

## EXECUTIVE SUMMARY

### Introduction

The town of Lucban, Quezon has been in existence since the late 1500s and its creation was solely based on historical records. According to the book of Fray Gasper de San Agustin, it was founded by a Franciscan priest named Juan de Placencia in 1578 making it one of the oldest towns in the Province of Quezon. Later, in 1591 the encomienda of Lucban was included in the “Royal Crown” which eventually became the property of His Majesty, the King of Spain. However, it became a regular town in 1595, under Marcos Tigla as “Gobernadorcillo”, when a regular parish was established with Fr. Miguel de Talavera as Parish Priest.

Pursuant to Republic Act (RA) No. 7160, known as the Local Government Code of 1991, the Municipality, like other Local Government Units, enjoys total independence in managing, deciding and planning its administrative, fiscal and development affairs in conformity with the national government’s thrust for sustainable social and economic growth.

The Municipality consists of 32 barangays. It operates its local economic enterprises which consist of public market, slaughterhouse, cemetery and waterworks system.

The Organizational Structure of the Municipality is as follows:

#### a. Key Officials

Mayor – Celso Olivier T. Dator

Vice Mayor – Armando V. Abutal

Members of the Sanggunian:

1. Adolfo S. Tupas
2. Petronilo V. Faller
3. Alejandro B. Salvatierra
4. Arnel C. Abcede
5. Mariano D. Ver
6. Albert Emmanuel S. Permalino
7. Benjamin B. Mabalot
8. Agnes V. Araña

Municipal Accountant – Renato L. Abrigo

Municipal Treasurer – Edeliza T. Macasero

## **b. No. of Personnel Complement**

Permanent	–	122
Casual	–	54
Elective Officials	–	11
Job Orders	–	<u>211</u>
<b>Total</b>		<b><u>398</u></b>

## **Financial Highlights**

For Calendar Year (CY) 2017, the Municipality generated a total income of ₱168,661,372 from local taxes, permits and licenses, service and business income, including Internal Revenue Collections of ₱117,673,076.

The Municipality's financial condition and results of operations for CY 2017 compared with that of the preceding year are summarized below and shown in detail in the attached audited financial statements.

	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>Increase/Decrease</u></b>
Total Assets	₱ 349,362,112	₱ 317,058,288	₱ 32,303,825
Total Liabilities	148,015,437	132,469,382	15,546,055
Net Equity	201,346,675	184,588,906	16,757,769
Total Income	168,661,372	152,309,022	16,352,350
Total Expenses	154,814,852	132,850,280	21,964,572

## **Scope of the Audit**

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

## **Auditor's Opinion on the Financial Statements**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements as of December 31, 2017 of the Municipality due to the following:

- Land account recorded in the books of accounts at ₱6,312,177.55 includes 17 parcels of land totaling ₱2,191,004.55 that were not supported with Transfer Certificate of Title in the name of the Municipality, contrary to Section 39 (2) of Presidential Decree (PD) No. 1445 and Section 148 of COA Circular No. 92-386, due to incomplete documents necessary for the special patents issuance, thus exposing the subject lots to possible third party claims, and overstating the Land account by ₱2,191,004.55.

- The Property, Plant and Equipment (PPE) account in the Financial Statements totaling ₱180,389,521.62 is not reliable as to existence and valuation due to the non-completion of the reconciliation of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and records of the Accounting Office, contrary to Section 114 of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs), Volume I.
- Seventeen (17) motor vehicles and three heavy equipment acquired through purchase worth ₱5,039,750.00 and there were those received as donations which were not recorded in the books of accounts as of year-end due to incomplete documentation and absence of fair values, contrary to Philippine Public Sector Accounting Standards (PPSAS) 17 resulting in the understatement of the Motor Vehicles and Heavy Equipment accounts. Moreover, 28 motor vehicles worth ₱10,032,536.00 were not yet registered in the name of the Municipality, contrary to Section 7 of Republic Act (RA) No. 4136. Furthermore, unserviceable motor vehicles and heavy equipment worth ₱3,298,621.00 were not disposed off contrary to Section 79 of Presidential Decree (PD) No. 1445, thus affecting the fairness of the presentation of the financial statements.

For the exceptions cited above, the Auditor recommended that the Municipal Mayor:

- instruct the Municipal Assessor and the Municipal Treasurer to continue exerting extra effort to complete the documents necessary for the issuance of special patents for the immediate titling of subject lots in the name of the Municipality to avoid contingent claims that may arise in the future and in compliance with Section 39(2) of PD No. 1445 and Section 148 of COA Circular No. 92-386, and for the fair presentation of the Land account in the Financial Statements.
- require the Municipal Treasurer and the designated Property Custodian and Supply Officer to continually exert effort to complete the reconciliation of records between the Accounting Office and the RCPPE by undertaking the following:
  - prepare the RPCPPE with complete information and details using the prescribed format and submit the same to the Municipal Accountant;
  - coordinate with the Municipal Accountant for the reconciliation of records of the PPE; and
  - also, require the Municipal Accountant to update the PPE Ledger Cards.
- continually work for the implementation of the audit recommendations by requiring the:
  - a) Municipal Accountant to validate the ownership and determine the mode of acquisition whether thru purchase or non-exchange transactions of all the vehicles included in the RPCPPE and record all the vehicles owned by the Municipality whether serviceable or unserviceable to the appropriate

asset accounts in compliance with PPSAS 17 for proper presentation in the financial statements;

- b) Appraisal Committee to expedite the appraisal of the vehicles to determine the fair values at acquisition dates for recording purposes;
- c) Municipal Treasurer and the Designated Property Custodian to complete the registrations of the remaining motor vehicles in the name of the Municipality with absolute ownership in accordance with Section 7 of RA No. 4136; and
- d) Designated Property Custodian to prepare Inventory and Inspection Report of Unserviceable Property (IIRUP) for the disposal of unserviceable motor vehicles and heavy equipment in accordance with Section 79 of PD No. 1445.

### **Significant Observations and Recommendations**

The following is the summary of the other significant observations and recommendations in the audit of the Municipality of Lucban for the year 2017:

- The Municipality granted anew cash advances for various programs totaling P1,140,000.00 to not duly designated disbursing and bonded officer, and to elected officials, contrary to Section 101 (2) of Presidential Decree (PD) No. 1445 and COA Circular No. 97-002, which has become a practice, thus cost recovery in the event of loss of funds was not guaranteed.

We recommended that the Municipal Mayor require the OIC-Municipal Accountant to refrain/to stop the practice of granting cash advances to officials and employees who are not duly appointed or designated disbursing officers and not bonded, pursuant to Section 101(2) of P.D. 1445 and COA Circular No. 97-002. We further recommend that the OIC- Municipal Accountant limit the cash advance of elected officials to their travelling expenses only.

- Accounts Receivables from various debtors totaling P250,000.00 remain uncollected for a period of eight years and the collectibility is nil due to the non-confirmation of receipt of nine out of 27 recipients, contrary to Section 2 of Presidential Decree (PD) No. 1445, thereby exposing the livelihood projects/programs to sustainability risk and may further result in the loss of government funds.

We recommended that the Municipal Mayor require the:

- Market Supervisor and the Municipal Agriculturist to:
  - locate the records that would establish the claims from the 27 beneficiaries;
  - conduct visitorial and monitoring of the projects; and

- exert all efforts to collect the said receivables from the concerned beneficiaries;
  - Municipal Accountant and the Municipal Treasurer to exert efforts to locate the records that would establish the borrowers and the claims; and
  - Municipal Treasurer to send demand letters for payment of the amounts collectible.
- The Municipality bought t-shirts and paid bus rental as assistance to private entities totaling ₱55,995.00, contrary to Section 335, Chapter IV of Republic Act (RA) No. 7160 or the Local Government Code and Section 4(2) of the Presidential Decree (PD) No. 1445, due to requests from the concerned private entities, thus deviating from the fundamental principle of local fiscal administration.

We recommended that the Municipal Mayor:

- submit justification/explanation on the donations made to private associations; and
  - refrain from using government funds for private purposes and adhere with the mandates of Section 335 of RA No. 7160 and Section 4 of PD No. 1445.
- Expenses for intelligence and confidential fund totaling P74,335.65 were made thru reimbursement and Disbursement Voucher for the cash advance totaling P150,000.00 for the same fund was not submitted to the Audit Team contrary to Sections 6.1.2 and 6.3.3 (d) of COA-DBM- DILG-GCG-DND Joint Circular No. 2015-01 dated January 8, 2015, thus rendering the propriety of the expenses doubtful.

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

- submit the Liquidation Report to the ICFAU and furnish a copy of the duly received transmittal letter to the Audit Team; and
  - comply with the existing guidelines on confidential and intelligence fund.
- Various projects totaling ₱572,480.25 were appropriated under the Office of the Sangguniang Bayan (SB), contrary to Sections 447 of the Republic Act (RA) No. 7160 and Part IV of Local Budget Circular (LBC) No. 112, due to lack of knowledge, thus deviating from the mandates of the Office of the Sanggunian.

We recommended that the Municipal Mayor require the Municipal Budget Officer to refrain from appropriating funds for projects for execution of budgets or implementation by the Office of the Sanggunian except for projects for the

Office of the SB, such as construction of building which may be provided under the said Office.

- Payment for expenditures totalling P1,448,746.04 were processed and paid despite incomplete documentation, contrary to Section 4(6) of Presidential Decree (PD) No. 1445, due to late submissions of attachments, thus casting doubt on the propriety, legality and validity of transactions.

We recommended that the Municipal Mayor require the Municipal Accountant to submit to the Audit Team all the required supporting documents for evaluation.

- The Municipality was not able to secure the National Solid Waste Management Commission's approval of its revised 10-year Solid Waste Management Plan due to incomplete data, contrary to Section 16 of Republic Act (RA) No. 9003. Moreover, the existing disposal facility of the Municipality is a controlled dumpsite, contrary to Sections 37 and 17(h) of the same Act, hence the objectives of the Act may be far from being achieved.

We recommended that the Municipal Mayor, through the Designated MENRO, secure the approval of its revised 10-year Solid Waste Management Plan from the National Solid Waste Management Commission and effect the provisions in their plan for the closure or eventual phase out of the controlled dump sites and continue to develop and operate a sanitary landfill site as final disposal site pursuant to the provisions of RA No. 9003.

- The Report on Sources and Utilization of Disaster Risk Reduction Management Fund (DRRMF) for CY 2017 was not furnished to the Audit Team within the prescribed period, contrary to COA Circular No. 2014-009 and Item 5.1.5 of COA Circular No. 2012-002, due to lack of knowledge in this requirement, thus rendering the proper evaluation of programs, projects and activities against the Local Disaster Risk Reduction and Management Fund (LDRRMF) plan, accomplishments and fund utilization difficult.

We recommended that the Municipal Mayor instruct the Municipal Disaster Risk Reduction Management Officer to obtain a sufficient understanding of his assignment, its nature and functions, as well as the reportorial requirement such as but not limited to submitting to the Audit Team regularly the annual report on Sources and Utilization of Disaster Risk Reduction Management Fund (DRRMF) in compliance with COA Circular No. 2014-009 and Item 5.1.5 of COA Circular No. 2012-002.

- The Municipality was not able to submit its Gender and Development (GAD) Accomplishment Report, contrary to Section 36 of Republic Act (R.A.) No. 9710 and Section 4.8 of Joint Circular No. 2004-1 of the Department of Budget and Management (DBM), National Economic Development Authority (NEDA), and Philippine Commission on Women (PCW), due to lack of knowledge in this requirement, thus it could not be ascertained whether or not the Municipality had conducted activities that actually addressed issues related to GAD, promoted

gender-responsive governance, protected and fulfilled women's human rights, and promoted women's economic empowerment.

We recommended that the Municipal Mayor require the GAD focal point person to obtain a sufficient understanding of her assignment, its nature and functions, as well as the reportorial requirement such as but not limited to the submission of the Municipality's GAD Accomplishment Report as prescribed and strictly adherence to the existing regulations.

The above observations and recommendations contained in the report were communicated to the Municipal Mayor and other Key officials under various Audit Observation Memoranda and discussed in the exit conference on April 16, 2019. Management's views and comments were considered in the report, where appropriate.

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

Of the 25 audit recommendations embodied in the CY 2016 Annual Audit Report (AAR), 11 were fully implemented, six were partially implemented and eight were not implemented by the Municipality.