

EXECUTIVE SUMMARY

Introduction

Municipality of Bay is a second class municipality in the Province of Laguna with a total land area of 4,160.76 hectares composed of 15 barangays. It is located at approximately 70 kilometers South of Manila.

Municipality of Bay was once the trading center of the Province of Laguna. Its location makes it accessible not only to the Municipalities of Laguna but also to Batangas, Rizal and even Quezon Province. It is bounded by Laguna de Bay and Municipality of Victoria to the east, Municipality of Calauan and Mount Makiling to the west and southwest; and Municipality of Los Baños to the north and northwest.

Organizational Structure

The organizational structure of the Municipality is as follows:

a. Key officials

Municipal Mayor	Hon. Jose O. Padrid
Vice-Mayor	Hon. Emmerson M. Ilagan
Members of the Sanggunian:	
	Hon. Romeo H. Batacan
	Hon. Charl R.Caldo
	Hon. Cesar D. Comia
	Hon. Amando K. Dimasuay
	Hon. Rommel B. Ilagan
	Hon. Reynaldo P. Martinez
	Hon. Dakila Jose Alberto S. Quirino
	Hon. Chester Myron N. Ramos
	Hon. John Paul C. Villegas (ABC)
Municipal Accountant	Ms. Charito D. Revilla
Municipal Treasurer	Ms. May D. Facunla
Municipal Budget Officer	Ms. Helen C. Magsino

No. of Personnel Complement

Permanent	93
Contractual	3
Casual	42
Elective Officials	12
Coterminous	3
Job Orders	<u>223</u>
Total	<u>376</u>

Audit Objectives

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Scope of Audit

Financial and compliance audit was conducted on the accounts and operations of the Municipality of Bay for the year ended December 31, 2019. The audit was conducted to ascertain the propriety of financial transactions and compliance of the Municipality with prescribed laws, 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.

Financial Highlights

For the Calendar Year (CY) 2019, the Municipality generated a total income of P202,349,028.65 from local taxes, service and business income, shares from internal revenue allotment and national wealth and other non-operating income which is slightly higher by six percent over last year's total of P189,325,479.39. It has a total appropriation of P190,401,295.00. Of the total appropriation, P162,018,815.87 was obligated, leaving an unobligated balance of P28,382,479.13.

The Municipality's total assets, liabilities, government equity, income and expenses for CY 2019 compared with that of the preceding year are as follows:

	2019	2018	Increase/ (Decrease)
Assets	P 468,394,127.21	P 388,972,408.24	P 79,421,718.97
Liabilities	114,175,257.47	125,308,538.24	(11,133,280.77)
Equity	354,218,869.74	263,663,870.00	90,554,999.74
			Increase/ (Decrease)
Revenue	P 202,349,028.65	P 189,325,479.39	P 13,023,549.26
Expenses			
Personal Services	72,867,206.42	60,020,763.59	12,846,442.83
Maintenance and Other			
Operating Expenses	58,384,388.44	50,039,512.21	8,344,876.23
Financial Expenses	2,131,027.13	2,131,512.94	(485.81)
Non-Cash Expenses	13,633,444.87	13,246,178.59	387,266.28
Transfer, Assistance and			
Subsidy To	(4,860,790.01)	(2,613,056.36)	(2,247,733.65)
Surplus/(Deficit)	50,472,171.78	61,274,455.70	(10,802,283.92)

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 of Bay due to the following:

1. Discrepancy of ₱77,738,630.31 between the Accounting records and inventory report as of December 31, 2019 rendered the Property, Plant and Equipment (PPE) account balance reported at carrying amount of ₱224,963,161.46 unreliable due to a) inability of the Municipal Accounting Office and the General Services Office (GSO) to undertake periodic reconciliation of records; b) inclusion of semi-expendable assets amounting to ₱381,368.50; and c) minor repairs of various infrastructure projects totaling ₱52,830.22 capitalized as PPE instead of outright expense.
2. The Real Property Tax Receivables and Special Education Tax Receivables reported at ₱17,315,048.85 and ₱13,499,710.54, respectively, as of December 31, 2019 has a discrepancy of ₱3,815,338.31, thus casting doubt on the reliability of the accounts.
3. The accuracy of the reciprocal account balances of Due to/from LGUs account is doubtful because Due from LGUs account has no balance in the books of the Municipality, whereas ₱1,915,350.11 appeared in the Due to LGUs balance of the Province. Moreover, there was a difference of ₱89,157.04 between the balances of the accounts Due to LGUs maintained by the Municipality and Due from LGUs maintained by the Province amounting to ₱532,869.03 and ₱443,711.97, respectively, due to inability of the Accounting Office to reconcile the balances with that of the Province.
4. Current portion of the loans payable of the Municipality totaling ₱7,757,033.92 was presented as non-current liabilities in the Statement of Financial Position, thus resulting in the overstatement of the account "Loans Payable – Domestic" classified under "Financial Liabilities-Non-Current" and understatement of the account "Loans Payable – Domestic" classified under "Financial Liabilities-Current" both by ₱7,757,033.92.
5. Donated 40 units of E-trikes without cost were not yet recognized in the books due to lack of Property Transfer Report. Moreover, these motor vehicles for public utility were not yet deployed because of misperception on the transfer of ownership, hence were remained unutilized for seven months as of December 31, 2019 and kept in the motor pool exposing them to various elements.

Significant Audit Observations and Recommendations

For the exceptions cited above, we recommended that the Municipal Mayor direct the:

- a. Municipal Accounting Office and the GSO to conduct periodic reconciliation of their records and make the necessary adjustments on both records, if warranted, to reflect the correct balance of the PPE accounts;

- b. Municipal Accountant to draw a Journal Entry Voucher (JEV) to drop the semi-expendable assets from the PPE accounts and ensure that those items are covered by Inventory Custodian Slip (ICS);
- c. Municipal Accountant to reclassify minor repairs amounting to ₱52,830.22 erroneously capitalized in the books as PPE instead of outright expense;
- d. GSO to prepare an inventory report using the prescribed format separating the PPE accounts with semi-expendable assets and submit to the Office of the Auditor not later than January 31 of each year;
- e. Municipal Accountant to reconcile the difference between the accounts Real Property Tax Receivables and Special Education Tax Receivables and make the necessary adjustments, furnishing the Office of the Auditor with a copy of the JEV taking into account the adjustments made;
- f. Municipal Accountant to coordinate with the Provincial Accountant to address the difference in the reciprocal accounts Due to/from LGUs and make the necessary adjustments to ensure that the balances of the accounts are in agreement;
- g. Municipal Accountant to correctly classify the outstanding balance of the long-term loans payable by presenting the portion of loans due for settlement within twelve months in the amount of ₱7,757,033.92 as part of the current liabilities and the remaining balance of ₱17,665,176.23 which is due for settlement beyond one year as non-current liabilities in the Statement of Financial Position;
- h. Municipal Administrator to make representation with the Department of Energy officials to resolve the issues on the transfer of ownership of E-trikes;
- i. Municipal Accountant to draw JEV together with the Property Transfer Report and provide copies to the Department of Energy, in case important matters were resolve and amenable to the supposed to be recipients; and
- j. If the transfer of ownership cannot be possible, return the units to the Department of Energy to avoid deterioration within the vicinity of the Municipality.

Other significant observations and recommendations are the following:

1. Unexpended balance of Local Risk Reduction and Management Fund (LDRRMF) for more than five years amounting to ₱2,228,719.35 or 7.82 per cent of the total amount of ₱28,496,356.56 remained under special trust fund, contrary to COA Circular No. 2012-002, thus depriving the constituents of other social services that can be received from such fund. Moreover, the monthly Report on Sources and Utilization of LDRRMF was not submitted to the Office of the Auditor, thus affecting the prompt evaluation of the LDRRMF plan, accomplishments and utilization.

We recommended that the Municipal Mayor require the Municipal Accountant to make the necessary adjustments, furnishing the Office of the Auditor with a copy of

the JEV reverting back the unexpended balance of DRRMF for CY 2013 to the unappropriated surplus of the General Fund.

We also recommended for the Sangguniang Bayan to pass a resolution appropriating the unexpended balance of DRRMF for CY 2013 for specific programs, projects and activities relating to other social services.

Further, we recommended that the LDRRMO, in coordination with the Municipal Accounting Office, submit to the Audit Team the monthly Report on the Sources and Utilization of LDRRMF on or before the 15th day after the end of each month in compliance with COA Circular No. 2012-002.

2. Nineteen parcels of land valued at ₱32,624,810.00 were not covered with Certificate of Titles in the name of Municipal Government of Bay due to fund constraint, contrary to Section 39(2) of Presidential Decree (PD) No. 1445, Article 47(c) of the Implementing Rules and Regulations (IRR) of the Republic Act (RA) No. 7160 and COA Circular No. 92-386, thus ownership by the Municipality over these parcels of land could not be established exposing them to third-party claims.

We recommended that the Municipal Mayor direct the:

- a. Municipal Budget Officer to allocate in the Annual Budget an amount for the titling of real property acquired by the Municipality; and
 - b. Municipal Assessor to facilitate the transfer of title of the 19 parcels of land in the name of the Municipal Government of Bay to protect its interest from third party claims and illegal dispositions.
3. Buildings and Motor Vehicles owned by the Municipality totaling ₱36,525,548.60 were not covered by property insurance of the General Service Insurance System (GSIS), contrary to RA No. 656 or the Property Insurance Law and COA Circular No. 92-390, thus exposing the properties to the risk of loss or damage due to fire, earthquake, storm, or other casualty without the right of indemnification.

We recommended that the Municipal Mayor direct the Acting General Services Officer to:

- a. coordinate with the Accounting Office to reconcile the building and motor vehicle accounts and prepare and submit the updated list of insurable property not yet covered with the General Insurance Fund of the GSIS;
- b. facilitate the transfer of ownership of the donated motor vehicles in the name of the Municipality and see to it that it will be included in the list of insurable properties;
- c. transfer the ownership of the motor vehicles currently used by various Barangays so that payment of insurance will be shouldered by the concerned Barangays; and

- d. report the unserviceable properties in the Inventory and Inspection Report of Unserviceable Property (IIRUP) for proper disposal and drop them from the books of the agency.

We also recommended that the Sangguniang Bayan appropriate sufficient amount to cover the insurance premiums of all insurable properties.

4. The appropriation for Extraordinary and Miscellaneous Expenses (EME) of ₱4,505,162.70 for CY 2019 exceeded the two per cent limitation of ₱167,057.78 by ₱4,338,104.92, contrary to Section 325(h) of RA No. 7160. Consequently, reported expenses of ₱1,475,570.99 also exceeded by ₱1,308,513.21, thus affecting the delivery of other basic services to the constituents.

We recommended that the Municipal Budget Officer see to it that appropriation for EME does not exceed the limitation prescribed under Section 325(h) of RA No. 7160 to avoid disallowance in audit.

We also recommended that the Management justify the excess charging of expenses in EME totaling ₱1,308,513.21. Otherwise, refund the expenses in excess of the two per cent limitation.

5. The lease of 156 stalls were not covered with any contract/Memorandum of Agreement (MOA) between the stall holders and the Municipality due to the on-going revision of the existing Market Code of the Municipality, thus collection of stall rentals and penalties for late payment, if any, could not be imposed thereby depriving the LGU of additional income that could be used for other programs.

We recommended that the Municipal Mayor and the stall owners execute MOA or contract containing all the terms and conditions on the lease of 156 stalls and basis for the collection of rental and penalties, in case of late payment, to generate additional income for the Municipality

6. Payments for Job Order personnels (JOs) assigned in different departments of the Municipality were charged against Other Professional Services, contrary to COA Circular No. 2015-009, resulting to overstatement of the account.

We recommended that the Municipal Mayor instruct the Municipal Accountant to review the accounts in the financial statements and reclassify them to the most appropriate account for proper presentation in the financial statements.

7. The Municipality was not able to strengthen its capacity for disaster risk reduction and management due to: a) poor planning and lack of consultation with the constituents and b) disbursements amounting to ₱757,927.00 were not in line with the purpose of the fund, contrary to the provisions of RA 10121 and National Disaster Risk Reduction and Management Council, Department of Budget and Management and Department of the Interior and Local Government (NDRRMC-DBM-DILG) Joint Memorandum Circular (JMC) No. 2013-1. Moreover, livelihood and other relief assistance and welfare goods expenses totaling ₱895,000.00 could be properly charged against the Quick Response Fund.

We recommended that the Municipal Mayor direct the Municipal Disaster Risk Reduction and Management Council to:

- a. update and improve the existing Local Disaster Risk Reduction and Management Plan of the Municipality by focusing on the programs, projects and activities requiring the highest priority in terms of urgency and impact on the four thematic areas of Disaster Risk Reduction and Management;
 - b. conduct consultations with the constituents to determine PPAs aligned with the purpose of the fund;
 - c. monitor the available budget and utilization of the Local Disaster Risk Reduction and Management Fund (LDRRMF) to effectively implement the planned PPAs within the targeted schedule and to ensure the optimal utilization of the fund;
 - d. stop the practice of charging regular expenditures against the LDRRMF, otherwise the transactions shall be disallowed in audit; and
 - e. analyze the PPAs and identify if they are chargeable against the 30 per cent Quick Response Fund or the 70 per cent Preparedness and Mitigation Fund.
8. Only ₱8,577,313.17 or 90.52 per cent of the total approved GAD budget of ₱9,475,814.75 were utilized by the Municipality for Calendar Year (CY) 2019 due to non-coordination with other offices and non-maintenance of GAD database, contrary to Philippine Commission on Women , DILG, DBM and National Economic and Development Authority (PCW-DILG-DBM-NEDA) JMC No. 2013-1, as amended, thus gender gaps and/or differences within the Municipality could not be fully addressed. Moreover, actual disbursements for some programs exceeded its appropriated budget, thereby resulting to negative balances at year-end.

We recommended that the Municipal Mayor direct the GAD Focal Point System (GFPS) to:

- a. ensure that the GAD Plan and Budget of the Municipality was submitted and reviewed by the DILG as evidenced by the Certificate of Endorsement;
- b. coordinate with the Municipal Planning and Development Office to update its GAD database to have a source of reliable information necessary for its GAD planning, programming and policy formulation;
- c. improve the GAD Plan and Budget of the Municipality by identifying new gender issues and concerns within its locality through the use of sex-disaggregated data;
- d. coordinate with other offices to avoid duplication of projects and monitor the effective and efficient implementation of the GAD Plan and Budget so that the intent of GAD on promoting gender-responsive governance, protecting and

fulfilling women's human rights and promoting women's empowerment as mandated could be fully achieved; and

- e. ensure that funds no longer needed for a particular program should be realigned before using it to another program to avoid disallowance in audit.
9. A total amount of ₱589,595.95 or 41.54 per cent of the total appropriation of ₱1,419,212.95 were not utilized in CY 2019 for the implementation of protection of children due to poor planning and lack of monitoring, contrary to RA No. 9344 and DILG Memorandum Circular No. 2012-120. Moreover, programs/projects/activities amounting to ₱589,212.95 were not among those chargeable against the fund, thus affecting the effective implementation of its social responsibility of improving the lives of the youth within the Municipality.

We recommended that the Municipal Mayor direct the Local Council for the Protection of children to:

- a. effectively plan the programs, projects and activities to be included in the AIP of the LCPC through consultations with the constituents to identify other PPAs that will surely improve the lives of the youth and will reduce or eliminate juvenile delinquency in the Municipality;
- b. regularly monitor the status of implementation of the planned PPAs to ensure the optimal utilization of the fund; and
- c. Include in the LCPC budget PPAs that can be funded by the one per cent of IRA in accordance with DILG Memorandum Circular No. 2012-120 dated July 4, 2012.

Management's views and comments were obtained through the Summary of Audit Observations and Recommendations (SAOR) received by the Agency on July 13, 2020 and incorporated in the report, where appropriate.

Status of Unsettled Suspensions, Disallowances and Charges

As of December 31, 2019, the Municipality had no unsettled suspensions, disallowances and charges.

Status of Implementation of Prior Year's Audit Recommendations

Out of the 19 audit recommendations contained in CY 2018 Annual Audit Report, six were fully implemented, 10 were partially implemented and three were not implemented by the Municipality.