

EXECUTIVE SUMMARY

INTRODUCTION

Republic Act No. 7160 or the Local Government Code of 1991 gave the Municipality of Villaviciosa the role to serve primarily as a general purpose government for the coordination and delivery of basic, regular and direct services and effective governance of the inhabitants within its territorial jurisdiction. In view of this, the Municipality had the mission or purpose to sustain economic growth, promote social justice, health and nutrition programs; and pursue plans and programs that will uplift the living conditions of the citizenry in the locality.

The Municipality of Villaviciosa is headed by Hon. Mayor Jose W. Lagen, Jr. supported by ten (10) elected and appointed officials and fifty four (54) permanent and two hundred (200) contractual and casual employees.

A financial and compliance audit was conducted on the accounts and operations of the Municipality of Villaviciosa, Abra for the year ended December 31, 2016. The audit included verifications and analysis of accounts in the financial statements, review and evaluation of compliance with existing laws, rules and regulations and other procedures necessary under the circumstances.

FINANCIAL HIGHLIGHTS

In its 2016 Annual Budget, the management estimated to generate revenue amounting to ₱81.72 million (distribution by type of revenue is shown in Figure 1), which was programmed under various sectors (distribution by sector is shown in Figure 2).

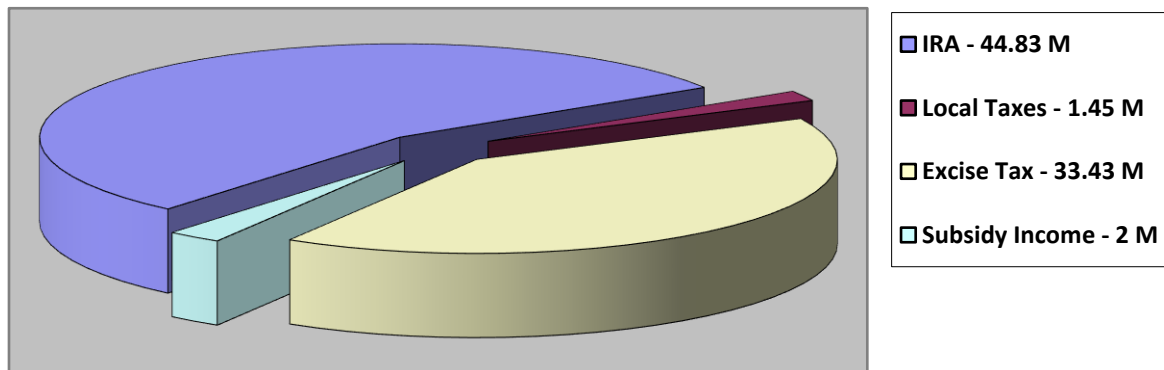


Figure 1: Distribution by Type of Revenue (Budget Year)

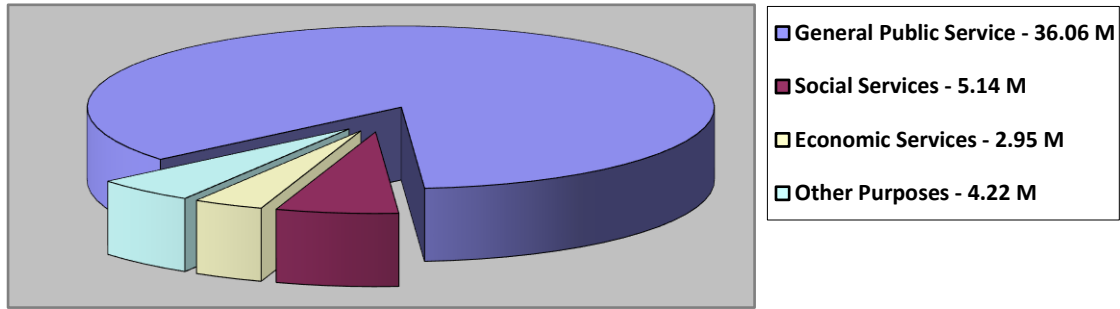


Figure 2: Expenditure Program, Distribution by Sector (Budget Year)

As of December 31, 2016, the total assets of the Municipality amounted to ₱194.47 million, an increase of 183.78% or ₱125.70 million compared to CY 2015. Total Liabilities and Government Equity amounted to ₱31.24 million and ₱163.23 million respectively, a decrease in Liabilities of ₱0.05 million and an increase in equity of ₱125.75 million respectively.

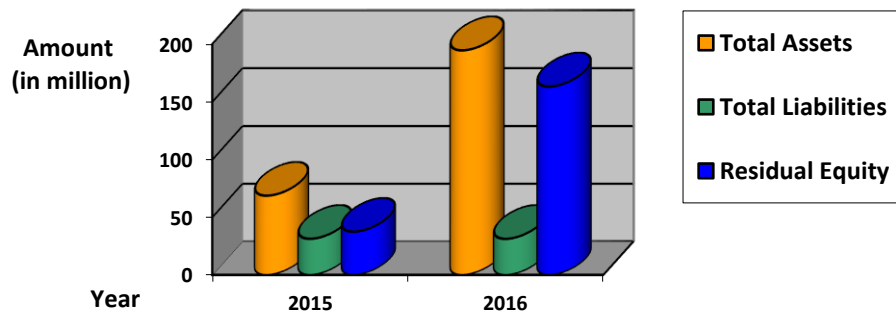


Figure 3: Statement of Financial Position

Income realized totaled ₱187.04 million. Locally generated income from Local Taxes, Permits and Licenses, Service Income, Business Income and Other Income amounted to ₱0.6 million, share from Internal Revenue Allotment (IRA) amounted to ₱44.88 million, share from Tobacco Excise Tax amounted to ₱141.22 million while Income from Grants and Donations amounted to ₱0.3 million.

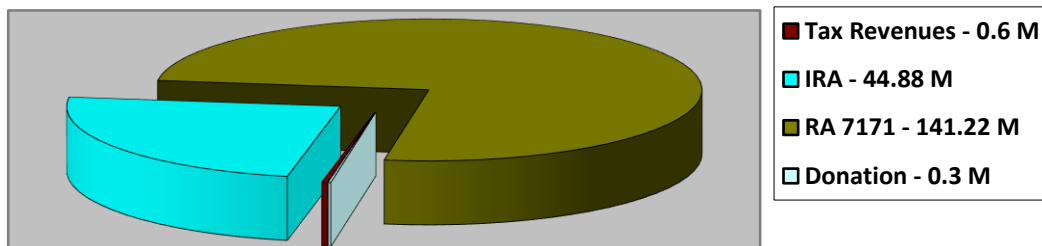


Figure 4: Composition of 2016 Revenue

Total Operating Expenses amounted to ₱88.22 million broken down as follows:

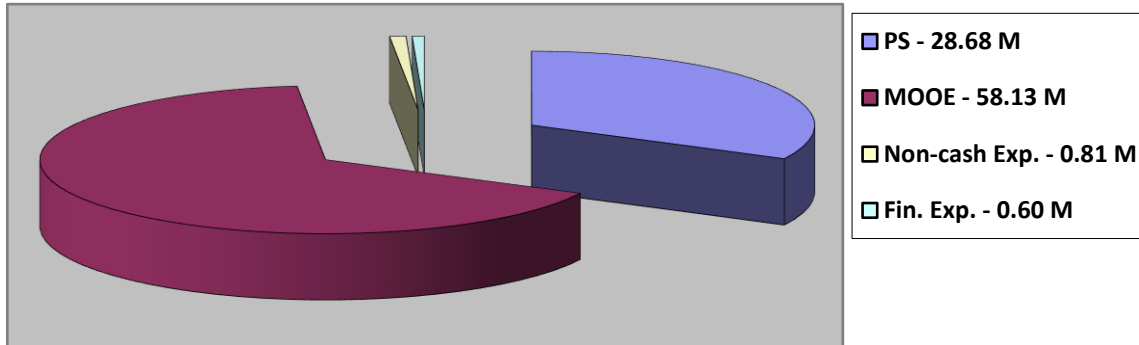


Figure 5: Composition of Operating Expenses

Funds received in 2016 from other National Government Agencies, were as follows:

Source Agency	Amount
DILG – BUB	₱ 13,600,000.00
DILG – SALINTUBIG	2,000,000.00
DILG – EVACUATION CENTER	2,000,000.00
NIA	2,800,000.00
NTA	20,170,000.00
DSWD	378,000.00
DOH – RHU(PHIC)	231,125.00
DOH – Health Center (Cal-lao)	17,550.00
Total	₱ 41,196,675.00

OPERATIONAL HIGHLIGHTS

For CY 2016, it is worthy to note that the Municipality completed the following major projects:

20% Development Fund

Project Description	Amount
Concreting of Kimkimay to Sitio Lagaosian	₱ 2,126,000.00
Concreting of Kimkimay to Sitio Lagaosian – LGU Counterpart (BUB)	720,000.00
Total	₱ 2,846,000.00

RA 7171 – Tobacco Excise Tax

Project Description	Amount
FMR Improvement:	
Cal-lao FMR	₱ 1,652,656.01
Salay-ot Poblacion FMR	1,998,412.38
Lagaosian FMR	2,498,274.52
Tuquib FMR	1,498,819.49
Cal-lao-Denden FMR	998,807.23
Tamac FMR	4,998,462.80
Intermittent Portion Lap-lapog FMR	997,220.32
Construction of Lap-lapog Footbridge	1,499,043.58
Construction of Cable Footbridge – Ap-apaya	1,798,369.70
Concreting of Bol-lilising via Duyduyong	2,497,236.07
Improvement of Tamac – Tiagan	9,999,500.00
Concreting of Tuquib-Tamac Via Palayan ng Bayan	12,894,000.00
Concreting of Sitio Calcalumadsi – Marugnoy	7,998,537.78
Lumaba Pipe Irrigation	2,996,500.00
Total	₱ 54,325,839.88

FMR Improvements – BUB

Project Description	Amount
Concreting of Tamac	₱ 3,999,500.00
Concreting of Sitio Lagaosian	2,699,500.00
Rehabilitation of Caltaon CIS	1,800,000.00
Rehabilitation of Cobcoboot CIS	1,000,000.00
Construction of Flood Control – Ap-apaya	3,599,550.00
Construction of Cal-calumadsi Level II Water Supply	1,799,500.00
Construction of Tamac Level II Water System	2,999,500.00
Construction of Evacuation Center	2,000,000.00
Construction of Day Care Center	1,197,500.00
Construction of Alternative Learning System	798,000.00
Construction of Health Station – Bol-lilising	808,200.00
Total	₱ 22,701,250.00

Irrigation – NTA

Project Description	Amount
Construction of Lower Dungyasan CIS	₱ 8,900,000.00
Rehabilitation of Denden – Patioa CIS	4,900,000.00
Rehabilitation of Manmansanita CIS	4,900,000.00
Total	₱ 18,700,000.00

AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Villaviciosa due to the following reasons stated in the Independent Auditor's Report:

1. The balance of loan per record of the Land Bank and the Municipality remained unreconciled by ₱1,635,780.71. Entries to record the loan amortizations and interest payments were not supported with debit memos, thus the correctness of the entries could not be ascertained.
2. Correctness and reliability of the submitted Statement of Comparison of Budget and Actual Amounts (SCBAA) could not be established due to non-maintenance of Registries of Allotment and Obligation and non-submission of reconciliation between actual amounts.
3. The submitted Report on the Physical Count of PPE was not classified to its category and was incomplete on some information. Property, Plant and Equipment Ledger Card (PPELC) and Property Card were not maintained by the accounting office and supply and property office, casting doubt the reliability of balances of PPE accounts costing ₱25,816,001.87.
4. Subsidiary ledgers that enable the agency control and analyze its financial information were not maintained for dormant and of unknown nature Due from Officers and Employees account totaling ₱211,538.00, casting doubt on the collectability or settlement of the receivables and the reliability of the amount presented in the Financial Statements.
5. The Municipality partially recognized ₱71,715,328.66 of Local Road Networks in the books of account in compliance of Item IX of COA Circular No. 2015-008. However, the recognition is doubtful due to incomplete documentation.
6. Summary of land titles/tax declarations to substantiate the balance of Land account amounting to ₱572,044.00 was not submitted, hence putting doubt on its reliability and completeness. Moreover, the land where the municipal building is located is not owned by the Municipality as per the record of the Assessor's Office.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

The observations and recommendations are discussed in detail in Part II of this Report, the most significant observations and recommendations that need immediate action by Management are as follows:

1. Submission of accounts and financial reports was not in accordance with the prescribed period thus, the validity, propriety, accuracy and legality of these disbursements including all affected accounts could not be established.

We have recommended that the disbursement vouchers be submitted together with the disbursement journals every 10th day of the following month. We also recommended that the Municipal Mayor hire a full time Municipal Accountant or assign additional personnel in the Treasury and Accounting Office to augment personnel in the preparation of needed documents and reports and to facilitate early submission of accounts.

2. Cash advances without legally stated specific purposes totaling ₱11,321,797.14 were granted to the Municipal Treasurer in violation of COA Circular No. 97-002 casting doubt on the legality of cash advances and making it difficult to evaluate and monitor liquidation thereof. Implemented Infrastructure projects and other undertakings on a project basis were paid through the cash advance of the Municipal Treasurer and claims above ₱15,000.00 were paid in cash in violation of COA Circular 97-002 and 2009-002.

We have recommended the following:

- That management grants cash advances only for payment of salaries and wages, honoraria and other petty operating expenses. Claims above ₱15,000.00 should be made through checks.
 - Purchases of supplies and materials should be made through the prescribed modes under RA 9184 and not through cash advances. Likewise, in no case shall payment of implemented projects be made out of cash advances as the same should be made directly to the suppliers or contractors.
 - In all instances, no additional cash advances shall be granted unless previous ones are liquidated or duly accounted for and;
 - The Municipal Mayor should look in to the possibility of withholding the salaries and claims of officials and employees who fail to account or liquidate their cash advance.
3. The Accounting Office did not maintain the Registries of Appropriations, Allotment and Expenditures which resulted in the failure to prepare and submit the Status of Appropriations, Allotments, Obligations and Balances.

We have recommended the following:

- That the Municipal Budget Officer be instructed to strictly comply with the requirements of properly accomplishing the Obligation Requests for all expenditures. Registry of Appropriations, Allotment and Obligations shall be maintained to properly monitor the budget of the agency and serve as the basis to prepare the Statement of Allotment, Appropriations, Obligations and Balances; and
 - The Municipal Accountant is instructed not to process claims without the required certification as to the availability of appropriation including the specific cost centers or function/program/project where expenses should be charged.
4. Various cash disbursements totaling ₱2,299,687.00 were not supported with official receipts/ sales invoices and bear no acknowledgement from the payee.

We have recommended that management justify the noted lapses and submit the official receipts/sales invoices for the above mentioned disbursements. Henceforth, the name of the supplier/business establishment should be properly identified in the disbursements voucher.

5. Delayed and or non-submission of copies of Contracts/Purchase Orders in violation of COA Circular No. 2009-001 precluded the auditorial and technical review of the procurement transactions and prompt detection/correction of possible deficiencies.

We have recommended that management submit the unsubmitted contract documents for evaluation and review. Henceforth, furnish the Auditor copy of the purchase orders and contract documents not later than five (5) working days from issuance of purchase orders and perfection of contracts together with duly accomplished supporting documents for technical review and evaluation in compliance with COA Circular No. 2009-001.

6. Implementation of infrastructure projects through Pakyaw Contracts totaling ₱4,290,117.19 were not completely documented and not in accordance with various rules and regulations, thus casting doubt as to the legality and propriety of transactions.

We have recommended that management justify the noted lapses and submit the lacking documents required. Succeeding transactions shall be properly supported with complete documentation in order to establish the validity of claims and processing of payment of claims that are not properly documented shall be discontinued. Management should strictly comply with the provisions of the Revised IRR of RA 9184 and GPPB Resolution 0188-2006 whenever it implements infrastructure projects by administration such as Pakyaw system.

7. Various provisions of the Revised IRR of RA 9184 were not adhered to by the Municipality in the conduct of public bidding.

We have recommended that the Bids and Awards Committee justify the noted lapses and submit the required documents. Henceforth, comply with the rules and regulations as required by RA 9184.

8. There is not enough cash balance to cover the unutilized Excise Tax Fund, an indication that the fund was used for unauthorized programs, projects and activities.

We have recommended that management justify the above noted lapses. Henceforth, implementation of projects should be within the amount of appropriation.

9. Deficiencies were noted in the appropriation and utilization of the 5% Local Disaster Risk Reduction and Management Fund (LDRRMF).

We have recommended that management:

- Justify the absence of local ordinance creating LDRRM Office;

- Submit the LDRRMFIP and ensure that implementation be based on the planned program/projects identified during the budget process;
- Make a report on the fund status and utilization of the LDRRMF and post it in conspicuous places of the municipality. This is to promote transparency and to prevent suspicions of any irregularity; and
- Appropriate funds for the procurement of rescue equipment for these will last longer and thus provide more benefit to the constituents.

10. 20% Development Fund (DF) appropriation and utilization was not in accordance with the provisions of the Local Government Code (Republic Act No. 7160) and DILG-DBM Joint Memorandum Circular No. 2011-1; hence, the purpose of the fund was not fully attained.

We have recommended that management:

- Justify the above noted lapses;
- Consider utilizing the fund for rooted developments which are permanent in nature to benefit more the constituents of the Municipality; and
- Adhere strictly with the provisions of Joint Memorandum Circular No. 2011-1 of the DILG and DBM on the appropriation and utilization of the 20% of the IRA for development projects.

11. Reported accomplishments for Gender and Development (GAD) totaling ₱1,620,000.00 address gender issues. However, the LGU was not able to fully utilize the appropriation for GAD due to a) Insufficient appropriation which amounted only to ₱1,800,000.00 or 3.72% of the 2016 appropriations and b) Unutilized appropriation of ₱180,000.00 in violation of RA No. 10717 otherwise known as the General Appropriations Act of 2016 and other pertinent rules and regulations.

We have recommended the following:

- The Budget Officer incorporate in the programs, projects and activities of their Annual Budget a total cost of at least 5% of their total budget appropriations as authorized under the Annual General Appropriations Act; and
- Ensure that expenditures are in consonance to the amount approved in the budget and see to it that all planned projects and activities are implemented.

12. The non-withholding of taxes totaling ₱353,605.72 on purchases of goods and services deprived the National Government of additional income which could have been used to finance the different program and projects of the government.

We have recommended that the Municipal Accountant and the Municipal Treasurer deduct, withhold and remit the corresponding internal revenue taxes as mandated by laws, rules and regulations on all its purchases and contracts for additional income of the government and to avoid possible imposition of sanctions by the BIR.

Other audit observations and recommendations were fully discussed in Part II of this Report.

STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES

Recorded suspensions, disallowances and charges in previous years amounted to ₱67,089,144.49. No Notices of Suspensions, Disallowances or Charges were issued during the year.

IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Our monitoring and verification on the actions taken by the Municipal Officials concerned with regard to implementation of previous year's audit recommendations disclosed that out of the thirty (30) recommendations embodied in the 2015 Annual Audit Report, one (1) was implemented, sixteen (16) were not implemented and thirteen (13) were partially implemented.