

EXECUTIVE SUMMARY

A. Introduction

1. The Municipality of Sison is a fifth-class municipality established on September 15, 1959 via Executive Order 357 by President Carlos P. Garcia. Located approximately twenty (20) kilometers from Surigao City, it is composed of twelve (12) barangays and fifty-two (52) sitios with a total population of 11,377 as of CY 2010.

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 was also conducted on the selection and implementation of projects funded out of the 20% development fund, LDRRMF, Solid Waste Management, BUB, ADM, PAMANA, SALINTUBIG and Trust Fund, with the objective to determine whether the purposes of the projects were attained in the most efficient, effective and economical manner.

B. Financial Highlights

a) Financial Position and Results of Operations

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Assets	210,242,698.72	183,735,350.42
Liabilities	77,641,845.17	57,730,899.41
Government Equity	132,600,853.55	126,004,451.01
Income	80,697,796.15	91,076,610.52
Expenses	85,870,625.77	62,839,119.21
Net Income	(5,172,829.62)	28,237,491.31

b) Sources and Applications of Funds

<u>Particulars</u>	<u>2018</u>	<u>2017</u>
Appropriations	63,976,012.88	58,698,330.11
Allotment	63,976,012.88	56,302,200.43
Obligations	60,805,571.99	44,803,155.09
Funds received from other agencies	22,428,824.00	1,988,338.59
Funds received from NGOs/POs	-	-
Funds transferred to other agencies	-	-
Funds transferred to NGOs/POs	-	-

C. Audit Opinion

4. The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Sison for CY 2018 because of the following reasons:
 - i. Non-reconciliation of the balances of the cashbooks and ledgers and non-submission of bank reconciliation statements casting doubt to the reliability of the cash and cash equivalents account balance of ₱37,610,304.90 as of December 31, 2018;
 - ii. Failure by the Municipality to keep records and conduct physical count of its Inventory, Investment Property, Property, Plant and Equipment and Biological Assets Accounts in CY 2017 in the amount of ₱2,889,323.40, ₱3,000,000.00, ₱159,195,479.40 and ₱1,015,715.00, respectively, rendering the amounts reflected in the financial statements as of December 31, 2018 doubtful as to validity, accuracy and existence; and
 - iii. Non-recognition of Subsidy to Other Funds and Trust Liability for the unexpended CY 2018 LDRRMF misstating the equity and liability accounts in the amount of ₱1,242,737.83.

D. Summary of Significant Observations and Recommendations

5. For the above-mentioned audit observations, which have caused the issuance of a qualified opinion, we recommended the following:
 - i. Direct the Municipal Accountant and Treasurer to reconcile their books of accounts at least quarterly as prescribed in Section 181(c) of the GAAM, Volume I. Reconciliation of their books includes effecting therein the reconciling items reflected in the BRS and from other possible reports/records of financial transactions; instruct the Municipal Accountant to submit to COA for verification the BRS for the LGU's depository accounts together with the paid checks and original copies of debit/credit memoranda in a manner prescribed in Item 3.4 of COA Circular No. 96-011; and adhere to Section 111 of P.D. No. 1445, Section 181(c) of the GAAM, and Item 3.4 of COA Circular No. 96-011 to present reliable cash balances in the financial statements
 - ii. Constitute an Inventory Committee through an issuance of an executive order by the LCE; direct the Committee to spearhead the planning and to conduct physical inventory of all the LGUs supplies and properties and to prepare and submit to COA the Report on the Physical Count of Inventories (RPCI) and the Report on Physical Count of PPE and other properties pursuant to Section 124 of NGAS Manual for LGU; create a plantilla or designate a GSO who will be in-charged in monitoring the received and disposition of the

procured supplies and properties of the LGU. Recommend with the GSO/Supply Officer the adoption of storing supplies equivalent to a 3-month consumption. This way, the procured supplies will be delivered to the GSO and not directly to the end users and the utilization of stock cards will be practiced. The GSO/Supply Officer shall also make and keep list or record of all the supplies and properties of the LGU which will be updated from time to time. The list will be reconciled with the records from the accounting office; advise the Municipal Accountant to maintain Supplies, PPEs and other properties Ledger Cards. Reconcile the accounting records with the list/reports being kept by the GSO/Supply Officer at least quarterly; direct the GSO/Supply Officer to practice property tagging and issue ARE for each of the property given to the end users; and adhere to Sections 119, 120 and 124 of the NGAS Manual, Volume 1 and other pertinent laws, rules and regulations governing the conduct of physical count of properties, maintenance of records and submission of reports thereof to the Auditor; and

iii. Stop charging administrative/operating expenses against the LDRRMF. Submit to COA the legal basis on the payment of office supplies, cellcards, spare parts and oils and lubricants for LGU vehicles which were not exclusively used for calamities/disasters in the total amount of ₱279,842.67, as well as those disbursements for JOs wages and rescuers honorarium totaling ₱406,654.00. Non-compliance hereof, or after evaluation by this end of the submitted justification and the same was found wanting of merit, this may result to suspension or disallowance of the amount as circumstances may warrant; direct the MDRRMO to exclude in the LDRRMFIP the illegitimate PAPs as mentioned in Item 4.3 of NDRRMC-DILG-DBM-CSC JMC No. 2014-1; advise the MDRRMO to optimally use the LDRRMF. Include only in the LDRRMFIP very important/urgent PAPs which needed to be executed during the year, with due consideration of the time and manpower constraints. The MDRRMO must also be reminded that the previous years' budget for the disaster fund had corresponding PAPs to implement. Thus, the appropriation thereof should be utilized as intended and never to be used to fulfill other PAPs; instruct the Municipal Treasurer to transfer the unutilized/unexpended LDRRMF at year-end to the special trust fund. The unused amount can be determined from the cashbook since the amount appropriated for the LDRRM as well as the charges thereof are duly recorded therein. The amount can also be verified from the records being maintained by the MDRRMO; direct the Municipal Accountant to accrue and transfer the unutilized/unexpended LDRRMF totaling ₱1,242,737.83 to the special trust fund and to record such transfer in the respective books. The procedure was duly prescribed in Item 5.1.10 of COA Circular No. 2012-002. The same COA Circular mandates the Accountant in Item 5.1.12 thereof to maintain subsidiary ledgers by year of transfer; and ensure compliance to the provisions of Section 2 of R.A. No. 10121, Item 4 of NDRRMC-DBM-DILG JMC No. 2013-1, Item 4.3 of NDRRMC-DILG-DBM-CSC JMC No. 2014-1 and Items 5.1.10 and 5.1.12 of COA Circular No. 2012-002 in the budgeting, utilization and reporting of the LDRRMF.

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

i. The Agency did not observe pertinent provisions of Republic Act (R.A.) No. 9003 on the segregation, collection and disposal of solid waste materials defeating the purpose of which the law was enacted.

We recommended that Management direct the MENRO-Designate to implement the annual programs and activities indicated in the ESWMP; tell the MENRO and his office to encourage every barangay or cluster of barangays, through the conduct of seminars, symposia or dialogues, to create and implement their ESWMP and to submit to the MENRO the needed reports, as indicated in the Plan, for consolidation and monitoring purposes. This would also address the problem on proper segregation of solid wastes by the barangays and the responsibility of the municipality to only collect non-recyclable materials and special wastes therefrom; advise the MSWMB, headed by the Municipal Mayor, to amend, if possible, the provisions of the ESWMP, to include therein the information as to what Fund the collections of fees and charges will accrue and to what specific purpose these will be used. If not possible, propose to the Sangguniang Bayan the amendments to the Solid Waste Management Code of the Municipality to include therein the same informations. This would establish as to what and where to source the amount needed to implement the programs and activities in the Plan; direct the Municipal Treasurer to, as much as possible, realistically increase the estimated collections for the garbage fees and penalties based on the trend of actual collections made in the past years. This would be the basis and guidance in budgeting an amount needed to realize the programs in the Plan; instruct the MENRO to optimally utilize the LGU dumptruck to collect non-recyclable materials and special wastes from all its barangays. This responsibility is clearly mandated in Section 10 of R.A. No. 9003. Those barangays that are near-to-impossible to be visited/reached by the garbage truck for garbage collection should be informed thoroughly and meticulously on how to dispose their non-recyclable materials and special wastes; and remind the MENRO to strictly adhere to the provision of Section 10 of R.A. No. 9003. This likewise warrants the MENRO to advise the respective barangay officials of all its barangays to comply faithfully the provision. This way, the collection of solid wastes which were left unsegregated in an open dump site will be avoided. Strict compliance to audit recommendation number 2 would also be a remedy to the problem.

ii. Pertinent provisions governing the creation, utilization and reporting of the Gender and Development (GAD) fund were not complied by the Municipality of Sison defeating the purpose for which the program was created.

We recommended that Management advise the GFPS to complete and update the information provided in the LGU's GAD database; direct the GFPS to always formulate the LGU GPB based on the GAD Agenda or identified

priority gender issues which were derived from the information gathered from the sources mentioned in Sections 4.1.C.2.1 and 4.1.C.1.4 of JMC No. 2013-01; stop utilizing the GAD Funds for transactions that are inconsistent with the GAD activities and which unparalleled the corresponding performance indicators. These activities and performance indicators were formulated to realize each GAD PAPs; (4) Submit to the COA Audit Team a copy of the GPB in the manner prescribed in Item V of COA Circular No. 2014-001; and strictly adhere to the governing provisions set forth in the PCW-DILG-DBM-NEDA JMC No. 2013-01 and COA Circular No. 2014-001 in the creation, utilization and reporting of GAD fund.

iii. Pertinent provisions covering the payment by the Municipality of Sison of the salary differential to its 115 Job Order (JO) employees in CY 2018 totaling ₱541,862.00 were not complied by the LGU rendering the transaction illegal/irregular.

We recommended that Management stop granting salary differential to the JOs that has no specific statutory provision authorizing thereof, nor anchored on the legitimate determination of the amount wherein a new wage rate is compared with an old rate, and violates the basic principles of contracting; submit to COA the legal basis/justification on the payment made totaling P541,862.00. Failure to comply, or after evaluation by this end of the submitted justification and the same was found wanting of merit, this may result to suspension or disallowance of the amount as circumstances may warrant; and strictly adhere to the provisions of Section 4(1) of P.D. No. 1445, Article 1305, Chapter 1, Title II of the Civil Code, and Section 6.3.1, of CSC-COA-DBM JC No. 1 s. 2017 in the payment of salaries/compensation to JOs.

iv. The Municipality of Sison did not prepare and submit to the Government Procurement Policy Board (GPPB) the semestral Procurement Monitoring Report (PMR) contrary to Section 12.2 of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 9184 defeating its purpose which is promote transparency on the procurement activities of the LGU.

We recommended that Management direct the BAC Chairman and Secretariat to prepare the PMR in the form prescribed by the GPPB. The accomplished form shall be forwarded to the HoPE for her review and approval. The HoPE, after her approval, shall submit the Report to the GPPB in a manner prescribed in Section 12.2 of the 2016 Revised IRR of R.A. No. 9184.

v. The Municipality procured various goods totaling ₱99,421.09 through reimbursement scheme contrary to Sections 10 of the Implementing Rules and Regulations (IRR) of Republic Act (R.A.) No. 9184 precluding the government to maximize its scarce resources and rendering the transactions illegal/irregular.

We recommended that Management stop the practice of procuring goods through reimbursement scheme. This is impliedly prohibited in Section 10 of the IRR of R.A. No. 9184. Submit to the Audit Team the justification and/or legal basis on the procurements made through reimbursement in the amount of ₱99,421.09. Failure to comply, or after evaluation by this end of the submitted justification and the same was found wanting of merit, this may result to suspension or disallowance of the amount as circumstances may warrant; and ensure adherence to Section 10 of the IRR of R.A. No. 9184 in the procurement of various goods of the LGU.

vi. The Municipality of Sison paid ₱1,247,396.67 for meals and/or snacks without the supporting Activity Design and correct official receipt contrary to Section 4(6) of Presidential Decree (P.D.) No. 1445 precluding the Auditor to ascertain the necessity, propriety and validity of the transactions. Likewise, claims for meals and/or snacks totaling P133,180.32 had been done through reimbursement scheme in violation of Section 10 of Republic Act (R.A.) No. 9184 rendering the transactions illegal/irregular.

We recommended that Management direct the person concerned to submit to COA the Activity Design covering each meals and/or snacks paid; ensure that all official receipt received in exchange of the amount paid for official transactions should bear the name of the LGU; refrain from procurement of meals and/or snacks through reimbursement scheme. Submit to COA the legal basis/justification on the payments made through reimbursement totaling ₱133,180.32. Failure to comply, or after evaluation by this end of the submitted justification and the same was found wanting of merit, this may result to suspension or disallowance of the amount as circumstances may warrant; and adhere to Section 4(6) of P.D. No. 1445 and Section 10 of R.A. No. 9184 in the payments of meals and/or snacks.

vii. Twenty-four disbursement vouchers (DVs) for CY 2018 financial transactions with subject amount of ₱825,428.77 remained unsubmitted to the Auditor for examination and audit contrary to Section 100 of Presidential Decree (P.D.) No. 1445, Section 7.2.1 of COA Circular No. 2009-006 and Section 44 of NGAS Manual for LGU, Volume I precluding the Audit Team to ascertain their validity, propriety and completeness.

We recommended that Management direct the accounting and treasury office to submit to the Auditor the lacking/missing DVS without delay. Failure to comply may warrant the automatic withholding of the salaries of the personnel accountable thereof pursuant to Section 122 (2) of P.D. No. 1445 and/or a ground for the filing of an administrative disciplinary action under Section 127 of the Decree. Strictly adhere to Section 100 of P.D. No. 1445, Section 7.2.1 of COA Circular No. 2009-006 and Section 44 of NGAS Manual for LGU, Volume I, in the reporting and submission of the accounts to the Auditor.

viii. Perfected contracts for 22 projects of the LGU which were implemented in CY 2018 were not submitted to COA within five (5) working days from the execution thereof, as required under COA Circular No. 2009-001, precluding the latter from the timely conduct of auditorial review, possible implementation of appropriate corrective measures for any defects and/or deficiencies that may be noted and for other uses in the ordinary course of audit by the Team.

We recommended that Management adhere to Section 3.1.1 of COA Circular No. 2009-001 on the submission of perfected contracts together with the related supporting documents to COA for review. The BAC or the BAC Secretariat must submit to COA the bidding documents together with the perfected contracts in a manner prescribed in the foregoing-mentioned COA Circular. It is not the responsibility of the accounting nor the engineering office to perform the submission to the Audit Team.

ix. Pertinent measures to protect the government resources from loss and wastage were not adhered by the Agency when they implement the Rehabilitation/ Construction of Gacepan-Mayag Farm to Market Road (FMR), a project funded under the Department of Agriculture (DA) through the Philippine Rural Development Project (PRDP) program at a cost of ₱20,627,090.08 contrary to Article 1191 of Republic Act (R.A.) No. 386 and Section 39.3 of R.A. No. 9184 in relation to Section 2 of Presidential Decree (P.D.) No. 1445 causing undue injury to the Government.

We recommended that Management initiate an intensive dialogue with the contractor and find doable and effective solutions to the problem if still possible; rescind the contract with Charlz Construction if curative actions to the problem is beyond realizable. Seek legal assistance from the lawyer of the province or the component city if they have one for the judicial rescission process; forfeit the performance security. Send a demand letter addressed to the Bank Guarantor to pay the LGU the amount of ₱2,062,704.65 as agreed upon in the Performance Security (Bank Guarantee). It is already provided in the Bank Guarantee that the Guarantor will pay the Agency the amount agreed upon during the first demand without cavil or argument or without the municipality needing to prove or to show grounds or reasons for the demand. Seek legal assistance from the lawyer of the city or province if necessary; and ensure the adherence to Article 1191 of Civil Code and Section 39.3 of R.A. No. 9184 in relation to Section 2 of P.D. No. 1445 if the matter at hand involves abandonment by the contractors, without valid causes, in the projects implementation.

x. The objective of Declogging/Construction of Stone Masonry Line Canal in Barangay Mayag, a project under the 20% development fund with an appropriation and construction costs of ₱300,000.00 and ₱249,600.00, respectively, was not achieved contrary to the Sangguniang Barangay (SB)

Resolution No. 07 s. 2018 in relation to Item 5 of DILG-DBM JMC No. 2017 and Section 2 of Presidential Decree (P.D.) No. 1445, affecting effectiveness of the program.

We recommended that Management evaluate whether there could still be funds available to be assisted to Barangay Mayag for the procurement of culverts so that the deficiencies noted on the project could be rectified as soon as possible; remind the Municipal Engineer to always include in the POW all the materials needed to complete the project so that it could be used effectively; enjoin the MPDO to check the projects/programs whether the supporting POW or activity design are supportive of the corresponding purpose or objective. As an office of check and balance, the MPDO has one of its duties of making sure that all of the LGU programs, projects and activities are working correctly and effectively; and adhere to Item 5 of DILG-DBM JMC No. 2017 and Section 2 of P.D. 1445 in the implementation of various projects, programs and activities of the municipality under the 20% development fund.

xi. The New Construction of Multi-Purpose Building in Barangay Lower Patag, a project under the 20% development fund with an appropriation and construction cost of ₱450,000.00 remained not conducive for use despite being reported in the LGU records as completed, in violation of the provision enshrined in Item 5 of DILG-DBM Joint Memorandum Circular (JMC) No. 2017 in relation to Section 2 of Presidential Decree (P.D.) No. 1445, depriving the people of the prompt availment of the benefits therefrom defeating the purpose of the program.

We recommended that Management revisit the multi-purpose building and re-evaluate its condition vis-à-vis the program of work. Communicate with the contractor the deficiency noted, if there is any, so that immediate corrective measure shall be done; turn over the building, as soon as possible, to the barangay so that this could be used the soonest as intended; and adhere to Item 5 of DILG-DBM JMC No. 2017 and Section 2 of P.D. 1445 in the implementation of various projects, programs and activities of the municipality under the 20% development fund.

xii. The Construction of Pig Pens located at the Municipal Agricultural Complex, Barangay San Isidro, a project under the 20% development fund with an appropriation of ₱1,000,000.00 and a construction cost of ₱993,802.00 remained un-operational despite being completed, in violation of the provision enshrined in Item 5 of DILG-DBM Joint Memorandum Circular (JMC) No. 2017 in relation to Section 2 of Presidential Decree (P.D.) No. 1445, depriving the people of the prompt availment of the benefits therefrom defeating the purpose of the program.

We recommended that Management identify what are the first and basic requirements/things needed for the project to operate and sustain. These basic

necessities should be accomplished first before realizing the next parts, items or level of the projects. Adherence to this method avoids unnecessary expenses that may incur in the maintenance, re-cleaning or adjustments to the project due to the delay in its operation. Likewise, observance to the system evades sustaining wear and tear of the project without getting economic benefits therefrom; fast tract the bidding process conducted for the procurement of the water system; commence without delay the bidding process for the purchase of the electrical facility. Unnecessary deferral on its acquisition may incur additional and excessive costs to the LGU; and adhere to Item 5 of DILG-DBM JMC No. 2017 and Section 2 of P.D. 1445 in the implementation of various projects, programs and activities of the municipality under the 20% development fund.

xiii. The Provision of Sanitary Toilet and Hygiene Facilities at the municipal compound, Barangay San Pedro, a project funded from the national government under its Local Government Support Fund (LGSF)-Assistance to the Municipalities (AM) program at an appropriation and construction costs of ₱1,805,324.00 and ₱1,797,233.71, respectively, remained not usable in spite being completed, contrary to the general objective of the program as stated in Item 1 of DILG Memorandum Circular (MC) No. 2018-61 in relation to Section 2 of Presidential Decree (P.D.) No. 1445, depriving the people of the prompt availment of the benefits therefrom defeating the purpose of the program.

We recommended that Management request the Contractor to finish the project in accordance with the POW without incurring further delay especially the provision of water facility. The lavatories and hygiene facilities must be cleaned from cement smudges too so that these will be ready for use. Further, the water pool in the hygiene facility must be remedied also, just like putting a roof over it, to avoid accident that may cause to the users; remind the Municipal Engineer to ensure that before accepting completed projects from contractors, the same should already finished in accordance with the POW and ready to be used by the intended beneficiaries; enjoin the MPDO to check from time to time the projects/programs of the LGU whether these were implemented in accordance with the POW and are ready for use by the recipients once completed and accepted by the ME from the contractor; and adhere to Item 1 of DILG MC No. 2018-61 and other future issuances covering the implementation of LGSF-AM program, as well as Section 2 of P.D. 1445 to ensure that government programs, projects and activities were implemented effectively and as planned.

E. Summary of total Suspensions, Disallowances, and Charges

7. Audit suspension and disallowances amounting to ₱2,666,286.50 and ₱876,682.00 respectively, remained unsettled as of December 31, 2018, contrary to Sections 5.4 and 7.1.1 of COA Circular No. 2009-006 dated September 15, 2009.

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

8. Of the 22 recommendations contained in the CY 2017 Annual Audit Report (AAR) revealed that five were fully implemented, 16 were partially implemented and one was not implemented. Further, of the 10 and 2, partially and not implemented recommendations, respectively, from the CY 2016 Annual Audit Report, one was fully implemented, 10 were partially implemented and one remained unimplemented.