

## EXECUTIVE SUMMARY

### A. Introduction

The Municipality of Cabiao, Nueva Ecija is a first class municipality composed of 23 barangays. It has a total land area of 12,148 hectares and with an estimated current population of 80,080. As a local government unit, the municipal government has for its purpose, as mandated under the Code, of providing basic services to its constituents, accelerate its economic development, upgrade the quality of life of the people and be an effective partner in the attainment of the national goal.

Economic Enterprises being operated by the municipal government include a municipal market and slaughterhouse.

The audit covered the financial and compliance audit on the transactions and operations of the Municipality of Cabiao covering the period January 01 to December 2016. The objectives of the audit were to: (a) ascertain the level of assurance that may be placed on management 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 analysis of the agency's financial position for CYs 2016 and 2015 is shown below:

	<u>2016</u>	<u>2015</u>	<u>Inc./Dec.</u>
<b>Financial Position</b>			
Assets	₱ 212,686,222.79	₱ 162,822,606.43	₱ 49,863,616.36
Liabilities	131,995,215.81	114,426,550.83	17,568,664.98
Government Equity	80,691,006.98	48,396,055.60	32,294,951.38
<b>Financial Performance</b>			
Income	₱ 160,353,999.25	₱ 143,905,084.55	₱ 16,448,914.70
Expenses	131,259,622.31	124,468,055.62	6,791,566.69
Excess of Income Over Expenses	29,094,376.94	19,437,028.93	9,657,348.01
<b>Sources and Application of Funds</b>			
Appropriations	₱ 160,971,810.42	₱ 139,107,163.67	₱ 21,864,646.75
Allotments	160,971,810.42	139,107,163.67	21,864,646.75
Obligations	145,675,507.38	127,753,891.64	17,921,615.74
Balances	15,296,303.04	11,353,272.03	3,943,031.01

### **C. Independent Auditors Report**

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Cabiao for the year ended December 31, 2016 due to (a) existence of expense items totaling ₱232,898.92 which were erroneously recorded to the accounts of Property, Plant and Equipment (PPE); (b) incomplete details of information of some items under PPE accounts totaling ₱1,712,215.19; (c) non-provision of allowance for impairment losses for PPE accounts; (d) non-completion of conduct of physical inventory as required by Section 156 of COA Circular No. 92-386 dated October 20, 1992; and (e) presence of abnormal balances of accounts Due to Pag-IBIG and Due to PhilHealth totaling ₱67,316.70.

For the exceptions cited above, we recommended that the Municipal Mayor require the (a) Municipal Accountant to (i) effect the necessary adjusting entries for expense items totaling ₱232,898.92 which were included in the PPE account balance; (ii) reconcile and verify based on the available records such as Check Disbursement Journals/Report of Check Issued the nature of transactions of ₱1,712,215.19 which have no complete details of information; and (iii) provide an allowance for impairment losses for PPE in compliance with PPSAS No. 17; (b) ICO-Municipal Treasurer regularly conduct the annual inventory count for all property, plant and equipment at year-end and submit the RPCPPE as required by COA Circular No. 92-386 dated October 20, 1992; and (c) Municipal Accountant investigate, analyze and reconcile records pertaining to incurrence of abnormal balances of Due to Pag-IBIG and Due to GSIS accounts to determine any errors that needs adjustment to reflect the correct balances of accounts.

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

Summarized below are the other significant observations noted during the year and the corresponding recommendations that are discussed in detail in Part II of this report. Management views and comments were incorporated in the report, where appropriate.

1. The rules governing the grant and utilization of cash advances were not strictly adhered to contrary to Section 89 of PD No. 1445 and COA Circular No. 97-002 dated February 10, 1997 which resulted in accumulation of unliquidated cash advances as of year-end to ₱1,836,381.89 hence, may understate the expense accounts or overstate the result of operations as the case maybe. (*Observation No. 3*)

We recommended that the Local Chief Executive require the Municipal Accountant to (a) stop the practice of granting new cash advances without the liquidation of previous ones; (b) require the concerned personnel to liquidate cash advances as soon as the purpose thereof had been accomplished; (c) send demand letters to require liquidation of the cash advances; (d) monitor timely submission of liquidation reports and completeness of supporting documents in accordance with COA Circular No. 2012-001 dated June 14, 2012; and (e) avail of the remedial measures provided for in Sections 7.0 and 8.0 regarding the write-off of dormant receivable accounts from former deceased elected officials.

2. The Municipality has not substantially complied with the provisions of Republic Act No. 9003 or the Ecological Solid Waste Management Act of 2000 as manifested by the (a) inoperative Material Recovery Facility (MRF) of the Municipality and its seven Barangays; (b) non-establishment of MRF for 16 Barangays of the Municipality; (c) failure to conduct separate collections schedules for different types of wastes; and (d) non-inclusion of representatives from the recycling and the manufacturing or packaging industry, thus the total protection of the environment and general welfare of the constituents in harmony with economic development may not be attained. (**Observation No. 4**)

We recommended that the Municipal Mayor (a) take appropriate action to expedite the construction of the new Material Recovery Facility (MRF) of the Municipality; (b) ensure that the existing MRF of the seven component Barangays become fully operational; (c) provide necessary support in enjoining the remaining 16 Barangays to establish their own MRF; (d) instruct the Municipal Engineer to prepare separate collection schedules for different types of wastes to avoid mixed collection of wastes; and (e) include representatives from the recycling and the manufacturing or packaging industry to be the members of the Municipal Solid Waste Management Board (MSWMB).

3. Appropriation for Personal Services for CY 2016 has exceeded the 45% limitation by ₱13,735,767.38 contrary to the provision of Section 325(a) of the Local Government Code of 1991, thus depriving the budget for other programs/activities of the agency. (**Observation No. 5**)

We recommended that management observe the limit and comply with Section 325 of RA No. 7160. Likewise, the Municipal Mayor and OIC-Municipal Budget Office are advised to ensure that the filling-up of vacant position and hiring/promotion of personnel shall be suspended until the required 45/55 PS limitation is achieved.

4. The Municipality failed to return the unexpended portion of the received Priority Development Assistance Fund (PDAF) amounting to ₱500,000.00 denying the government with additional fund to finance its development program and in violation of Supreme Court Decision dated November 19, 2013 which declared such fund as unconstitutional. (**Observation No. 6**)

We recommended that the Municipal Accountant make the necessary adjustments to correct the error committed by the previous Municipal Accountant in recognizing the unexpended portion of the Priority Development Assistance Fund (PDAF) amounting to ₱500,000.00 as income for Calendar Year 2012.

We also advised the Local Chief Executive to direct the Municipal Accountant and the ICO-Municipal Treasurer to return the unutilized portion of the PDAF to the Bureau of Treasury the soonest time possible.

5. The salaries and allowances of permanent and non-permanent employees totaling ₱7,480,024.15 covering the period November to December 2016 were paid even without

the approved Daily Time Records (DTRs) and Application for Leave as the case maybe, to support the employees' claims for services rendered during the pay period as required under Section 4 (6) of Presidential Decree No. 1445 thus, may result to disbursement of government funds for payment of services not rendered and/or overpayment of benefits. **(Observation No. 7)**

We recommended that the Municipal Mayor instruct the (i) Municipal Accountant to (a) prepare the payrolls base on the actual services rendered by employees as shown on the approved Daily Time Records (DTRs) duly signed by both the employee and his/her supervisor; (b) sign payrolls if completely supported with approved DTRs and Application for Leave as the case maybe; and (c) re-compute the salaries and allowances that should have been paid to employees for the month of November-December 2016 using the corresponding DTRs of each employee to determine any discrepancy between the amount paid and should have been paid and deduct any overpayment from the succeeding payroll or leave credits.; and (ii) OIC-Municipal Human Resources and Management Office (a) ensure the timely submission of approved DTRs thru the Electronic Data Processing (EDP) Office under Mayor's Office and Application of Leave of employees to the Accounting Office; and (b) forward to Accounting Office the validated DTRs together with the approved Application for Leave as the case maybe of all the employees to be used as basis of the Accounting Office in the preparation of the payroll.

6. Disbursement totaling ₱499,000.00 funded out of the appropriation from Instructional Materials under Special Education Fund were given to 499 DepEd school teachers of the Municipality in the form of cash assistance amounting to ₱1,000.00 per teacher, instead of conducting procurement/purchase of teaching/instructional materials as required under Section 1 (g) of Republic Act No. 5447, Section 272 of Republic Act No. 7160 also known as the Local Government Code of 1991 and DepEd-DBM-DILG Joint Circular Nos. 01, s. 1998 dated April 14, 1998 and No. 01-A dated March 14, 2000 hence, the objective/purpose of the fund may not be fully attained. **(Observation No. 8)**

We recommended that the Municipal Mayor instruct the (a) Municipal School Board to identify the needed teachings/instructional materials of the DepEd school teachers to facilitate the procurement/acquisition thereof; (b) OIC-Municipal Budget Office ensure that budget items under SEF funds are within the priority disbursements enumerated in Republic Act No. 5447, Section 272 of Republic Act No. 7160 also known as the Local Government Code of 1991 and DepEd-DBM-DILG Joint Circular Nos. 01, s. 1998 dated April 14, 1998 and No. 01-A dated March 14, 2000; and (c) Municipal Accountant conduct proper review of supporting documents to ensure the validity and legality of the claims before certifying Box A of the disbursement vouchers.

7. Special Education Fund (SEF) totaling to ₱1,214,851.30 as of December 31, 2016 was utilized for purposes other than those authorized under Section 1 of R.A. No. 5447, Sections 100 and 272 of R.A. No. 7160, DepEd-DBM-DILG Joint Circular Nos. 01, s. 1998 dated April 14, 1998 and No. 01-A dated March 14, 2000, respectively, thereby depleting the SEF by that amount supposedly to be used for authorized priority programs, projects and activities only. **(Observation No. 9)**

We recommended that the Local Chief Executive instruct: (i) the Members of the Municipal Local School Board to prepare and cause the approval of the annual School Board Budget for SEF by prioritizing programs, projects and activities as stipulated in Section 1 of R.A. No. 5447, Sections 100 and 272 of R.A. No. 7160, DepEd-DBM-DILG Joint Circular Nos. 01, s. 1998 dated April 14, 1998, and No. 01-A, March 14, 2000; and (ii) the Municipal Budget Officer and Municipal Accountant to stop the practice of utilizing the fund for payment of MOOE of the DepEd Office and other expenses not related to or included in the list of prioritized expenses chargeable against SEF.

8. Taxes withheld by the Municipality in CY 2016 from the compensation of employees and procurement of goods and services were not remitted intact and within the reglementary period contrary to Section 6 of Revenue Regulation No. 10-93 and Republic Act No. 8424 otherwise known as the Tax Reform Act, thus depriving the government of the immediate use of the fund for its intended priority projects/programs/activities. **(Observation No. 10)**

We recommended that the Municipal Mayor require the (i) Municipal Accountant and ICO-Municipal Treasurer to remit all the taxes withheld within ten (10) days following the end of the month in compliance to Section 6 of Revenue Regulation No. 10-93 to avoid sanctions as stated in Section 272 of Republic Act No. 8424 otherwise known as the Tax Reform Act; and (ii) Municipal Accountant to (a) cause the preparation of the Disbursement Voucher for taxes withheld but not yet remitted to the BIR as of December 31, 2016; and (b) trace any unrecorded or erroneous entry caused by the abnormal balance of Due to BIR account of ₱1,576.24 under Trust Fund account.

9. The Property, Plant and Equipment of the Municipality except for the two motor vehicles were not insured against any insurable risk with the General Insurance Fund (GIF) of the Government Service Insurance System (GSIS) due to the failure of the ICO-Municipal Treasurer to render annual physical inventory report of all the properties of the agency, inconsistent with the requirement of Republic Act No. 656 also known as the Property Insurance Law, as amended by Presidential Decree No. 245 dated July 13, 1973, hence exposing the agency to non-indemnification or non-compensation in case of damage to or loss of properties due to fire, earthquake, storm, or other casualty. **(Observation No. 11)**

We recommended that the Municipal Mayor require the ICO-Municipal Treasurer to (a) submit a Report of Physical Count for Property, Plant and Equipment for all the assets and properties of the Municipality; and (b) ensure that all insurable assets and properties be insured against any insurable risk with the GIF of the GSIS in compliance with RA No. 656 otherwise known as the Property Insurance Law, as amended.

10. The Municipality incurred expenses totaling ₱5,000.00 in payment for membership dues of the league/association of appointive officials contrary to Department of the Interior and Local Government (DILG) Opinion No. 99 dated July 3, 2002, thus, rendering the transaction as irregular expenditure since the said league/association is not among the government organizations recognized by the DILG. **(Observation No. 16)**

We recommended that the Municipal Mayor instruct the Municipal Accountant to stop the practice of charging payment of membership dues of league/association of appointive officials against funds of the Municipality in compliance with Department of the Interior and Local Government (DILG) Opinion No. 99 dated July 3, 2002.

**E. Summary of Suspensions, Disallowances and Charges at Year-End**

As of December 31, 2016, the total audit suspensions, disallowances and charges found in the audit of various transactions of the Municipality of Cabiao, including settlements are shown below:

	Beginning Balance December 31, 2015	This period (January 01 to December 31, 2016)		Ending Balance December 31, 2016
		NS/ND/NC	NSSDC	
Notice of Suspension	₱ 36,613,948.80	₱ 66,000.00	₱ 66,000.00	₱ 36,613,948.80
Notice of Disallowance	90,000.00	66,000.00	90,000.00	66,000.00
Notice of Charge	-	-	-	-
<b>Total</b>	<b>₱ 36,703,948.80</b>	<b>₱ 132,000.00</b>	<b>₱ 156,000.00</b>	<b>₱ 36,679,948.80</b>

**F. Status of Implementation of Prior Years’ Unimplemented Audit Recommendations**

Monitoring and evaluation of the action taken by management on the recommendations contained in the prior years’ recommendations revealed that of the 26 recommendations, 10 were fully implemented, four were partially implemented while the remaining 12 were not implemented.