

EXECUTIVE SUMMARY

A. Introduction

Cabagan began as a barrio of San Pablo, the northernmost town of Isabela. It was separated from the mother town sometimes in 1761 by a Royal Decree of the Spanish Crown. The municipality is composed of 26 barangays, categorized as urban and rural. Nine barangays categorized as urban, 17 were categorized as rural of which 11 are situated on the eastern and are accessible via the national road and six riverside barangays.

B. Highlights

B.1. Projects, Programs and Activities Completed in 2019

The following projects, programs and activities were completed in 2019:

Projects, Programs and Activities	Location	Total Cost Incurred
Concreting of Local Access Road	Cansan, Cabagan, Isabela	5,789,307.20
Upgrading of Local Access Road	Tallag and Cansan, Cabagan, Isabela	10,678,663.18
Concreting of Barangay Road	ISU Area, Cubag, and Magassi, Cabagan, Isabela	4,365,857.32
Concreting of Municipal Road	Catabayungan, Cabagan, Isabela	1,455,733.76
Road Widening/Opening with gravelling of Farm to Market Road	Garita, San Antonio, Tallag, Anao-Ngarag-Cubag, Cabagan, Isabela	35,860,543.74
Expansion of Evacuation Center Phase II	Cansan, Cabagan, Isabela	3,090,175.41
Installation of Aerial Lights	Cabagan, Isabela	6,313,706.28
Concreting of Farm to Market Roads	Luquilu, Masipi West, and Garita, Cabagan, Isabela	3,105,032.18
Upgrading of Old Municipal Building	Centro, Cabagan, Isabela	970,817.40
Construction of Barn/Cow Shed for 100 heads	San Antonio, Cabagan, Isabela	3,492,009.11
Construction of 2-stoey stockroom for LGU supplies and materials	Centro, Cabagan, Isabela	970,121.28
Total		76,091,966.86

B.2. Financial Information

The highlights of the financial position, financial performance, appropriations, allotments and obligations of the Municipality of Cabagan, Isabela for the year ended December 31, 2019, with comparative figures for CY 2018 are as follows:

Accounts	2019	2018	Increase (Decrease)
Financial Position			
Total Assets	466,305,408.20	396,424,917.53	69,880,490.67
Total Liabilities	247,175,521.08	243,594,172.30	3,581,348.78
Total Government Equity	219,129,887.12	152,830,745.23	66,299,141.89
Financial Performance			
Total Revenue	210,109,972.01	187,996,500.67	22,113,471.34
Total Expenses	187,198,211.95	162,581,248.11	24,616,963.84
Appropriations, Allotments and Obligations			
Appropriations – Current	206,493,081.00	182,855,742.00	23,637,339.00
Appropriations–Continuing	2,493,712.51	0.00	2,493,712.51
Allotments – Current	206,493,081.00	159,190,462.49	47,302,618.51
Allotments – Continuing	2,493,712.51	0.00	2,493,712.51
Obligations – Current	182,916,908.96	159,190,462.49	23,726,446.47
Obligations – Continuing	2,493,712.51	0.00	2,493,712.51

Comparative Statement of fund transfer to and from LGUs, NGAs, and NGOs/POs are as follows:

Accounts	2019	2018	Increase (Decrease)
Fund transferred to Other Agencies			
Due from LGUs	8,844.75	8,844.75	0.00
Due from NGAs	0.00	0.00	0.00
Due from NGOs/POs	0.00	0.00	0.00
TOTAL	8,844.75	8,844.75	0.00
Fund received from Other Agencies			
Due to LGUs	76,943,431.81	105,460,739.61	(28,517,307.80)
Due to NGAs	13,179,059.90	16,917,425.92	(3,738,366.02)
Due to NGOs/POs	0.00	0.00	0.00
TOTAL	0.00	0.00	55,837,756.25

C. Scope of the Audit

A financial and compliance audit, including performance audit, was conducted on the accounts and operations of the Municipality of Cabagan, Isabela for the year 2019. The audit was aimed at ascertaining the fairness of presentation of the financial statements, propriety of disbursements, and adequacy of accounting records. The audit focused on a test basis, the review of operating procedures, interview with concerned municipal officials and employees, verification and analysis of accounts, and such other procedures considered necessary under the circumstances.

Consistent with an unnumbered COA-LGS Memorandum dated July 3, 2019, the audit focus and thrust areas for the Local Government Sector stated therein were prioritized for audit.

D. Auditor's Opinion on the Financial Statements

We rendered a Modified Opinion on the fairness of presentation of the financial statements due to the following:

1. Other Receivables amounting to P66,850.00 had been outstanding for more than 10 years in the books of LGU Cabagan, Isabela as of December 31, 2019, thus, affecting the fair presentation of accounts.; and
2. The account Due to LGU amounting to P76,547,137.85 as of December 31, 2019 was not supported with a subsidiary ledger or a listing of the creditors which is not in keeping with Section 10 of the New Government Accounting System for LGUs, hence, the reliability thereof could not be ascertained.

E. Summary of Significant Observations and Recommendations

For the exceptions mentioned above, we recommended that:

1. Our previous recommendation be implemented, that is if collection of the receivables may no longer be possible, the Municipal Mayor may request for authority from the Commission on Audit to write-off the same following the specific guidelines and procedures as prescribed under COA Circular No. 2016-005 in order that the affected accounts be presented fairly in the books of the Municipality.; and
2. Our previous recommendation be implemented, that is Management identify the creditor LGUs and set up a subsidiary ledger for the account Due to LGU amounting to P76,547,137.85 to establish the actual obligation of the LGU and present fairly the account in the books of the Municipality.

The other significant observations and recommendations are the following:

1. The payments of 15% mobilization fee amounting to P1,601,799.48 for the projects-Upgrading of Local Access Roads at Barangay Cansan and Tallag, Cabagan, Isabela were recognized as Other Payables instead of as Advances to Contractors which was not in keeping with COA Circular No. 2015-009 dated December 1, 2015, thus, the misstatement of the affected accounts in the books of the LGU.

We recommended that the Municipal Accountant recognize payments of mobilization fees to contractors as "Advances to Contractors" instead of as Other Payables. Accordingly, she should take up the necessary adjustments

for the payments amounting to P1,601,799.48 to present fairly the affected accounts in the books.;

2. Procurement of goods, equipment, gasoline and others amounting to P7,165,270.91 were not supported with complete documentation and complete/consistent information contrary to existing rules and regulations, thus, the validity and accuracy of the disbursements could not be relied upon.

We recommended that Management ensure that all procurements of the LGU be supported with complete documentation as prescribed. It is emphasized that completeness of documentation means not only the submission of the documents but also the completeness and consistency of the details thereof.

In this regard, the lacking and necessary explanatory documents for the procurement of goods, equipment, gasoline and others amounting to P7,165,270.91 be submitted for verification. Should the documents be not submitted or found not in order, the disbursement may be disallowed in audit.;

3. The Post-Qualification process on various infrastructure projects costing P26,643,672.72 of LGU Cabagan, Isabela was not in accord with the prescribed procedures under the Revised IRR of Republic Act No. 9184, hence, may not serve its real purpose of ensuring that the lowest calculated bidders were truly complying and responsive to the requirements and conditions for the projects.

We recommended that the Technical Working Group (TWG) of LGU Cabagan, Isabela conduct the post-qualification following the prescribed procedures to serve its purpose, thus, ensure that all projects are awarded to and undertaken by bidders/contractors which do not only offer the lowest bid but which are also found complying and responsive to all the pertinent requirements and conditions.;

4. Cash assistance amounting to P60,000.00 for the 2018 Year-End Christmas Party and Basketball Tournament of the Sangguniang Kabataan (SK) in five barangays were obligated only on December 28, 2018 and were paid in January 2019, hence, may no longer serve the intended purpose/s thereof.

Moreover, the payments of the cash assistance were recognized as Donations in January 2019 instead of as debit to the payable account, hence, the misstatement of the affected accounts in the books of the LGU.

We recommended that Management ensure that payments of cash assistance be made on time to serve the intended purposes thereof.

Also, the Municipal Accountant ensure that the obligations and payments of cash assistance as well as other transactions be taken up in the books correctly. In this regard, she should make the necessary adjusting/correcting entries for

the cash assistance amounting to P60,000.00 to present fairly the affected accounts in the books.;

5. The Local Disaster Risk Reduction & Management Plan (LDRRMP) for 2019 was not in accordance with Section 5.1.2 of COA Circular No. 2012-002 dated September 12, 2012, hence, the purpose of the fund may not be maximized and the audit of the utilization thereof may not be effective.

We recommended that Management prepare the Local Disaster Risk Reduction and Management Plan (LDRRMP) in accordance with the pertinent provisions of COA Circular No. 2012-002. Accordingly, the Quick Response Fund (QRF) should be 30% of the total budget, and the plan should include information on the list of projects and activities charged to the unexpended LDRRMF of previous years. This is to ensure that the purpose of the fund may be maximized and the audit of the utilization thereof may be effective.;

6. Financial assistance amounting to P135,000.00 for specified purposes charged against the Special Education Fund (SEF) were recognized as Donations and Other MOOE instead of as Due from NGAs which was not in keeping with COA Circular No. 2015-009 dated December 1, 2015, thus, the misstatement of the affected accounts in the books and no basis to demand for liquidation from the recipient agency.

Moreover, the financial assistance were issued only after the supposed activities had already been undertaken, hence, may no longer serve the intended purpose/s thereof.

We recommended that the Municipal Accountant take up funds granted to the Department of Education-Cabagan District Office or its authorized representatives for specified purposes as “Due from NGAs” instead of as direct expenses to present fairly the accounts in the books as well as to establish accountability and demand for liquidation. Moreover, we recommend that Management ensure that the fund transfers be made on time to serve the intended purposes thereof.;

7. The position of Engineer IV-SG 22 of the Municipality of Cabagan, Isabela, was not clearly and categorically described as the Municipal Government Assistant Department Head for purposes of entitlement to Representation and Transportation Allowance (RATA) as listed under Annex A of Local Budget Circular No. 103 dated May 15, 2013, hence, casting doubt on the entitlement of the holder of the position to RATA and the propriety of the appropriation for the purpose.

We recommended that Management heed to the advice of the Provincial Budget Officer to create the position of Municipal Government Assistant

Department Head-SG 22 under the Office of the Municipal Engineer. Once the position is created and approved by the local sanggunian, Engr. Cabauatan be appointed to the new position and the position Engineer IV be dissolved.

In this regard, not until the new position is created and not until Mr. Cabauatan is appointed to said position, the appropriation for the RATA of Engr. Cabauatan as Engineer IV is not valid and, thus, the corresponding disbursements made may be disallowed in audit.;

8. The Acting Municipal Budget Officer (MBO), Municipal Planning and Development Officer (MPDO), Municipal Treasurer and Municipal Accountant, Municipality of Cabagan, Isabela are related to the proprietors of some or two of the LGU's suppliers by consanguinity or affinity, hence, the risk of conflict of interest which may affect accountability.

Moreover, no disclosures of the said relationships or related parties and the related party transactions have been made in the Notes to Financial Statements which is not in accordance with the Philippine Public Sector Accounting Standards (PPSAS) No. 20, thus, may affect accountability and the understanding of the financial statements of the Municipality by the users/readers thereof.

We recommended that Management submit justification on the transactions made with the suppliers which proprietors are related by consanguinity or affinity with the LGU being the procuring entity.

Also, we recommended that the Municipal Accountant disclose information on related parties and related party transactions in the Notes to Financial Statements to strengthen accountability and to facilitate understanding of the financial statements of the Municipality by all readers/users thereof.

9. The position of Municipal Assessor (MA), Municipal Budget Officer (MBO), and Municipal General Services Officer (MGSO) are vacant and are currently taken, in concurrent capacity, by the Municipal Treasurer (MT), Municipal Civil Registrar (MCR), and Municipal Disaster Risk Reduction and Management Officer (MDRRMO), respectively. Considering that MA, MBO and MGSO are key positions and are crucial in the financial operations of the LGU, the current set-up may affect the flow of operations and the internal control system of the LGU.

We recommended that Management prioritize the filing-up of the positions of Municipal Assessor, Municipal Budget Officer, and Municipal General Services Officer to have personnel to perform the duties and responsibilities on a full-time capacity, thus, may facilitate the flow of operations and strengthen the internal control system of the LGU.;

12. The Municipal Treasurer performed multiple functions, i.e. being the Chairman of the Bids and Awards Committee, Head of the Inspection

Committee, and General Services Officer all at the same from January 1 to August 17, 2018 which was not in keeping with the pertinent provisions of Presidential Decree No. 1445, thus, an indication of weak internal control.

We recommended that Management submit the following for verification:

- Copy of the office orders creating the Inspection Committee of LGU Cabagan, Isabela in 2018 and 2019, if any; and
- A justification why Mr. Guingab was designated as BAC Chairman, Head of the Inspection Committee, and General Services Officer/Accepting Officer at the same time until August 2018.

Also, we recommended that, in the creation of office orders, Management may consider proper delineation of functions and avoid multiple functions. This is to ensure check and balance and proper accountability, thus, stronger internal control.;

13. Of the total funds available for disaster risk reduction and management in 2019, P20,482,268.07 or 90% were not utilized as of October 31, 2019, hence, the intended purposes of the corresponding programs, projects and activities were not realized.

We recommended that Management ensure that the LDRRM Plan and Budget of LGU Cabagan, Isabela be implemented/used to fully realize the intended purposes or benefits of the identified programs, projects and activities.;

14. The GAD Accomplishment Report of the Municipality of Cabagan, Isabela for CY 2019 were not in accordance to existing rules and regulations, thus, the economy, efficiency, and effectiveness of the PPAs could not be ascertained.

We recommended that Management ensure that the GAD Accomplishment Report format be submitted in accordance to the said JMC and the GAD plan and budget be implemented/used to fully realize the intended purpose/s of the identified programs, projects and activities.;

15. The accounts of the LGU in 2019 were not submitted to the Office of the Auditor within the period prescribed under existing rules and regulations, hence the delay in the post-audit of the transactions and the possible suspension or disallowance thereof including the possible imposition of administrative disciplinary sanctions.

We reiterated our recommendation that the Municipal Accountant ensure timely submission of accounts. Accordingly, she should cause the immediate submission of the unsubmitted accounts of the LGU for 2019, otherwise, the corresponding disbursements may be disallowed in audit. Also, the salaries of the officials concerned maybe withheld.;

The foregoing audit observations and recommendations are discussed in detail under Part II-Detailed Observations and Recommendations portion of this report.

F. 20% Development Fund

The Municipality of Cabagan, Isabela appropriated P45,339,957.20 or 24% of its Internal Revenue Allotment (IRA) for 2019 amounting to P185,681,081.00 for various development projects, programs and activities (PPAs).

The proposed projects, programs and activities (PPAs), except for the painting of tricycles, partake the nature of investment/capital expenditures as required under DBM-DILG Joint Memorandum Circular No. 2017-01 dated February 22, 2017, and these were appropriately included in the Annual Investment Plan (AIP) of the LGU. Also, copy of the Accomplishment Report for 2019 on the use of the 20% Development Fund was submitted to the Office of the Auditor.

G. Ecological Solid Waste Management

The Municipality of Cabagan, Isabela allocated, out of its 20% Development Fund, P1,103,495.60 for the improvement of Materials Recovery Facility (MRF).

Based on the Accomplishment Report for 2019, various MRF were repaired for the use of different schools in the Municipality. Also, the Sanitary Landfill located at Barangay Cansan, Cabagan, Isabela is under full operation.

H. Disaster Risk Reduction and Management Fund (LDRRMF)

The Municipality of Cabagan, Isabela allocated P10,325,589.30 or 5% of its annual budget amounting to P206,493,081.00 for CY 2019 for Disaster Risk Reduction and Management (DRRM). Also, the LGU submitted a copy of its DRRM Plan and Budget and Accomplishment Report for the year to the Office of the Auditor.

I. Gender and Development (GAD)

The Municipality of Cabagan, Isabela allocated P12,725,000.00 or 6% of its annual budget amounting to P206,493,081.00 for CY 2019 for Gender and Development (GAD). The GAD Plan and Budget shows the list of projects, programs and activities and was duly reviewed and endorsed by DILG. Also, copy of the GAD Accomplishment Report for the year was submitted to the Office of the Auditor.

J. Audit of Revenues

The Municipality of Cabagan, Isabela collected P22,498,700.28 or 51.90% of the estimated revenues from property taxes, fees and licenses, businesses and other sources for 2019. Also, the Municipality was able to submit to the Office of the Auditor an updated Revenue Code.

K. Remittance of Mandatory Contributions/Premiums to GSIS, HDMF and Philhealth

GSIS, Pag-ibig and Philhealth contributions and loan amortizations were appropriately deducted from the salaries of the officials and employees of LGU Cabagan, Isabela for the period January to December 2019. The deducted amounts were duly remitted to GSIS, HDMF and Philhealth, although some remittances were delayed.

H. Compliance with Tax Laws

Taxes were withheld from the salaries and wages of officials and employees and from payments to suppliers/contractors for procured goods and services. The withheld taxes from January to November 2019 were duly remitted to the Bureau of Internal Revenue as of December 31, 2019. The withheld taxes for December 2019 will be remitted in January 2020.

L. Summary of audit suspensions, disallowances and charges

Particulars	Balance as of January 1, 2019	Issued in 2019	Settled in 2019	Balance as of December 31, 2019
Suspensions	617,421.12	0.00	0.00	617,421.12
Disallowances	0.00	0.00	2,419,793.72	0.00
Charges	0.00		0.00	0.00
	617,421.12	0.00	2,417,793.72	617,421.12

M. Status of Implementation of Prior Years' Audit Recommendation

Out of the 19 audit recommendations in the CY 2018 Annual Audit Report including prior years, eight were implemented, four were partially implemented, and seven were not implemented.