

## **EXECUTIVE SUMMARY**

### **A. Introduction**

The Municipality of Dinalungan was created by virtue of Republic Act No. 4757 enacted on June 18, 1966. The Municipality is located in the northern part of Aurora Province. It is situated approximately 80 kilometers away from the capital town of Baler. It is bounded on the northeast by the Pacific Ocean and on the southeast by Sierra Madre Mountain.

Dinalungan was formerly a barrio of Casiguran before it became a municipal district. Its territorial jurisdiction is composed of 9 barangays with total land area of 26,341.51 hectares. It has a total population of approximately 9,956 inhabitants, a mixture of Tagalogs, Ilocanos and Bicolanos, and ethnic groups called Dumagats and Aetas.

### **B. Scope of Audit**

The audit covered the financial transactions and operations of the Municipality of Dinalungan for the year ended December 31, 2017. The objectives of the audit were to (a) ascertain the degree of reliance on the management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

In compliance with the Unnumbered Memorandum dated October 12, 2017 by the Commission on Audit Assistant Commissioner for Local Government Sector (LGS) and in pursuance of COA Memorandum No. 2016-023 dated November 14, 2016, which identify the CY 2017 audit foci, we covered in audit the Cash and Cash Equivalents, Financial Liabilities, Fund Transfers (Due from/Due to NGOs/POs, NGAs, GOCCs and LGUs), Funds Directly Released by the DBM to LGUs From the Appropriations for Local Government Support Fund (LGSF, Local Disaster Risk Reduction Management Fund, Compliance with RA 9184, Compliance and Performance Audit of 20% Development Fund, Revenue-Generating Program, Enforcement of COA Disallowances and Charges, Compliance to Tax Laws, Remittance of Mandatory Contributions (GSIS, Philhealth and Pag-IBIG), Compliance with Programs and Projects related to Gender and Development, and Statement of Audit Suspensions, Disallowances and Charges. Result of audit with significant observations were discussed in Part II of this Report.

### **C. Financial Highlights**

The following comparative data shows the financial condition, results of operation, and sources and application of funds for the calendar years 2017 and 2016.

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
<b>Financial Position</b>			
Assets	₱97,262,332.96	₱91,600,997.61	₱5,661,335.35
Liabilities	12,784,814.30	24,555,578.27	(11,770,763.97)
Government Equity	84,477,518.66	67,045,419.34	17,432,099.32
<b>Results of Operation</b>			
Income	₱92,573,203.52	₱81,482,769.78	₱11,090,433.74
Expenses	75,260,106.35	70,375,702.35	4,884,404.00
Surplus (Deficit) from current operations	17,313,097.17	11,107,067.43	6,206,029.74
<b>Sources and Application of Funds</b>			
Appropriations	₱98,074,758.49	₱86,731,677.00	₱11,343,081.49
Obligations	84,126,834.61	80,948,022.00	3,178,812.61
Balances	13,947,923.88	5,783,654.00	8,164,,269.88

#### **D. Independent Auditor's Report**

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Dinalungan for the year ended December 31, 2017 because of the following: (a) unreliable carrying value of Property, Plant and Equipment (PPE) accounts amounting to ₱60,230,109.98 due to non-maintenance of property records, incomplete physical count of property and non-provision of depreciation; (b) unreliable balances of Real Property Tax (RPT) and Special Education Tax (SET) Receivables totaling ₱1,023,958.50 due to the non-maintenance of subsidiary ledgers of real property taxpayers by the Municipal Accountant and understatement by at least ₱6,598,220.98 of the year-end balances which pertain to unrecorded delinquencies as at said year end.

For the above mentioned deficiencies on PPE, we reiterated our previous recommendation that the Local Chief Executive (a) instruct the Inventory Committee to (i) conduct a comprehensive physical count of PPE and (ii) submit the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) to the Office of the Auditor within the prescribed period; b) direct the Acting General Service Officer and the Municipal Accountant to maintain Property Cards and Property Ledger Cards and perform regular reconciliation thereof; and c) direct the Municipal Accountant to comply with the provision of PPSAS No. 17 on the provision of depreciation on PPE accounts.

As to the unreliable RPT/SET Receivables balances, we recommended that the Local Chief Executive instruct the Municipal Accountant and Municipal Treasurer to (a) determine the correct amount of RPT and SET collectibles from prior years; (b) Municipal Treasurer to henceforth furnish the Municipal Accountant at the beginning of the year a certified list of taxpayer and the amount due and collectible for the year; and (c) Municipal Accountant to (i) recognize the RPT and SET Receivables in the books

based on the said certified list and the list of delinquencies; and (ii) maintain subsidiary records for RPT and SET receivables.

#### **E. Summary of Other Significant Observations and Recommendations**

Commendably, we found the Municipality of Dinalungan to be compliant with the withholding and remittance of (a) taxes to the Bureau of Internal Revenue, and (b) contributions and loan amortizations to the Government Service Insurance System and the Home Development and Mutual Fund.

On the other hand, the observations which need management action are briefly summarized as follows:

1. The continued failure of the management to address prior year's issues on the cash advance transactions such as on the; (a) grant of additional cash advances despite non-settlement of the previous accountability; and (b) non-liquidation of cash advances within the prescribed period contrary to existing laws, rules and regulations resulted in the accumulation of unliquidated cash advances in the total amount of ₱6,282,725.55 as of December 31, 2017, an increase of ₱1,356,302.44 or 27.53% from the last year's balance of ₱4,926,423.11, thus delaying the recognition of assets and expense paid out of said cash advances or exposing any unused balances thereof to possible loss or misuse. **(Observation No. 2)**

We reiterated our previous recommendation that the Local Chief Executive (a) instruct the Municipal Accountant to (i) refrain from granting additional cash advances to accountable officers with unsettled cash advances; (ii) deny the granting of cash advances to non-bonded officials and employees; (iii) provide a detailed list of expenses with estimated amount for cash advances granted for miscellaneous expenses; (b) advise the officials concerned to settle their cash advances within the prescribed period and cause the withholding of their salaries in case of unjustified failure to do so; and (c) send final demand letters to persons who have retired or already out of the service but still have unliquidated cash advances and undertake appropriate legal actions for its recovery, as warranted.

2. The approved amount of fidelity bond of the Cashier, designated as Special Disbursing Officer of the Municipality was inadequate to cover her cash accountabilities showing non-compliance with the revised schedule of premium rates presented in Annex C of Treasury Circular No. 02-2009 dated August 6, 2009, thus, the Municipality may not be adequately indemnified in the event of loss of cash under the accountability of said Accountable Officer. **(Observation No. 4)**

We recommended that the Local Chief Executive cause the provision of adequate budget for the bonding of Special Disbursing Officer in the amount that is commensurate to her accountabilities, in accordance with Treasury Circular No. 02-2009 in order to provide adequate protection on the Municipality's resources.

3. Due to inadequate planning, coordination, monitoring and control, only ₱8,828,534.11 out of ₱17,547,887.40 or 50.31% current appropriation for 20% Development Fund were utilized during the year showing non-compliance with the provisions of Department of Interior and Local Government (DILG) and Department of Budget and Management (DBM) Joint Memorandum Circular No. 2017-1 dated February 22, 2017, thus, intended beneficiaries were deprived of the comforts and early enjoyment that are expected to be derived from the completed projects. Moreover, disbursements of ₱459,465.30 for programs, projects and activities which were declared inoperative by the Sangguniang Panlalawigan were still made contrary to Section 327 of Republic Act 7160. ***(Observation No. 5)***

We recommended that the Local Chief Executive (a) instruct the (i) Municipal Planning and Development Officer (MPDO) to indicate in the 20% Development Plan timelines for the implementation of development projects/programs/activities; (ii) heads of implementing offices to expedite the implementation and completion of development projects that were not yet started/completed as at December 31, 2017; (b) create a project monitoring committee that will (i) closely monitor the implementation of the development projects; and (ii) report to the Local Chief Executive any deviations noted; and (c) henceforth, strictly comply with the provisions of Section 5 of the DILG and DBM Joint Memorandum Circular No. 2017-1 dated February 22, 2017

Likewise, we advised that the Local Chief Executive require the Municipal Treasurer not make further disbursements of funds from any of the items of appropriation declared inoperative, disallowed or reduced by the Sangguniang Panlalawigan.

4. The Municipality had implemented its CY 2017 Local Disaster Risk Reduction and Management Plan (LDRRMP) but registered low utilization rate of 17.63% amounting to ₱578,377.00. Moreover, the requirement of Section 21 of Republic Act No. 10121, the Philippine Disaster Risk Reduction and Management Act of 2010, on the transfer of unexpended/unobligated balance of LDRRM Fund amounting to ₱4,107,112.10 to a special trust fund was not properly observed, thus management may be misguided into appropriating the amount for other purposes. Meanwhile, the requirements of Section 5 of COA Circular No. 2012-002 dated September 12, 2012 on the preparation and submission of DRRMF Report and disclosure of the details of the unexpended balance of LDRRMF in the Notes to Financial Statements were not also complied with, thus monitoring of fund sources and utilization was not facilitated. ***(Observation No. 6)***

We recommended that the Local Chief Executive direct the (a) Municipal Accountant to (i) transfer the unutilized balance of the LDRRMF for the current year amounting to ₱4,107,112.10 to a Special Trust Fund under the Trust Liabilities-DRRM account in the Trust Fund Books to be used solely for disaster risk and management programs and activities within the next five years; (ii) determine the balances of unexpended amount of previous years to be transferred to the Trust Fund book; (iii) disclose the amount and details of the unexpended balance of LDRRMF in the Notes to the Financial Statements; and (iv) prepare and certify the correctness the Report on Sources and Utilization of DRRMF; and (v) disclose the amount and details of the unexpended balance of

LDRRMF in the Notes to the Financial Statements; and (b) LDRRMO to submit the Report on Sources and Utilization of DRRMF to the Office of the Auditor within the prescribed period.

We also recommended that the Sangguniang Bayan to pass a resolution authorizing the Municipal Mayor and Municipal Treasurer to open a separate special trust fund account solely for the unexpended balances of LDRRMF.

5. The Municipality was able to utilize only 17.44% or ₱144,124.00 of the Projects/Programs and Activities embodied in the Annual Special Education Fund (SEF) Budget for CY 2017 totaling ₱826,500.00, hence the purpose or objective of providing supplementary annual budgetary needs for the operation and maintenance of public schools within the Municipality as provided for in DepEd-DBM-DILG Joint Circular No. 1, s. of 2017 was not substantially attained. (*Observation No. 7*)

We recommended that the Local Chief Executive direct the Local School Board to maximize the utilization of the Special Education Fund of the Municipality and implement its identified PPAs incorporated in the LSB Plan for the early enjoyment of benefits of the students.

6. Procurement of construction materials for various infrastructure projects of the municipality totaling ₱1,890,430.25 were not supported by program of works, plans and specifications, project completion reports and pictures, contrary to the provision of Section 4(6) of Presidential Decree No. 1445, Item 3(i), Annex A of the Revised IRR of R.A. 9184 and Item 9.1.1 of COA Circular No. 2012-001. (*Observation No. 8*)

We recommended that the Local Chief Executive direct the (a) Municipal Engineer to submit the Program of Works, Statement of Work Accomplished, Inspection Report, pictures and certificate of completion of the implemented projects cited above; and (b) Municipal Accountant to ensure that disbursement vouchers for construction materials were supported by complete documentation to substantiate payments thereof.

7. The use of alternative method for the Procurement of Kabuhayan Groceries Items funded under Bottom-up-Budgeting (BUB) 2016 amounting to ₱1,313,998.00 did not conform with the provisions set forth in Revised Implementing Rules and Regulations (RIRR) of Republic Act No. 9184, thus rendering the transaction irregular and without the assurance that the municipality procured goods at the most advantageous prices. (*Observation No. 9*)

We recommended that the management render an explanation or valid justification on why it resorted to alternative method of procurement particularly “Shopping” without proper observance of the guidelines set forth in Rule XVI Section 48 of Revised Implementing Rules and Regulations of R.A. 9184.

8. The Municipality granted additional Year-end Bonus to its officials and employees of ₱10,000.00 each or a total of ₱ 1,320,000.00 without legal basis contrary to

the provision of COA Circular No. 2013-003 dated January 30, 2013, resulting to unauthorized and irregular disbursement of public funds. (*Observation No. 10*)

We recommended that the Local Chief Executive stop the grant of additional bonuses and other personnel benefits without any legal basis without prejudice to the settlement of any administrative case that resulted from these irregular payments.

9. Due to non-submission of the approved LCPC Annual Work and Financial Plan and other pertinent documents, utilization of LCPC Fund amounting to ₱877,000.00 could not be properly evaluated. Moreover, disbursement of ₱73,678.00 for medical and dental supplies for the “Arangkada sa Barangay 2017” program of the Municipality was charged to the fund contrary to the provisions of Section 15 of Republic Act No. 9344 and Department of Interior and Local Government Memorandum Circular No 2012-120 dated July 4, 2012, thus the purpose of the LCPC fund for the institutionalization of advocacy for child rights, planning and initiating/recommending interventions and monitoring children’s programs and projects in the locality may not be adequately funded. (*Observation No. 11*)

We recommended that the Local Chief Executive direct the (a) LCPC to (i) submit the approved CY 2017 LCPC Annual Work and Financial Plan and other required reports/documents as listed in DILG Memorandum No 2012-120 and (ii) formulate programs that would contribute to the attainment of objectives of LCPC.

**F. Summary of Total Suspensions and Disallowances as of December 31, 2017**

	Beg.Balance (As of Dec. 31, 2016)	This period January 1 to December 31, 2017		Ending Balance (As of Dec. 31, 2017)
		NS/ND/NC	NSSDS	
Notice of Suspension	₱ 0.00	₱ 0.00	₱ 0.00	₱ 0.00
Notice of Disallowance	16,720.00	0.00	0.00	16,720.00
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b><u>₱ 16,720.00</u></b>	<b><u>₱ 0.00</u></b>	<b><u>₱ 0.00</u></b>	<b><u>₱ 16,720.00</u></b>

**G. Status of Implementation of Prior Year’s Unimplemented Audit Recommendations**

Of the 30 audit recommendations embodied in our previous years’ audit report, four or 13.33% was fully implemented, 13 or 43.33% were partially implemented and 13 or 43.33% were not implemented, some of which were reiterated in this report.