% is timberland and 15% is alienable and disposable (A & D) land, having a vision of becoming *a leading Agro-forestry industrialized municipality with empowered, skilled and productive people enjoying equal opportunities and living in a peaceful and healthy environment.*

2. The audit was conducted in accordance with applicable legal and regulatory requirements, and the Philippine Public Sector Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.

3. The audit covered the accounts and operations of the municipal government for the year 2018 and was aimed at ascertaining the propriety of financial transactions, management's compliance to prescribed rules and regulations and the fairness of the presentation of the financial statements. Value for money audit was also conducted on the selection and implementation of projects funded out of the 20% development fund to determine whether the objectives of the projects were attained in the most efficient, effective and economical manner.

### B. Financial Highlights

#### a) Financial Position and Results of Operations

<b>Particulars</b>	<b>2018</b>	<b>2017</b>
Assets	349,259,061.71	331,636,067.93
Liabilities	301,612,301.07	253,488,544.33
Government Equity	47,646,760.64	78,147,523.60
Income	233,023,787.57	210,849,843.45
Expenses	217,632,482.76	207,071,681.19
Net Income/Loss	13,263,603.67	3,778,162.26

#### b) Sources and Applications of Funds

<b>Particulars</b>	<b>2018</b>	<b>2017</b>
Appropriations	298,430,463.70	296,054,502.55
Allotment	298,425,463.70	296,054,502.55
Obligations	292,844,769.13	232,324,648.92

### **C. Audit Opinion**

4. The Audit Team Leader rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of San Luis for CY 2018 because of this reason:

- i. The existence, completeness, validity and accuracy of the recorded Property, Plant and Equipment (PPE) accounts of the Municipality appearing in the Statement of Financial Position with net amount of Php274,231,229.37 could not be determined due to the non-conduct of comprehensive physical inventory, moreover, reconciliation with the accounting records could not be attained as required under Sec. C. 3, Chapter V of the Manual on Property Custodianship.

### **D. Summary of Significant Observations and Recommendations**

5. For the above-mentioned audit observation which has caused the issuance of a qualified opinion, we recommended that:

- i. Management must implement the creation of an inventory committee to conduct physical inventory taking of the PPEs and shall prepare and reconcile inventory report to Accounting Unit and to instruct the General Service Office and Accounting Office to exert extra effort in reconciling their recorded PPEs religiously to come up with the accurate Property, Plant and Equipment account balance. Direct the General Services Office to conduct the inventory taking and to prepare the property cards for easy verification of the properties.

6. The other significant audit observations and recommendations are as follows:

- i. Collections by the Revenue Collectors were being held for 5 to 111 days before these were remitted to the Municipal Treasurer contrary to Section 26 of COA Circular No. 92-382, thus resulted to the unavailability of cash, risk of misuse of public funds and hindered the implementation of the programmed activities.

We recommended that Management direct the Municipal Treasurer to exercise the diligence of a good father of a family in monitoring the remittances of collections of all revenue collectors to preclude misappropriation of the meager resources of the government, otherwise he shall be jointly and solidarily liable with them for any loss of government funds under his control.

- ii. Reports of the Fuel Consumption for the year 2018 were not submitted to the Office of the Auditor thereby precluding the Auditor to review, verify and determine whether fuel consumed are reasonable and used economically, pursuant to Section 361 (g), Vol. II, GAAM and COA Circular No. 77-61. Furthermore, various suppliers of Petroleum products

contracted by Municipality were not legitimate suppliers thereby violating the pertinent provisions of RA 9184 or Government Procurement Act.

We recommended that Management, concerned officials submit regularly thru Municipal Accountant to the Office of the Auditor, within ten (10) days of the following month the Monthly Report of Fuel Consumption pursuant to Section 361 (g), Vol. II, GAAM and COA Circular No. 77-61. Second, Management refrains from procuring petroleum products to illegitimate suppliers and adhere the provisions of RA 9184. Lastly, strictly adhere the provisions stated under Section 4 (6) PD 1445 to avoid disallowance.

- iii. The DRRMC and the Office of the Accountant failed to regularly submit a copy of the report on the utilization of the Local Disaster Risk Reduction & Management Fund (LDRRMF) and other dedicated risk reduction and management resources to the Office of the Local Auditor, contrary to Section 12.c.24 of R.A. 10121 and Section 5.1.5 of COA Circular No. 2012-002 dated September 12, 2012. Furthermore, several expenditures were charged to Local Disaster Risk Reduction and Management (LDRRM) Fund contrary to Section 21 of RA 10121.

We recommended that Municipal Mayor require the MDRRMO to submit the required report/s pursuant to RA 10121 and COA Circular No. 2012-02 otherwise, the allowable sanctions authorized by law shall be implemented. Furthermore, we recommended that management strictly adhere to the provisions under RA 10121 in utilization of said fund to avoid unfavorable observation.

- iv. The Municipality procured their medicine and medical supplies requirements for CY 2018 thru the alternative method of procurement shopping by splitting of government contracts by way of purchase requests or purchase orders prepared and issued into small amounts, contrary to Sec. 10 and Sec. 52 (a), R.A. 9184, depriving the government of the savings that could be derived from obtaining the lowest and most advantageous price to the government had procurement been made through bidding.

We recommended that Municipality (a) stop the practice of splitting contracts to justify the use of either shopping method or small value procurement and use the alternative methods of procurements only as provided under Rule XVI of the Revised IRR, R.A. 9184 and (b) conduct public bidding on all procurements of the municipality and ensure that the government obtain the lowest and most advantageous price.

- v. The shares of the twenty-four (24) barangays of the Municipality from Real Property Taxes (RPT) were not remitted on time, contrary to Section 271 (d) of R.A. 7160, thus, depriving the barangays of the timely utilization of their shares for their programs and activities.

We recommended that management require the Municipal Treasurer to remit the share of the respective barangays from real property taxes within five days after the end of each quarter in order that barangay constituents could use the amount at the earliest possible time.

- vi. A total amount of Php2,436,259.08 on premium contributions and loan repayments due to GSIS, Pag-Ibig and on premium contributions due to PhilHealth remained unremitted as of December 31, 2018 contrary to pertinent provisions of R.A. No. 8291, RA 9679 or Pag-IBIG Fund and of Revised IRRs of R.A. No. 7875, respectively, hence, the availability of benefits by paying members could not be ensured and exposed the Municipal officials and employees responsible to possible penal sanctions as provided on the said laws.

We recommended that the Municipality cause the remittance of premiums contributions and loan repayments due to GSIS and Pag-ibig and remittance of premiums contributions due to PhilHealth after reconciliation and determination by the Accountant of the correct amount to avoid further penalties as stated in above provisions of the laws and to ensure the availment of benefits by the officers and personnel members.

- vii. Fund transfers/financial assistance under 20% Development fund to three (3) selected barangays totaling Php300,000.00 for CY 2018 and prior years' fund transfers of Php1,600,149.43 remained unliquidated as of December 31, 2018 contrary to Section 6.1 of COA Circular No. 2016-005 dated December 19, 2016.

We recommended that Accountant strongly demand the immediate liquidation of fund transfer/financial assistance granted to various barangays by setting specific timelines for the liquidation considering that the terms of the agreement had already been violated. Further, certify as to the completeness of supporting documents on the release of fund financial assistance, if aside from other requirements, is supported with MOA and Certification by the Accountant.

- viii. Significant delays in the submission of accounts and their supporting documents resulting in untimely audit of transactions.

We recommended that the Municipal Mayor instruct the Municipal Accountant to strictly monitor and ensure that the monthly submission of accounts, financial records and required reports to the Auditor's Office is within the prescribed period as stated in the aforementioned laws, rules and regulations to facilitate timely review and evaluation and to avoid possible disallowance of transactions.

- ix. Year-end financial reports were submitted late and incomplete contrary to Section 41 of Presidential Decree No. 1445, thus, complete reviews of the account balances could not be done of complete year-end financial reports of the Municipality is not within the prescribed period resulting to untimely review and audit thereof.

We recommended for Management to be conscious of the legal deadline of the submission of the year-end reports as its non-submission affects the audit opinion to be rendered on the said reports.

- x. Cash advances for travel and other special purpose totaling Php5.1M remain unliquidated as of year-end contrary to the requirement under COA Circular No. 97-002, thus, proper accounting could not be undertaken thereof.

We recommended that Management strictly enforce for the liquidation of the cash advances and to regulate the granting of additional cash advances especially to those who still have unsettled cash advances.

- xi. A lion share of the development fund amounting to ₱33.4M or 68% of the fund was still hooked for the payment of the Municipality's loan amortization lessening the funds available for the implementation of priority development projects.

We recommended that Management take the necessary precaution in availing indebtedness to refrain from allocating a lion's share of their Internal Revenue Allotment for payment of loans and for leaving little funds for the delivery of essential public services.

**E. Summary of total Suspensions, Disallowances and Charges**

7. The total audit suspensions, disallowances and charges found in the audit of various transactions of that agency as of December 31, 2018 is Php7,065,573.71 based on the Notice of Suspension (NS)/Notice of Disallowance (ND)/Notice of Charge (NC) issued by the Commission.

**F. Statement on the quantity/number of recommendations implemented, partially implemented and not implemented for the current year.**

8. Out of the 10 audit recommendations contained in the CY 2017 Annual Audit Report, three (3) were fully implemented, two (2) were partially implemented and five (5) were not implemented and some were reiterated in Part II of this report.