

EXECUTIVE SUMMARY

Introduction

The Municipality of Tagkawayan was organized by virtue of Executive Order No. 316 by President Manuel L. Quezon. It is a first class municipality located in the Fourth Congressional District of Quezon Province. It has an approximate area of 53,000 hectares comprising of forty-five (45) barangays.

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 of its own administrative, fiscal and development affairs with the national government's thrust for sustainable social and economic growth. The Municipality has three economic enterprises being maintained: Market, Slaughterhouse and Cemetery.

The following are the key officials of the Municipality:

Hon. Jose Jonas A. Frondoso	Municipal Mayor
Hon. Rebecca A. Masangkay	Municipal Vice Mayor
Hon. Ernesto O. Herras	Municipal Councilor
Hon. Carlo T. Eleazar	Municipal Councilor
Hon. Reynerio S. Recio	Municipal Councilor
Hon. Carlo Magno V. Tadique	Municipal Councilor
Hon. Ferdinand S. Valencia	Municipal Councilor
Hon. Imelda D. Mendoza	Municipal Councilor
Hon. George A. Lopamia	Municipal Councilor
Hon. Fernando M. Violante	Municipal Councilor
Hon. Merlita S. Benedicto	PPLB President

Included also as part of key personnel of the Municipality are Ms. Maria Judith D. Batalla, Municipal Accountant, and Ms. Anita A. Jagonoy, Municipal Treasurer.

During the year, the personnel complement of the Municipality totaled 250 which is composed of the following:

Elective Officials	11
Permanent Employees	118
Casual Employees	10
Job Order	92
Contractual	19
Total	<u>250</u>

Financial Highlights

For Calendar Year (CY) 2016, the Municipality generated a total income of ₱169,687,069 from local taxes, share from internal revenue collections, service and business income and other receipts. The current and continuing appropriations for the year amounted to ₱192,539,258 and ₱35,166,631, respectively, for a total of ₱277,705,889. The amount of ₱124,263,534 was expended under the current appropriations, while the amount of ₱18,882,978 was expended under the continuing appropriations.

The Municipality's financial condition and results of operations for CY 2016 with comparative figures for 2015 are summarized below and shown in detail in the attached audited financial statements:

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Total Assets	₱ 415,303,279	₱ 326,726,893	₱ 88,576,386
Total Liabilities	149,591,171	137,798,195	11,792,976
Equity	265,712,108	188,928,698	76,783,410
Total Income	169,687,069	158,171,520	11,515,549
Total Expenses	128,119,239	117,347,350	10,771,889

Scope of Audit

Financial and compliance audits were conducted on the accounts and operations of the Municipality for CY 2016. The audit was conducted to ascertain the propriety of financial transactions and compliance of the Municipality with prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements. The audit consisted of reviewing of operating procedures, interview of concerned government officials and employees, verification, reconciliation and analysis of accounts and such other procedures considered necessary.

Audit Opinion on the Financial Statements

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

1. The balance of the Property, Plant and Equipment (PPE) of ₱125,511,751.30 as of year-end is unreliable due to the absence of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and non-maintenance of property cards by the General Services Officer-Designate, contrary to Sections 119 and 124 of the Manual on New Government Accounting System (MNGAS), Volume I. Moreover, Other Property, Plant and Equipment account totaling ₱5,462,499.20 which consists of fully depreciated assets and was previously recorded in the Other Assets account

was not yet transferred to its corresponding PPE account, thus the account and valuation of PPE were not properly reflected.

2. The balance of Land account of ₱25,280,795.17 in the Statement of Financial Position as of December 31, 2016 could not be relied upon due to non-recording of three (3) parcels of titled land with market value totaling ₱872,200.00 in the books of account, contrary to Paragraph 27 of Philippine Public Sector Accounting Standards (PPSAS) 17 and inclusion of 16 titled land but the Municipality has no copy of the titles with market value of ₱11,922,870.56. Moreover, ownership over the 32 parcels of land was not safeguarded because of the failure to secure owner's copy of titles for the 16 titled parcels of land from the Registry of Deeds and failure to facilitate the titling of the 16 untitled parcels, contrary to Section 148 of Commission on Audit Circular (COA) No. 92-386.
3. The balance of RPT and SET Receivables totaling ₱77,394,020.90 could not be relied upon because: a) the amount set up for these receivables from 2002 to 2010 were only based on Assessment Rolls of the Municipal Assessor's Office; b) it was not supported with a schedule of taxpayers from whom the amount will be collected; and c) it did not tally with the List of Real Property Delinquent Taxpayers from the Municipal Treasurer's Office with a total amount of ₱42,818,261.44, contrary to Section 20 of the MNGAS, Volume I and Section 111 of Presidential Decree (PD) No. 1445. Moreover, failure of the Municipality to fully exercise the statutory remedies available in Sections 174, 256, 257 and 269 of RA No. 7160 to enforce collection of delinquent accounts resulted in the accumulation of RPT and SET delinquencies to ₱77,394,020.90 as of December 31, 2016.
4. Cash advance (CA) voucher of the incumbent Municipal Mayor for Confidential Fund (CF) of ₱157,500.00 was not submitted for post audit to the Audit Team and the liquidation thereof to the Intelligence and Confidential Fund Audit Unit (ICFAU), and the CAs of the former Municipal Mayor for CF totaling ₱150,000.00 were not submitted to ICFAU as of year-end, contrary to Sections 6.1.8.4, and 6.2.2 of the COA-DBM-DILG-GCG and DNF Joint Circular No. 2015-01, thus resulted in overstatement of assets and understatement of related expenses. Moreover, all cash advances for CF of the incumbent Municipal Mayor for CY 2016 were recorded under the Due from Officers and Employees account instead of Advances to Special Disbursing Officers account, contrary to COA Circular No. 2015-009, thus resulted in the overstatement of the former and understatement of the latter by the unliquidated amount of ₱157,500.00 at year-end.
5. Causes or reasons for changes between the original and final budget and for material differences between the final budget and actual amounts were not disclosed on the face of the Statement of Comparison of Budget and Actual Amounts (SCBAA) or in the Notes to Financial Statements, contrary to PPSAS 24, thereby denying the users of the financial statements of the chance to identify these variances and to determine whether the Municipality had operated within its approved budgets for which it is held publicly accountable.

Significant Observations and Recommendations

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

- 1.1 instruct the Inventory Committee to conduct and complete the physical count of the Municipality's property and submit the RPCPPE to the Audit Team.
- 1.2 instruct the Inventory Committee to identify the condition of properties whether serviceable or unserviceable and submit the Inventory and Inspection Report of Unserviceable Property (IIRUP) to the Audit Team.
- 1.3 require the GSO- Designate to prepare and maintain complete and updated property cards and reconcile the same with the PPELC of the Accounting Office.
- 1.4 require the Municipal Accountant to transfer the Other PPE account totaling ₱5,462,499.20 to its corresponding PPE account to reflect the proper account and valuation of PPE per category.
- 2.1 require the Municipal Treasurer to prepare and furnish the Municipal Accountant the list of taxpayers with delinquencies for the years 2002 to 2016 as of December 31, 2016.
- 2.2 require the Municipal Treasurer to prepare a statement of the reason or reasons for such non-collection or non-payment and submit to the Sanggunian concerned together with the list of taxpayers with delinquencies with a request for assistance in the enforcement of the remedies for collection provided in RA No. 7160 in order for the Municipality to have funds for other projects that will benefit its constituents.
- 2.3 require the Municipal Accountant to prepare the necessary adjustments of RPT/SET Receivables once the list of delinquent taxpayers is received from the Municipal Treasurer to reflect the correct balance of these receivable accounts, and to maintain subsidiary ledger for each taxpayer to facilitate monitoring and preparation of necessary reports/schedules.
- 3.1 create an appraisal committee/team to properly value the donated land as to their fair values at the time of acquisition.
- 3.2 require the Municipal Accountant to make the necessary adjustment in the books of account for fair presentation of the Land and Government Equity accounts in the Financial Statements and in compliance with Paragraph 27 of PPSAS 17.
- 3.3 require the GSO-Designate to provide the Municipal Accountant a copy of the title of three parcels of land with market value totaling ₱872,200.00 and to secure from the Registry of Deeds the owner's copy of titles for the 16 parcels of land.
- 3.4 require the Municipal Assessor and GSO-Designate to facilitate the titling of the 16 parcels of land in the name of the Municipality.

- 4.1 submit immediately to ICFAU the liquidation report for his cash advance for CF of ₱157,500.00.
- 4.2 send follow-up letter to the former Municipal Mayor requiring him to submit copy of the transmittal of liquidation reports of ₱150,000.00 duly received by the ICFAU.
- 4.3 instruct the Municipal Accountant to submit to the Audit Team the original copy of the disbursement voucher of his cash advance for CF of ₱157,500.00 with covering transmittal letter enumerating the supporting documents for post-audit;
- 4.4 instruct the Municipal Accountant to submit to the Audit Team the copy of the letter request of the representative of the former Municipal Mayor to ICFAU.
- 4.5 instruct the Municipal Accountant to make an adjustment by debiting the Advances to Special Disbursing Officer and crediting the Due from Officers and Employees of ₱157,500.00 to reflect the correct balances of these accounts.

comply with COA Circular No. 2015-0209 dated December 1, 2015.

- 5.1 require the Municipal Accountant to see to it that the Notes to Financial Statements include disclosures showing the changes in budgets and the causes or reasons for changes

The other significant audit observations and recommendations in the audit of the Municipality for CY 2016 are as follows:

1. Unserviceable properties reported in the IIRUP totaling ₱578,460.19 were not disposed as required under Section 79 of PD No. 1445 and Section 125, Chapter 7, Volume I of the MNGAS, thereby depriving the Municipality of the possible additional income that can be derived therefrom. Moreover, this IIRUP does not reconcile with the schedule of unserviceable properties submitted by the Accounting Office with a total amount of ₱2,161,493.06, hence affecting the reliability of the said two reports.

We reiterated our recommendation that the Municipal Mayor require the Municipal Accountant and GSO-Designate to reconcile their records to facilitate the preparation and submission of complete IIRUP and the proper disposal of unserviceable properties.

2. Due to LGUs of ₱483,118.97 allegedly pertaining to the shares of Barangays in the collections of RPT and Community Tax has been outstanding since 2004 due to absence of pertinent documents and records, contrary to Section 111 of PD No. 1445, thus the validity, existence and propriety of the balance of the account cannot be relied upon.

We recommended that the Municipal Mayor make a representation with the Sangguniang Bayan to pass a resolution which authorizes the transfer of Due to LGUs of ₱483,118.97 to the Unappropriated Surplus of the General Fund of the Municipality with the condition that appropriation shall be made available in the event that reliable documents and records are presented.

3. Unexpended balances of funds from various national agencies totaling ₱424,768.48 were not reverted to the National Treasury even though the purposes for which these were granted have already been completed, contrary to Section 99 of PD No. 1445 and EO No. 431, thereby, deprived the national government of the opportunity for the immediate use of this money for other vital projects and exposing them to possible misuse.

We reiterated our recommendation that the Municipal Mayor require the Municipal Treasurer to remit immediately to the National Treasury the unexpended balances from completed projects and other dormant accounts totaling ₱424,768.48.

4. Expenses totaling ₱246,219.14 for utilities, communications and wages of security guards were paid out of the Special Education Fund (SEF), contrary to pertinent laws, rules and regulations, thereby funds that should be allocated and utilized for priority projects/activities as mandated were depleted.

We recommended that the Local School Board Officials strictly observe the provisions of laws, rules and regulations mentioned above pertinent to the utilization of the SEF.

5. Collections were not deposited promptly and intact in violation of Item 33(a) of the Revised Cash Examination Manual dated July 9, 2013, thereby exposing government funds to risk of loss and/or possible misuse.

We recommended that the Municipal Mayor instruct the Municipal Treasurer to comply strictly with the above regulation by depositing all collections promptly and intact.

6. Checks totaling ₱412,425.80 remained outstanding for more than six (6) months, hence considered stale and non-negotiable.

We recommended that the Municipal Mayor require the Municipal Accountant to verify whether claims for the said stale checks are still valid and thereafter, make appropriate adjustment in the books for fair presentation of account balances.

7. The economical and efficient utilization of motor vehicles and reasonableness of fuel consumed amounting to ₱2,117,027.72 could not be determined because the Monthly Report of Official Travels and Fuel Consumption were not submitted to the Auditor for review and evaluation, contrary to COA Circular No. 77-61 dated September 26, 1977.

We recommended that the Municipal Mayor enjoin the employees or officials concerned to submit the Monthly Report of Official Travels and Monthly Report of Fuel Consumption in compliance with the provision of COA Circular No. 77-61, for Auditor's review and evaluation.

8. Monthly and quarterly financial reports such as Trial Balance, Statements of Financial Position, Financial Performance and Cash Flows, Bank Reconciliation Statement and Status of Appropriations Allotments and Obligations were not submitted regularly, contrary to Sections 70, 73 and 75 of the MNGAS and COA Circular No. 96-011, preventing the Auditor from conducting timely review of the reports.

We recommended the Municipal Mayor to require the Municipal Accountant and the Municipal Budget Officer to submit the monthly and quarterly financial statements/reports on time to facilitate timely audit action.

9. Payment for the furniture and air conditioning units totaling ₱309,200.00 was not supported with complete and proper documentation, contrary to Sections 4(6) and 39(3) of PD No. 1445 and COA Circular No. 2012-001 dated June 14, 2012, rendering the validity, legality and propriety of the disbursement doubtful.

We recommended that the Municipal Mayor require the Municipal Accountant/BAC Chairman/GSO-Designate to submit to the Audit Team the aforementioned documents for further verification.

Henceforth, the Municipal Accountant should be required to ensure that each disbursement is supported with complete and proper documentation.

10. The Bids and Awards Committee (BAC) failed to verify/establish the suppliers' legal, technical and financial capability in the procurement of goods through Negotiated Procurement costing ₱4,541,456.21 as required under Sections 53, 8.5.2, as amended by GPPB Resolution No. 12-2012, and 23.1, as amended by GPPB Resolution No. 21-2013, of the Revised Implementing Rules and Regulations (IRR) of RA No. 9184, thereby, exposing the Municipality to risk of non-delivery of goods/delivery of substandard quality, overpricing and illegal vendors.

We recommended that the Municipal Mayor require the BAC Chairman/ Municipal Accountant to submit to the Audit Team the abovementioned documentary requirements or the Certificate of Registration and Membership from PhilGEPS of the suppliers listed in Annex 13 for further verification.

Henceforth, the BAC Chairman should be enjoined to strictly comply with the above cited regulations of ensuring that all prospective suppliers will undergo legal, technical and financial capability check.

11. The Bids and Awards Committee was not able to obtain at least three (3) price quotations for procurements of spare parts for various vehicles and repair and replacement of computer hardware parts that underwent Shopping totaling

₱354,443.00, contrary to Section 52 of the Revised IRR of RA No. 9184, rendering the propriety, validity, and legality of the procurements doubtful.

We recommended that the Municipal Mayor require the BAC Chairman to ensure that three (3) price quotations are obtained for every procurement that will undergo Shopping.

12. The Approved Annual Procurement Plan (APP) of the Municipality was not in conformity with the format prescribed by the Government Procurement Policy Board (GPPB), contrary to Section 4 of GPPB Circular No. 07-2015, hence hindering the Audit Team to determine essential information regarding the Municipality's compliance with RA No. 9184.

We recommended that the Municipal Mayor require the BAC Chairman to:

- a. give justification regarding non-conformance of the Municipality's APP.
 - b. henceforth use the format prescribed by the GPPB containing the essential information as enumerated in the said Circular to ensure Municipality's strict compliance with RA No. 9184.
13. The list of all on-going government programs/projects/activities (PPAs) at the beginning of 2016 and those that are to be implemented during CY 2016 and its monthly monitoring report were not submitted to the Commission on Audit for review, evaluation and validation, contrary to Sections 2.1, 3.1 and 3.2 of COA Circular No. 2013-004.

We reiterated our recommendation that the Municipal Mayor require the head of the concerned implementing offices to submit the:

- a. list of all on-going government PPAs of the immediately preceding year (2015) and those that are to be implemented during the year (2016) under review; and
- b. monthly monitoring report in compliance with the above regulations for review, evaluation and validation of the Audit Team.

Henceforth, strict compliance with the above cited regulation is enjoined.

14. The Municipality failed to withhold the creditable income tax and final Value-Added Tax (VAT) on Government Money Payments (GMP) totaling ₱8,046.33 from direct payments to internet and landline and mobile telephone service providers totaling ₱166,457.38, contrary to Revenue Memorandum Order (RMO) No. 23-2014, thus funds from these sources for the National Government were not realized and could entail payment of penalties by the responsible officials for non-compliance therewith. Moreover, there were payments for these expenses totaling ₱184,652.39 not supported with statement of account or any proof of billing, contrary to Section 4(6) of PD No. 1445 and COA Circular No. 2012-001, rendering the legality, propriety, and validity of the disbursements questionable.

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

- a. deduct the creditable income tax and final VAT from payments to internet service and landline/mobile telephone service providers in support to the government's objective to timely generate income for its priority projects, and to avoid the sanctions that may be imposed for violating the RMO No. 23-2014;
 - b. submit the statement of account or any proof of billing of the disbursements to the Audit Team for further verification; and
 - c. ensure that all disbursement vouchers are supported with complete and proper documentation.
15. The Municipality's telecommunication expenses totaling ₱674,126.34 were not in accordance with the practices of sound management and fiscal administration due to: (a) use of cell cards totaling ₱502,600.00 without the means of determining whether these were used for official purpose; (b) reimbursement of said expenses totaling ₱148,217.17 where withholding of taxes could not be made to the detriment of the national government; and (c) payments of claims for three accounts each for two Municipal officials totaling ₱33,883.17 which constitute excessive expenditures, contrary to Section 4(8) of PD No. 1445, thereby casting doubt whether said services were used efficiently, economically and solely for public purposes.

We recommended that the Municipal Mayor:

- a. refrain from providing cell cards, instead provide landline and plan mobile telephone services to the heads of offices and elective officials obtained in accordance with existing laws, rules, and regulations, under the account of the Municipality that will give a more detailed breakdown of telephone expenses and facilitate the withholding of creditable income tax and final VAT on GMP from the service providers.
- b. formulate and implement internal policies on landline and mobile telephone utilization that will promote sound management and fiscal administration towards efficient and economic use of limited resources.

The above observations and recommendations contained in the Report were communicated to the Municipal Mayor and other key officials under various Audit Observations Memoranda and discussed in the exit conference conducted on June 16, 2017. Management's views and comments were considered in the report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the 25 prior year's audit recommendations embodied in the 2015 Annual Audit Report, ten were fully implemented, six were partially implemented and nine were not implemented by the Municipality.