

## EXECUTIVE SUMMARY

### A. Introduction

1. The Municipality of Tagana-an was created by Republic Act 194 on June 22, 1947. Prior to this creation, Tagana-an was one of the barrios of the Municipality of Placer. Pursuant to R.A. 7160, otherwise known as the Local Government Code of 1991, the local government unit within their respective territorial jurisdiction should ensure and support, among other things, the preservation and enrichment of culture, promote health and safety, enhance the right of the people to a balanced ecology, encourage and support the development of appropriate and self-reliant and scientific and technological capabilities, improve public morals, enhance economic prosperity and social justice, promote full employment among their residents, maintain peace and order, and preserve the comfort and convenience of their inhabitants. The Municipality of Tagana-an has a total land area of 7,731 hectares and municipal waters of 10,000 hectares. It has 14 barangays and nine of these are in the islands.
2. The audit was conducted in accordance with applicable legal and regulatory requirements, and the International Public Sector Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.
3. The audit covered the accounts and operations of the municipal government for Calendar Year 2020 and was aimed at ascertaining the propriety of financial transactions, management's compliance to prescribed rules and regulations and the fairness of the presentation of the financial statements. Value for money was also conducted on the selection and implementation of projects funded out of the Development Fund, Bayanihan Grant to Cities and Municipalities, Local Disaster Risk Reduction and Management Fund and Share from National Wealth to determine whether the objectives of the projects were attained in the most efficient, effective and economical manner.

### B. Financial Highlights

#### a) Financial Position and Results of Operations

Particulars	2020	2019	Increase/ (Decrease)
Assets	₱ 434,795,239.43	₱ 409,592,265.24	₱ 25,202,974.19
Liabilities	₱ 83,386,521.87	₱ 81,552,690.82	₱ 1,833,831.05
Government Equity	₱ 351,408,717.56	₱ 328,016,512.70	₱ 23,392,204.86
Revenues	₱ 141,080,763.35	₱ 117,761,209.90	₱ 23,319,553.45
Current Operating Expenses	₱ 104,596,102.11	₱ 111,703,596.36	₱ (7,107,494.25)
Net Income from Operation	₱ 36,484,661.24	₱ 6,057,613.54	₱ 30,427,047.70
Net of Transfers, Subsidies and Assistance from/to	₱ 0.00	₱ (5,000,000.00)	₱ 5,000,000.00
Surplus	₱ 36,484,661.24	₱ 1,057,613.54	₱ 35,427,047.70

b) Sources and Applications of Funds

Particulars	2020	2019	Increase/ (Decrease)
Appropriations	₱ 137,916,291.45	₱ 134,051,318.00	₱ 3,864,973.45
Allotment	₱ 137,916,291.45	₱ 134,051,318.00	₱ 3,864,973.45
Obligations	₱ 95,612,516.93	₱ 124,767,097.61	₱(29,154,580.68)

**C. Audit Opinion**

4. The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Tagana-an, Surigao del Norte for CY 2020 because of the following reasons:
  - i. The existence, condition and accountability of the Property, Plant and Equipment (PPE) accounts of the Municipal Government of Tagana-an amounting to ₱338.606 million as of year-end could not be ascertained due to non-conduct of one-time cleansing of PPE accounts contravened COA Circular No. 2020-006 and Sections 266 and 269 of GAM for LGUs, Volume I.
  - ii. The existence and completeness of the Inventory account balances could not be ascertained due to recording of procured relief goods and other supplies for the CoVID-19 outbreak by the Municipality of Tagana-an amounting to ₱13.686 million as outright expense inconsistent with Items IV.A.5 and IV.A.6 of COA Circular No. 2014-002, Sections 188 to 190 of GAM for LGUs, Volume I and Local Budget Circular No. 125.
  - iii. Inventories accounts classified as Inventory Held for Consumption, Work/Zoo Animals and Breeding Stocks amounting to ₱1.529 million , ₱1.250 million and ₱0.600 million, respectively, remained non-moving since year 2011 or more or less for 9 years, thus misstated the Asset and Expense accounts in the financial statements.
  - iv. The existence and proper presentation of the Advances to Officers and Employees (Account No. 1-03-05-040) totaling ₱5.187 million was doubtful due to inclusion of unliquidated amount for confidential fund and special purpose of ₱4.423 million and ₱250,000.00, respectively, thereby overstating the Advances to Officers and Employees and understating the Advances to Special Disbursing Officers accounts in the Statement of Financial Position.

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

5. For the above-mentioned audit observations which have caused the issuance of a qualified opinion, we recommended the following:
  - i. The Management temporarily relieve the Inventory Committee from their regular duties to complete the physical inventory in three (3) months or less, and to submit the approved Physical Inventory Plan to the COA Audit Team at least ten (10) calendar days before the scheduled start of inventory-taking activities; and ensure full implementation of “One-time cleansing of PPE accounts” as provided for in COA Circular No. 2020-006.
  - ii. The Management direct the Accounting Office to record procurement of supplies and relief goods in the appropriate Inventory account and recognized the Expense account when the goods are distributed. Require the Accounting Office, General Service Office and LDRRM Office to prepare the required records and reports as provided for in COA Circular No. 2014-002 and GAM for LGUs, Volume I to ensure the fair presentation of the financial statements.
  - iii. The Management direct the Inventory Committee to immediately conduct physical count on these balances and report the same in the Report of Physical Count of Inventories (RPCI) and Report of the Physical Count of the Biological Assets (RPCBA) and copy furnished the Audit Team and Accounting Office. Require the Municipal Accounting Office to reclassify the Work/Zoo Animals account to Breeding Stocks and to reconcile the RPCI and RPCBA with the accounting records and prepare adjustments, if appropriate.
  - iv. The Management direct the Municipal Accounting Office to immediately prepare journal vouchers to adjust the Advances to Officers and Employees account.
6. The other significant audit observations and recommendations are as follows:
  - i. The completeness and proper disclosure of the Trust Liabilities- Disaster Risk Reduction and Management Fund (Account No. 2-04-01-020) could not be ascertained due to a) non-maintenance of the separate depository accounts in the General Fund on LDRRMF share from regular sources and in the Trust Fund, and subsidiary ledgers for transfers of agency’s unutilized DRRMF to the Special Trust Fund (STF) by year of transfer and b) non-discussion in the Notes to the Financial Statements of the amount and details of the unexpended balance of LDRRMF.

Direct the Municipal Treasurer to open two (2) separate depository accounts for the Municipal DRRMF share from regular sources and the Special Trust Fund through Sangguniang Bayan resolution. Require the Municipal Accounting Office to maintain subsidiary ledgers for every year of transfer of unutilized balance of QRF and DRRMF-MOOE to Trust Fund books and disclose in the Notes to the Financial Statements the DRRMF in adherence to Sections 5.1.10, 5.1.12 and 5.1.16 of COA Circular No. 2012-002 dated September 12, 2012.

- ii. The Municipal Government of Tagana-an did not install adequate controls in the receipt and distribution of in-kind donations from local sources inconsistent with COA Circular No. 2014-002 as amended by COA Circular No. 2020-009, thus in-kind donations were not properly recorded and accounted for which limits information on transparency and accountability.

Strengthen the installation of an effective inventory management system to make sound analysis on the receipt, distribution and/ or utilization of in-kind donations by adhering COA Circular No. 2014-002 as amended by COA Circular No. 2020-009. Require the concerned offices for the receipt and distribution to submit immediately a Summary/List of Donations Received, Distributed and Balances and the Accounting Office and the Property Unit to record timely the in-kind donations in the books or in the registries.

- iii. Non-preparation and submission of Monthly Pre-Closing Trial Balance and Status of Appropriations, Allotments and Obligations of the Municipal Accountant and Budget Officer not in adherence to Sections 361 and 362 of the Government Accounting Manual for Local Government Units, Volume I which may cause the delayed submission of financial statements.

Require the Accounting Office to immediately submit the Monthly Pre-Closing Trial Balance and Trial Balance 2020 and the Budget Office on the Statement of Appropriations, Allotments and Obligation for the period January to September 2020. Likewise, adhere Sections 361 and 362 of GAM for LGUs, Volume I.

- iv. Fourteen (14) infrastructure projects, with an aggregate contract cost of ₱28.868 million, executed by the Municipality of Tagana-an lacks documentary requirements and necessary information on documents submitted not in consonance with COA Circular No. 2009-001 and certain provisions of RA 9184, thereby, the validity, efficiency and effective implementation thereof cannot be fully established.

Require the BAC to submit immediately the mentioned lacking necessary documents and ensure strict compliance with the prescribed procurement procedures in RA 9184 and COA Circular 2009-001.

- v. Unliquidated cash advances of officers and employees reached to ₱5.187 million , inclusive of Confidential Fund amounting to ₱4.423 million, due to non-liquidation within the prescribed period and granting of additional cash advance even the previous cash advance is not yet first settled inconsistent with Section 89 of PD 1445 and Section 5 of COA Circular No. 97-002.

Direct all concerned officials/employees to immediately settle the unliquidated cash advances by sending them demand letters. Instruct the Municipal Accountant to deduct from the salaries of the concerned officials/personnel with long outstanding cash advance if they still fail to liquidate and coordinate with the family of the deceased or perform all means for the collection of the outstanding amount.

- vi. The Municipality awarded and paid the goods procured, through emergency procurement, amounting to ₱5.271 million out of the Bayanihan Grant to Cities and Municipalities Fund (BGCMF) without adhering to the GPPB Circular No. 01-2020 dated April 6, 2020, thus, the most advantageous price to the government in the procurement process were not guaranteed.

Require the members of the BAC to equip and update themselves of the existing GPPB guidelines which are exempted from the provisions of RA No. 9184 in response to COVID-19 outbreak. Submit immediately the Omnibus Sworn Statement and any of those mentioned in Item 5 of GPPB Circular No. 01-2020.

- vii. The Municipality did not comply with the creation of the special account and the preparation and posting requirements of monthly reports on Fund Utilization and Status of Implementation of Programs, Projects and Activities of the Bayanihan Grant to Cities and Municipalities (BGCM) not in adherence to Item Nos. 3.7, 4.2 and 4.3 of the DBM Local Budget Circular No. 124, thus difficulty in vouching its utilization and making the information not readily accessible for public monitoring and critical decisions.

Ensure to create special account when the guidelines for every fund required to do so. Require the Local Finance Committee to submit immediately the lacking monthly Fund Utilization Report and Status of Implementation of PPAs and the succeeding reports be timely available to the public in adherence to the prescribed guidelines outlined in the LBC No. 125; and if opening of an official website is not possible, provide alternative actions to post online the reports for viewing purposes.

- viii. Only ₱6.771 million out of the ₱16.379 million or 41 per cent of the 20% Development Fund were unutilized by the Municipality of Tagana-an as of December 31, 2020 due to various implementation issues inconsistent with Section 109 of RA 7160, thus, non-optimization of its utilization and the desirable socio-economic development and environmental outcomes were not fully achieved.

Direct the Local Development Council and Municipal Engineer to properly plan and review the project proposals submitted and to ensure prioritization of funding on developmental projects that are readily doable and without unresolved issue/s to prevent delay implementation; and establish internal control measures by conducting timely coordination, regular monitoring and evaluation of every development project.

- ix. The utilization of the prior years' unexpended balances of LDRRMF was only ₱4.093 million or 37.14 per cent of ₱11.022 million due to non-identification of new expenditure items resulting to untimely delivery of the disaster response requirements of the COVID-19 emergency aside from among the other purposes sanctioned by the law as provided for in Item 2.5.6 of Local Budget Circular 124 and Section 6.5 of NDRRMC-DBM-DILG Joint Memorandum Circular No. 2013-1.

The MDRRM Office through MDRRM Council maximize the utilization of the Special Trust Fund and Continuing Appropriation by considering the priorities, needs and desired outcomes of the Municipality and its constituents through incorporation of the programs and projects in the annual and/ or investment plan; and intensify the monitoring and evaluation of its implementation to strengthen the Municipality's capacity for disaster risk reduction and management.

- x. Procurement of office equipment totaling ₱119,089.00 which was needed at or about the same time by the requisitioners was split into two Purchase Orders contrary to Section 54.1 of the Revised IRR of RA 9184 and COA Circular No. 76-41 dated July 30, 1976, thereby circumventing the requirements of competitive bidding and no assurance that most advantageous prevailing price was availed by the LGU.

Direct the General Service Office to consolidate the purchase request needed at or about the same time to avoid splitting of contracts/ purchase orders in compliance with Section 54.1 of the Revised IRR of RA 9184 and COA Circular No. 76-41 and the Bids and Awards Committee to strengthen the review of purchase requests before the conduct of procurement.

- xi. The Masustansyang Pagkain Para sa Batang Pilipino (MPPBP) program or National Feeding Program was not given enough priority as among of the programs/projects/ activities in the Special Education Fund not in compliance with RA 11037, thereby the problem of undernutrition among children of the Municipality was not addressed.

Assist the Department of Education (DepEd) in the efficient and effective implementation of the National Feeding Program's components and coverage of RA 11037 using a portion of the SEF in recognition of the relationship between food and nutrition and the capacity of the students to develop and learn.

- xii. The six (6) projects funded out of Share from National Wealth for calendar year 2020 totaling ₱13.75 million or 50.83 per cent were not implemented at year end, thus defeated the purpose of the fund as provided in Sections 289, 290, and 294 of RA 7160.

Expedite the implementation of the six (6) projects funded out of the Share from National Wealth to achieve socio-economic benefits at the earliest possible time.

- xiii. The appropriation for Gender and Development (GAD) programs/projects/activities (PPAs) was not supported with DILG-reviewed GAD Plan and Budget and its corresponding Accomplishment Report and the GAD Fund has no separate depository account in the General Fund contrary to Joint Circular No. 2013-1 of PCW-DILG-DBM-NEDA and Section 32 of Government Accounting Manual (GAM) for Local Government Units, Volume I.

Require the Municipal Social Welfare and Development Officer to submit immediately the reviewed Annual GAD Plan and Budget (GPB) and the corresponding Accomplishment Report (AR) for calendar year 2020 and the GAD Focal to submit to the Audit Team the succeeding GPB within five (5) working days from the receipt of the reviewed GPB and the AR within five (5) working days from the end of January of the preceding year. Direct the Municipal Treasurer to open a separate depository account for GAD Fund through Sangguniang Bayan resolution.

**E. Summary of Total Suspensions, Disallowances, and Charges**

7. As of December 31, 2020, balance of audit suspensions amounting to P8,641,330.82 and audit disallowances amounting to P6,588,120.20 remained unsettled contrary to Sections 5.4 and 7.1.1 of COA Circular No. 2009-06. Disallowances before the revised rules took effect valued at P189,373.52 also remained unsettled.

**F. Statement on the quantity/number of recommendations implemented, partially implemented and not implemented for the current year.**

8. Out of the 41 audit recommendations embodied in CY 2015 to 2019, five (5) were fully implemented, 13 were partially implemented and 23 not implemented. Some of the audit recommendations were restated in Part II of this report.