

## EXECUTIVE SUMMARY

### A. Introduction

Marilao is a first class municipality in the Southwestern part of Bulacan. It used to be a barrio of Meycauayan, but it became a separate municipality on April 21, 1796.

Our audit was made in accordance with Philippine Standards on Auditing and we believe that it provided a reasonable basis for the audit results.

The audit covered the financial transactions and operations of the Municipality for the calendar year 2016. The objectives of the audit were (a) to ascertain the level of assurance that may be placed on 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.

### B. Financial Highlights

The comparative data on the financial condition, results of operation and sources and application of funds of the Municipality for the years 2016 and 2015 are presented below:

	Amounts in Million Pesos			
	2016	2015	Increase(Decrease) Amount	%
<b>Financial Condition</b>				
Total Assets	988.30	815.53	172.77	2.12
Total Liabilities	255.11	163.87	91.24	55.68
Total Equity	733.19	651.66	81.53	12.51
<b>Results of Operations</b>				
Total Revenues	594.89	530.48	64.41	12.14
Total Expenses	498.70	501.87	(3.17)	(.63)
Excess of Income Over Expense	96.19	28.61	67.58	236.21
<b>Sources and Application of Funds</b>				
Appropriation	652.72	599.93	52.79	8.80
Allotments	652.72	599.93	52.79	8.80
Obligations	548.25	530.98	17.27	3.25

### C. Auditor's Opinion

We rendered a qualified opinion on the fairness of presentation of the financial statements owing to the following deficiencies, as stated below together with the recommended course of action to address them:

1. The accuracy, existence and reliability of the reported Property, Plant and Equipment (PPE) account with carrying book value of ₱638,236,878.24 was unreliable owing to the (a) failure to conduct the annual physical inventory count and (b) non-maintenance of property records at the Municipal Treasurer's Office (MTO) and Accounting Office contrary to Chapter 7 of the NGAS Manual for LGUs. (*Observation No. 1*)

We recommended that the Municipal Mayor (a) require the Inventory Committee to give utmost priority to the conduct of the required annual physical count of property; (b) create a General Services Officer (GSO) position who will discharge on a full time basis the property custodianship functions and the receipt, issuance and recording of the procurement and issuance of supplies and property; and (c) require the Municipal Accountant to reconcile regularly her records with the Municipal Treasurer.

2. The disposal of 14 unserviceable motor vehicles with net carrying value of ₱427,449.59 and of the four units of unserviceable/unutilized/abandoned solid waste equipment with undetermined amount was not undertaken by the Municipality rendering the misstatement of the PPE accounts due to continuous recognition of the carrying value of the assets contrary to Paragraph 82 of PPSAS No. 17. (*Observation No. 2*)

We recommended that the Municipal Mayor require the immediate disposal of the 14 unserviceable motor vehicles in accordance with existing laws, rules and regulations.

3. Non- moving receivable accounts amounting to ₱694,931.00 remained dormant for several years, contrary to COA Circular No. 2016-005 dated December 19, 2016 and Section 111 of PD 1445, thereby affecting the reliability of the reported balances of these accounts and the fairness of the presentation of the financial condition of the Municipality. (*Observation No.3*)

We recommended that the Municipal Mayor (a) require the Municipal Accountant to analyze, review and monitor all booked receivables to ensure that only valid receivables are recorded and that dormant, long outstanding and unsubstantiated accounts are properly disposed of and derecognized; and (b) prepare a formal request to the COA Audit Team Leader (ATL) and/or Supervising Auditor (SA) for the write-off of these dormant accounts to pave the way for their derecognition and/or adjustment in the books of accounts.

#### **D. Summary of Significant Observations and Recommendations**

Summarized below are the significant audit observations with their recommendations, the details of which are presented in Part II of this report. Management views and comments, including those offered during the exit conference were incorporated in the report, where appropriate.

1. Out of the total net carrying value of the insurable property of the Municipality amounting to ₱525,896,780.60, 53.91% or ₱284,141,804.39 were not covered with insurance as required under Section 5 of Republic Act No. 656 and Section 489 of the GAAM, Volume I, thereby exposing the Municipality to the risk of not being indemnified or compensated for any damage to, or loss of its property in case of destruction thereof through fire, flood or other force majeure for insurable properties not covered by insurance. (*Observation No. 4*)

We recommended that the Municipal Mayor (a) require the Budget Officer to include in the budget the insurance expenses of all insurable properties of the Municipality; and (b) require the Property Officer in-Charge to facilitate the submission of the updated list of inventory of insurable property with the GSIS so that the necessary insurance coverage can be applied with the GSIS insurance fund.

2. A Time Deposit account of the Municipality totaling ₱17,247,783.06 was maintained with the Philippine Veterans Bank, a private commercial bank, despite the absence of prior authority from the Department of Finance thereby defeating the purpose of the Circular of efficiently and judiciously managing government funds to the best interest of the government. (*Observation No. 5*)

We recommended that the Municipal Treasurer (a) effect the closure and transfer of the bank account being maintained with the non-government depository bank within one year from the effectivity of Department Circular No. 002-2015 unless a Bureau of Local Government Finance approval has been secured; and (b) henceforth, comply with DOF Department Circular Nos. 001-2015 and 002-2015 in the deposit of funds of the Municipality.

3. Several deficiencies were noted on the granting, utilization and liquidation of cash advances totaling ₱1,363,740.00 to various DepEd Officials under the Special Education Fund which posed risk of misuse, abuse and misapplication of funds, contrary to the provisions of COA Circular No. 97-002 dated February 10, 1997. (*Observation No. 6*)

We recommended that the Municipal Mayor: (a) require the Municipal Accountant to (i) stop the granting of cash advances to DepEd officials and limit the granting of cash advances only to the Municipality's designated DO; (ii) demand the immediate liquidation of the unliquidated cash advances totaling ₱553,800.00 from the concerned officials; and; (iii) desist from granting additional cash advances unless the previous cash advance has been liquidated; (b) require the two District Supervisors to (i) submit the approved project proposals for the cash advances granted in September, 2016 totaling ₱373,750.00; (ii) refund the difference between the authorized and actual expenses incurred during the centralized training amounting to ₱70,800.00; and (iii) submit all required supporting travel documents to establish the validity of the travel in Tokyo, Japan or refund the amount spent in case of non-submission of the required documents.

4. Several infractions were noted in the allocation and utilization of Special Education Fund (SEF) for C.Y. 2016, contrary to the provisions of R.A. No. 5447, Section 272 of R.A. No. 7160, and the DepEd, DBM, DILG Joint Circular No. 01, s. 1998 dated April 14, 1998, thereby defeating the purpose for which the fund was established. **(Observation No. 7)**

We recommended that the Municipal Mayor (a) require the Municipal Budget Officer and the District Supervisor to stop the practice of charging inappropriate expenses to SEF which the DepEd is mandated to incur and pay out of its own appropriations; and (b) instruct the Municipal Accountant to refrain from reimbursing expenses to District Supervisors which are not allowable using SEF.

5. The Municipality procured the printing of test papers totaling ₱760,620.00 from one supplier through direct contracting instead of public bidding, contrary to Section 10 of the 2016 Revised Implementing Rules and Regulations (IRR) of R.A. No. 9184. **(Observation No. 8)**

We recommended that the Municipal Mayor require the BAC to adopt public bidding as the general method of procurement and to limit the use of alternative mode of procurement to highly exceptional cases only as provided in the said IRR.

6. The completeness, accuracy and validity of the recorded transactions could not be ascertained due to delayed/non-submission of accounts to the Audit Team as required under Section 347 of RA No. 7160 and COA Circular No. 2009-006 dated September 15, 2009 which hindered the conduct of audit and the timely communication of any deficiencies and/or observations that may be noted. **(Observation No. 9)**

We recommended that the Municipal Accountant and the Municipal Treasurer strictly comply with the regulations on the submission of accounts and financial reports in order to avoid delays in the verification and conduct of other audit-related activities.

7. The invitation to bid on the procurement of bidded medicines totaling ₱19,999,992.36 was not posted in the PhilGEPS website and not evidenced by the duly signed requisition and issue slip to acknowledge receipt of medicines by the requisitioning unit contrary to Section 8 of the 2016 IRR of RA No. 9184 and Section 4 of P.D. 1445. **(Observation No. 10)**

We recommended that the Municipal Mayor require the: (a) BAC officials to religiously post all bid opportunities in the PhilGEPS website; (b) Municipal Accountant to ensure the completeness of supporting documents attached to the disbursement vouchers before allowing payment of claims thereof; and (c) Acting General Servicer Officer to maintain a centralized storage area and render necessary reports of issuances of medicines duly supported with RIS.

8. Various procurement amounting to ₱38,206,606.52 which were not included in the Annual Procurement Plan and not posted in the PhilGEPS were improperly charged against the 20% Development Fund consisting of projects which were not investment or capital expenditures contrary to Sections 7 and 8 of R.A. 9184 and Section 2.3 of DILG and DBM Joint Memorandum Circular No. 2011-1 dated April 13, 2011. **(Observation No. 11)**

We recommended that the Municipal Mayor require the (a) Municipal Budget Officer and Municipal Accountant to desist from charging improper expenditures against the 20% development fund and that projects charged should partake of the nature of investment or capital expenditures; (b) the Acting General Service Officer to ensure that no procurement shall be undertaken unless it is in accordance with the approved APP; and (c) Bids and Award Committee post all projects to be bid/awarded in the PhilGEPS website in accordance with the pertinent provisions in the 2016 IRR of RA No.9184.

9. The Municipality appropriated the amount of ₱29,017,756.10 for the GAD Fund representing 5 % of the total budget, of which the amount of ₱25,899,031.85 was utilized. However, expenditures included unrelated or improper charges to the Fund amounting to ₱8,326,944.25 thus, the GAD objectives were not attained and the intended recipients were not fully benefited from the program contrary to R.A. No. 9710. **(Observation No. 12)**

We recommended that the Municipal Mayor (a) require the Municipal Accountant to make charges against the GAD Fund to only PPAs that are relevant and will address the identified gender issues and their causes;(b) ensure that the GAD PPAs respond to the identified gender issues and concerns and that GAD mandates are implemented; (c) conduct gender analysis using the prescribed tools to ensure that PPAs are gender responsive to address the prevailing and recurring issues and concerns arising from the unequal status of women and men stakeholders, clients and constituents; and (d) monitor the implementation of the GAD PPAs and prepare the AR in the prescribed format.

10. Monthly Reports of Official Travels and Fuel Consumption were not submitted to the Auditor for audit and verification purposes, as prescribed by Section 361, Volume I of the GAAM, thus the reasonableness of fuel and lubricants expenses in the amount of ₱8,392,668.08 could not be effectively established. **(Observation No. 13)**

We recommended that Management (a) require all users of Motor Vehicles to prepare and maintain the complete files of properly accomplished and duly approved Driver's Trip Tickets pursuant to Section 361, Volume I of the GAAM to effectively control and monitor the use of Motor Vehicles and (b) submit to the Office of the Auditor the required periodic reports of Monthly Report of Official Travels and Monthly Report of Fuel Consumption for the timely evaluation of the reasonableness of the utilization of motor vehicles and fuel consumption.

11. There was no declaration of a state of calamity in the Municipality during the Habagat in August 2016 because of lack of damage assessment and needs analysis which deprived the disaster victims of the necessary immediate response thereto in order to save lives and property contrary to Sections 16 and 17 of R.A. No. 10121. **(Observation No. 14)**

We recommended that the MDRRMO and the LDRRM Council take the necessary and timely recommendation to the SB for the declaration of a state of calamity if warranted by the prevailing conditions while providing immediate response to disaster victims. In case there is a declaration of a state of calamity by the SB, the corresponding lifting under appropriate circumstances thereafter, shall also be issued.

12. The updated, validated lists/victims' profiles indicating the names and other important personal details of the victims per affected barangays were not available in the planning phase of procurement for relief goods resulting in the inadequate procurement planning for disaster preparedness contrary to COA Memorandum No. 2014-009 dated August 28, 2014. **(Observation No. 15)**

We recommended that the MSWDO conduct actual validation of the families and individuals in the affected barangays to come up with the victims' profiles containing updated and realistic data to become the basis in next year's planning activities to ensure adequate and appropriate procurement of relief goods on a timely basis to properly address the needs of disaster victims.

13. Donations in-kind were not properly acknowledged by the Municipality due to lack of information and coordination among concerned offices such as the MWSDO and the Municipal Treasurer which may result in improper monitoring and inventory of relief goods contrary to COA Circular No. 2014-002 dated April 15, 2014. **(Observation No. 16)**

We recommended that the concerned offices namely the MSWDO and the MDRRMO immediately inform the Municipal Treasurer or his authorized representative on the existence of donations in-kind to properly acknowledge the receipt thereof. Likewise, proper reporting, accounting, and recording of accountability for donated goods should be made by the respective offices.

14. The planned procurement of rescue vehicles and equipment as contained in the AIP for MDRRMF in CY 2016 was not undertaken during the year depriving the disaster victims of immediate response in times of calamities in order to prevent loss of lives or further damage to properties contrary to R.A. No. 10121 or the Disaster Risk Reduction and Management Act of 2010. **(Observation No. 17)**

We recommended that the Municipal Mayor require the MDRRMO and the BAC officials to undertake on a timely basis the immediate procurement of the necessary rescue equipment and vehicles in accordance with the approved AIP for the year.

15. Facilities and practices for solid waste management revealed deficiencies and violations of pertinent sections of RA 9003, or the Solid Waste Management Act due to the Municipality's lack of Materials Recovery Facility (MRF) and Transfer Station (TS) and the absence of a Municipal Environment and Natural Resources Officer to oversee, control and monitor the solid wastes for hauling and disposal to a final disposal facility resulting in considerable health hazards in the area and incurrence of huge expenses for Environment and Sanitary Services amounting to ₱46 million. **(Observation No. 18)**

We recommended that the Municipal Mayor (a) establish a materials recovery facility in every barangay to regulate wastes collection at source and reduce the volume of wastes at a manageable level thus, minimize the cost of tipping fees; (b) institute the appropriate sanction against all Private Persons including LGUs using the Open Dump Site for unauthorized dumping of wastes; (c) install control measures in regulating wastes collection at source to final disposal to ensure correctness of amounts paid for wastes disposal; (d) provide the necessary protective personal equipment to all personnel, whether LGU or hauler, who are directly involved in the operation of solid wastes management; (e) require the hauler to comply with the Minimum Requirements for Establishing and Operating Transfer Stations and; (f) designate a MENRO to oversee and monitor the Municipality's solid wastes management system and practices.

12. Two out of the thirteen projects funded under the Bottom-up-Budgeting (BuB) identified in the Local Poverty Reduction Action Plan (LPRAP) were not implemented as of year-end, while some projects funded from trust receipts showed deficiencies in the implementation thereof, defeating the ultimate objective of the program to improve the quality of life of the marginalized poor through poverty reduction programs and projects, contrary to the Departments of Budget and Management, Interior and Local Government, and Social Welfare and Development, and the National Anti-Poverty Commission Joint Memorandum Circular No.6 dated February 27, 2015. **(Observation No. 19)**

We recommended that the (a) BUB Focal Person of the respective programs of the LGU (i) strictly monitor the implementation of targeted projects and take note of any gap for future inputs; (ii) determine reasons for the non-receipt of the funds from the NGAs concerned in order to determine the next steps to be taken by the LGU in case the project is no longer viable; (b) MSWDO prepare the profiling of intended beneficiaries before the project proposal is finalized/submitted for approval of the LCE; and ; (c) Human Resources Management officer to augment personnel in the MSWDO in order to update the databank of residents/ intended beneficiaries per category or classification as to economic condition for easy identification of program beneficiaries.

13. The Municipality fully complied with RA No. 8291, the Government Service Insurance System Act, on the compulsory deduction of premium contributions and the prompt remittance thereof within the prescribed period. **(Observation No. 20)**

We recommended that the Municipal Accountant and the Municipal Treasurer continue to be compliant with GSIS regulations on deduction of premium contributions and remittance thereof within the prescribed period.

14. The Municipality was not able to fully comply with Revenue Memorandum Circular No. 23-2012 on the withholding of taxes and remittance thereof within the prescribed period, thus depriving the government of the timely receipt of funds to support the national budget. (*Observation No. 21*)

We recommended that the Municipal Mayor require the Municipal Treasurer to comply with the provisions of BIR regulations on the remittance of taxes within the prescribed period.

#### **E. Summary of Total Suspensions, Disallowances and Charges at year-end**

Suspensions, disallowances and charges as of December 31, 2016 stood at ₱0.00, ₱13,114,000.00 and ₱0.00, respectively.

#### **F. Status of Implementation of Prior Years' Unimplemented Audit Recommendations**

Of the 28 audit recommendations of the past year, three were fully implemented, 11 were partially implemented and 14 were not implemented by management. Those not fully implemented were accordingly reiterated in this audit report to draw attention for their implementation.