

## EXECUTIVE SUMMARY

### Introduction

Majayjay is a fourth class Municipality in the province of Laguna, Philippines. It is located at the foot of Mount Banahaw, about 1,000 feet above sea level. It is 120 kilometres (75 mi) south of Manila, and bounded by the Municipality of Magdalena on the north, by Lucban in Quezon province on the south, by Luisiana on the east, and by Liliw on the west.

Indigenous residents use to call it Malay Barangay. The Spanish colonial government made it a town in 1578. During this period, Malay Barangay was one of the most populated settlements in the newly founded province. It competed with Bay and Pagsanjan during the selection of the province's capital.

As to how Malay Barangay got its name Majayjay, residents assume that Spaniards found it difficult to pronounce Malay Barangay. Early colonizers may have shortened it to Malay-ay, until it became Majayjay. Legends, however say that it was the difficult journey to Majayjay, which gave the town its name. Tired travelers sighed, "Hay!" after scaling a cliff, "Hay!" after ascending a hill, and "Hay!" after crossing a raging river. Thus, guests referred to the place "Mahayhay," meaning, many sighs. Spaniards spelled it "Majayjay."

The Organizational Structure of the Municipality is as follows:

#### a. Key Officials

Municipal Mayor	-	Hon. Carlo Invinzor B. Clado
Vice-Mayor	-	Hon. Eulogio Wilson P. Amorado
Members of the Sanggunian	-	Hon. Edison S. Reyes Hon. Efren T. Bituin Hon. Juan M. Andaya Hon. Edgardo S. Zornosa Hon. Celestino Norman O. Soto Hon. Maria Thess A. Melendez Hon. Valeriano O. Vito Jr. Hon. Pia M. Ceria Hon. Margarito P. Gripo

#### b. Number of Personnel Complement

Permanent	71
Job-Orders	92
Elective Officials	11
Co-Terminus	<u>6</u>
<b>Total</b>	<b><u>180</u></b>

The financial affairs of the Municipal Government were handled by Ms. Marie Francia F. Estrella, Municipal Treasurer; Mr. Enrique S. Vargas, Municipal Budget Officer and Mr. Jeremy P. Liboon, Municipal Accountant.

### Financial Highlights

For the Calendar Year 2017, the Municipality had collected a total income of P88,990,463 under the General and Special Education Funds. The total income increased by P9,218,008 or 11.55% from last year's P79,772,456 as shown below:

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
IRA	P 77,188,883	P 69,364,999	P 7,823,884
Tax Revenue	7,647,609	4,560,147	3,087,462
Other Share from National Taxes	434,055	366,694	67,361
Service and Business Income	3,370,405	4,123,759	(753,354)
Other Income	349,511	1,356,856	(1,007,345)
<b>Total</b>	<b>P <u>88,990,463</u></b>	<b>P <u>79,772,455</u></b>	<b>P <u>9,218,008</u></b>

The appropriations, allotments, obligations incurred and unexpended balances for CY 2017, compared with that of the preceding year are as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Appropriations			
Current	P 120,888,902	P 90,914,407	P 29,974,495
Continuing	-	-	-
<b>Total Appropriations</b>	<b><u>120,888,902</u></b>	<b><u>90,914,407</u></b>	<b><u>29,974,495</u></b>
<b>Total Allotments</b>	<b>120,888,902</b>	<b>90,914,407</b>	<b>29,974,495</b>
<b>Total Obligations Incurred</b>	<b><u>86,900,879</u></b>	<b><u>60,867,013</u></b>	<b><u>26,033,866</u></b>
<b>Unexpended Balances</b>	<b>P <u>33,988,023</u></b>	<b>P <u>30,047,394</u></b>	<b>P <u>3,940,629</u></b>

The total assets, liabilities, government equity, income and expenses for CY2017, compared with that of the preceding year are as follows:

	<u>2017</u>	<u>2016</u>	<u>Increase/ (Decrease)</u>
Assets	P 145,446,467	P 153,696,079	P (8,249,612)
Liabilities	55,789,879	84,669,764	(28,879,885)
Assets/Equity	89,656,588	69,026,315	20,630,273
Revenue	88,990,463	79,772,455	9,218,008
Expenses	84,013,916	59,366,413	24,647,503



## Scope of Audit

Financial, compliance and value for money audits were conducted on the accounts and operations of the Municipal Government of Majayjay for CY 2017. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the Municipality with laws, rules and regulations, as well as economical, efficient and effective utilization of resources.

## Audit Opinion on the Financial Statements

The Auditor rendered a *qualified opinion on the presentation of the financial statements* of the Municipality due to the following:

- The Municipal Accountant did not maintain Property, Plant and Equipment Ledger Cards (PPELC) hence reconciliation of PPE balances between the books and the report on the physical inventory of PPE could not be made, thus the doubtful accuracy of the PPE balance reported at ₱52,931,148.89 as of year-end;
- The reliability and existence of recorded Inventory amounting to ₱5,024,300.00 as of December 31, 2017 could not be ascertained due to non-maintenance of Supplies Ledger Cards and Stock Cards and non-submission of Report of Physical Count of Inventories;
- The year-end balance of the Intra-Agency Receivables of ₱1,099.00 does not reconcile with its reciprocal account Intra-Agency Payables of ₱3,223,950.13 or a net difference of ₱3,222,851.13 casting doubt to the accuracy of the recorded transactions, thus affecting the fair presentation of the accounts in the financial statements;
- There was net discrepancy of ₱467,687.26 between the balances of Cash in Bank in the General Ledger amounting to ₱84,269,183.78 and in the Statement of Financial Position amounting to ₱83,801,496.52, thus resulted in inaccurate and unreliable Cash in Bank balance reported as of year-end;
- The accuracy and reliability of Cash Local Treasury and Cash in Bank – Local Currency, Current Account (LCCA) with an ending balances of ₱16,652.88 and ₱83,801,496.52, respectively, remained doubtful due to non-reconciliation between accounting and treasury records resulting in net discrepancies of ₱3,492.24 and ₱305,380.61, respectively; and
- Significant information to support the balance of some accounts presented in the financial statements was not disclosed in the Notes to Financial Statements, thus depriving the users of financial statements for additional information value.

## Significant Observations and Recommendations

For the exceptions cited, we recommended that the Municipal Mayor require:

- the Municipal Accountant to provide and maintain PPELC by class or category of assets to provide details of the year-end balance of PPE account and submit to the Audit Team the subsidiary ledgers of PPE;
- the Municipal GSO to provide and maintain Property Cards by class or category of PPE and submit the same to the Audit Team;
- the Municipal Accountant and the Municipal GSO to analyze and reconcile the balances of the PPELC and Property Cards and make the necessary adjustments, if any;
- the Municipal Accountant to maintain an updated Supplies Ledger Cards and Stock Cards for each supplies/inventory to support its reported balance in the Financial Statements;
- the Municipal GSO to conduct physical count of all its inventories to establish the actual and existing inventory items and prepare and submit to the Auditors every six months the duly certified and approved RPCI for each type of inventory;
- the Municipal Accountant to make a detailed review of the accounts and determine the cause of unreconciled amounts. Make necessary adjustments/corrections in the books to present the correct balance of the affected accounts. Also, exercise due care in the recording and classifying the financial transactions of the Municipality to ensure that the balances of the reciprocal accounts are equal at all times;
- the Municipal Accountant to examine, investigate and reconcile the noted discrepancies and make an adjusting journal entry, if necessary, to correct the balance of Cash in Bank presented and reported as of year-end. Also, make sure that the account balances reported in the Financial Statements tally with the General Ledger balances;
- the Municipal Accountant and the Municipal Treasurer to immediately reconcile the balances per ledgers and cashbooks to determine and address the discrepancies in the Cash Local Treasury and Cash in Bank accounts and to effect any adjustments/corrections in compliance with Section 181 (e) of the GAAM, Volume I; and
- the Municipal Accountant to disclose the required financial information in the Notes to Financial Statement to assist the users in understanding the financial statements and to provide them with additional information value.



The other significant audit observations and recommendations which are discussed in detail in Part II of this report are as follows:

1. The honoraria given to government personnel involved in Government Procurement amounting to P601,247.75 was erroneously recorded as Other Professional Services and Other Maintenance and Operating Expenses instead of "Honoraria" contrary to COA Circular 2015-009, thus resulting in the misstatements of affected accounts in the Financial Statements.

We recommended that the Municipal Mayor direct the Municipal Accountant to properly record the payment of honoraria in "Honoraria" account under Personnel Services instead of Other Professional Services and Other MOOE accounts.

2. The quarterly barangay shares from Real Property Tax and Community Tax were not remitted within the prescribed period under Section 272(d) of Republic Act (RA) No. 7160 resulting in the accumulation of unremitted shares amounting to P617,773.21, thus depriving the barangays of the immediate use of the fund for their operations.

We recommended that the Municipal Mayor direct the Municipal Treasurer to release the barangay shares within five days after the end of each quarter, pursuant to Section 271 (d) of RA No. 7160 to provide fund augmentation on the finances of the barangays.

3. Unexpended balances of fund transfer amounting to P214,757.34 remained outstanding in the books for more than ten years due to inability of the Municipality to return the amount to the source agencies or to Bureau of Treasury, contrary to Sections 4.9 and 6.7 of COA Circular No. 94-013 and Supreme Court Priority Development Assistance Fund (PDAF) decision.

We recommended that the Municipal Mayor instruct the Municipal Treasurer to return the unused balances of the fund transfer to the source agencies or to the Bureau of Treasury in accordance with COA Circular No. 94-013 and Supreme Court PDAF decision.

4. The validity, propriety and legality of payments for infrastructure projects charged against the General Fund and Trust Fund in the amounts of P9,665,141.49 and P2,659,593.64, respectively, could not be established due to absence of complete documentary requirements, contrary to Section 4 (6) of Presidential Decree (PD) No. 1445 and COA Circular No. 2012-001. In addition, delayed submission of the Quarterly Report on Government Programs/Projects/Activities was also noted.

We recommended that the Municipal Mayor instruct the Municipal Engineer and the Municipal Accountant to:

- a. submit all the necessary documents to support and justify the payment of infrastructure projects and to strictly comply with Section 4 (6) of PD No. 1445 and COA Circular No. 2012-001; and
  - b. strictly comply with the prompt submission of pertinent reports as required by the COA regulations.
5. Payment of honoraria of government personnel involved in Government Procurement totaling P601,247.75 was not supported with complete documentation, contrary to Section 4 (6) of PD No. 1445 and COA Circular No. 2012-001, thus propriety, validity and regularity of the payment could not be ascertained.

We recommended that the Municipal Mayor direct the Municipal Accountant to submit immediately the required supporting documents to ascertain the propriety, validity and regularity of the disbursements. Henceforth, always see to it that payments for honoraria of BAC members are duly supported with complete documentation.

6. Various special cash advances were granted to an elected official of the Municipality totaling P265,000.00, contrary to Section 339 of RA No. 7160 and Section 4.1.4 of COA Circular No. 97-002, thus resulting not only in the accumulation thereof but also the risk that government funds are exposed to possible loss or misappropriation.

We recommended that the Municipal Mayor and all elected officials of the Municipality refrain from making cash advances for purposes other than official travelling expenses and strictly adhere to the rules in granting, utilization and liquidation of cash advances as required under Section 339 of RA No. 7160 and Section 4.1.4 of COA Circular No. 97-002.

We also recommended that the Municipal Mayor ensure that special cash advances are granted only to a duly designated disbursing officer of the Municipality.

7. Funds amounting to P5,145,220.35 from the Department of Environment and Natural Resources – Environmental Management Bureau (DENR-EMB) intended for the closure and rehabilitation of open dumpsite remained unutilized for over a year, contrary to Section G of the Memorandum of Agreement dated November 23, 2016, thus defeating the purpose of the fund and depriving the Municipality's constituents of the ecological benefits that could be derived therefrom.

We recommended that the Municipal Mayor and all the concerned officials to:

- a. submit a copy of the Safe Closure and Rehabilitation Plan (SCRP) with its detailed design and corresponding cost estimate to the Audit Team;



- b. provide documents, evidences or any proof of actions made by the Municipality in order to implement the SCRCP;
  - c. hasten the implementation of the projects based on the SCRCP and its detailed engineering design and program of works; and
  - d. perform, fulfill, abide by and submit to any and all of the provisions contained in the signed Memorandum of Agreement (MOA).
8. The non-utilization of fund transferred from Department of Labor and Employment for the implementation of the project "Vermi-Compost Production" in the amount of P696,500.00 deprived the primary beneficiaries of the benefits from the livelihood program.

We recommended that the Municipal Mayor direct all concerned officials to utilize the fund received from DOLE amounting to P696,500.00 by implementing the project "Vermi-Compost Production" in accordance with the signed MOA to achieve the project's desired/intended social outcomes.

9. The Municipality's Gender and Development (GAD) Accomplishment Report (AR) which involved a total amount of P419,604.00 was not supported with brief summary of the reported program or project, copies of reported policy issuances, results of Harmonized Gender and Development Guidelines (HGDG) tests and actions taken by the LGU on the COA audit findings and recommendations, contrary to Section C.8 (5) of the Joint Memorandum Circular (JMC) No. 2013-01 of the Philippine Commission on Women, Department of the Interior and Local Government, Department of Budget and Management, and National Economic and Development Authority (PCW-DILG-DBM-NEDA), thus affecting the comprehensive evaluation of the effectiveness of GAD programs, projects and activities.

We recommended that the Municipal Mayor direct the GAD Focal Person to submit the GAD Accomplishment Report supported with the brief summary of the reported program or project, copies of reported policy issuances, results of HGDG tests and actions taken by the LGU on the COA audit findings and recommendations in compliance with Section C.8 (5) of the JMC No. 2013-01 of the PCW-DILG-DBM-NEDA.

10. There was a difference of P43,783.00 on the amount utilized as reported in the Report on GAD Utilization submitted by the Accounting and the GAD Accomplishment Report submitted by the GAD Focal Person, thus making the reports unreliable.

We recommended that the Municipal Mayor require the Municipal Accountant and the GAD Focal Person to reconcile the reported expenses in the Annual GAD

Accomplishment Report as against the actual recorded expenses in the books of accounts to reflect the total actual expenses incurred.

11. The Municipality has charged expenses totaling P546,830.31 against the 20% Development Fund which were not allowable under Joint Memorandum Circular (JMC) No. 2017-1 of the Department of Interior and Local Government and Department of Budget (DILG-DBM), thereby depriving its constituents of the optimum benefits that could be obtained from the mandated developmental programs and projects.

We recommended that the Municipal Mayor direct the Municipal Development Council to formulate programs, projects and activities under the 20% Development Fund in accordance with the guidelines provided in JMC No. 2017-1 of the DILG-DBM for the optimum utilization of the fund.

We further recommended that expenses for repair and maintenance, gasoline, supplies and other expenses be appropriated and charged to Municipality's MOOE and not against the 20% DF.

12. The Municipality utilized only P2,306,015.31 or 21.93% of the approved LDRRMF budget of P10,517,715.79 for Preparedness and Mitigation (70%), contrary to RA No. 10121, thus affecting its capacity to strengthen and develop processes aimed at preparing and reducing the impact of deadly and costly natural and man-made hazards and disasters. Moreover, the balance of the Cash in Bank – LDRRMF is only P8,084,065.45 or insufficient by P2,518,012.63 as compared with the unexpended balance of the LDRMMF of P10,602,078.08.

We recommended that the Municipal Mayor direct the Local Disaster Risk Reduction and Management Council (LDRRMC) to maximize the utilization of the LDRRMF for Preparedness and Mitigation to strengthen its capacity to prepare and manage disaster risks. In addition, conduct close monitoring of the full implementation of the LDRRMF programs, projects and activities.

We also recommended that the Management explain why the Cash in Bank balance of LDRRMF is insufficient by P2,518,012.63, otherwise, appropriate action should be taken against those responsible for the cash overdraft.

Our observations and recommendations were discussed with the Municipality's officials and employees concerned in an exit conference held on May 22, 2018 and we are pleased to note their favorable reactions thereon.

#### **Status of Implementation of Prior Year's Audit Recommendations**

Of the 32 audit recommendations embodied in the 2016 Annual Audit Report, 21 were fully implemented, ten were partially implemented and one was not implemented.