

EXECUTIVE SUMMARY

BRIEF AGENCY PROFILE

The municipality of Baao is a political subdivision of the fifth (5th) district in the province of Camarines Sur. It has a total land area of 14,304 hectares, 7,152 hectares or 50% is located along the mountainous terrain and rolling hills, 4,291 hectares or 30% is practically plain land, 1,430 hectares or 10% are built-up areas and the remaining 1,430 hectares or 10% are bodies of water including lakes and marshy terrain.

Baao was just a barrio of Bula in the 16th Century. It was in 1590 that Baao was recognized as a separate administrative territory. It derived its name from Ba – oo, which means fresh water turtle that abounds the surrounding marshes and swamps.

Baao is hailed as the “Egg Basket of Bicol Region,” being the major supplier of eggs in the Region. The Municipality is also proud to be referred as the “Religious Capital of Rinconada” for having produced numerous priests and nuns.

HIGHLIGHT OF FINANCIAL OPERATION

For calendar year 2013, the Local Government of Baao, Camarines Sur has the following resources and equities:

	<u>CY 2013</u>	<u>CY 2012</u>	<u>Increase/ (Decrease)</u>
Assets	₱ 204,307,405.27	₱ 148,300,123.11	₱ 56,007,282.16
Liabilities	94,227,812.15	51,127,467.84	43,100,344.31
Government Equity	110,079,593.12	97,172,655.27	12,906,937.85

Its operations have been funded from the following:

	<u>CY 2013</u>	<u>CY 2012</u>	<u>Increase/ (Decrease)</u>
Local Taxes	₱ 5,051,392.38	₱ 4,354,485.30	₱ 696,907.08
Internal Revenue Allotment	77,941,539.00	69,246,956.00	8,694,583.00
Permits and Licenses	775,201.87	938,271.51	(163,069.64)
Service Income	1,262,474.50	1,234,765.75	27,708.75
Business Income	2,207,041.76	2,114,194.00	92,847.76
Other Income	1,426,986.95	1,202,928.79	224,058.16
Totals	₱ <u>88,664,636.46</u>	₱ <u>79,091,601.35</u>	₱ <u>9,573,035.11</u>

And utilized on the following items of expenditures:

		<u>CY 2013</u>		<u>CY 2012</u>		Increase/ (Decrease)
Personal Services	₱	40,149,464.38	₱	38,540,707.55	₱	1,608,756.83
MOOE		22,437,797.63		18,243,983.70		4,193,813.93
Totals	₱	<u>62,587,262.01</u>	₱	<u>56,784,691.25</u>	₱	<u>5,802,570.76</u>

Appropriations for the year amounted to ₱109,784,881.99 while actual obligations totaled at ₱90,360,817.60 with an unobligated balance of ₱14,083,597.96.

SCOPE OF AUDIT

A financial and compliance audit was conducted on the transactions covering the period from January to December 31, 2013 to ascertain the propriety of financial transactions and compliance with prescribed rules and regulations. It was also conducted to ascertain the accuracy of financial records and reports, as well as the fairness of presentation of the financial statements. A Value for Money (VFM) Audit was undertaken on selected areas to determine whether agency goals and objectives were attained in an economical, efficient and effective manner.

AUDITOR'S OPINION ON THE FINANCIAL STATEMENTS

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality in view of the doubtful validity of the property, plant and equipment valued in the books at ₱79,533,363.24 due to the failure of the Municipality to conduct a complete physical inventory and subsequently submit an Inventory Report. The inadequacy of its property records did not permit us to apply adequate alternative procedures to determine the validity of these accounts.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

For the exceptions mentioned earlier, the auditor recommended the conduct of a complete physical inventory of all properties duly reconciled with accounting records.

Moreover, the following are the other notable observations and recommendations:

1. The accuracy, existence/condition and validity of the Municipality's Property, Plant and Equipment (PPE) valued in the books as of December 31, 2013 at historical amount of ₱79,533,363.24 or 38.93% of the total assets were not ascertained due to the failure by the Municipality to conduct actual count and submit a complete Report on the Physical Count of PPE as required by Sections 57 and 124 of NGAS Manual.

We reiterate our previous years' audit recommendation that the Honorable Mayor require the Inventory Committee to conduct a complete count of the Municipality's PPE and prepare the Report as provided by Section 57, Volume II of NGAS Manual and submit the same to the Local Chief Executive and Auditor. The Report should be reconciled with the PPE ledger cards maintained by the Accounting Office and any discrepancy or unaccounted balances between the Inventory Reports and the PPE ledger cards as well as any limitations encountered should be sufficiently disclosed in the Inventory Reports by the Inventory Committee.

2. The quantity, condition and specifications of the delivered construction materials in the total amount of ₱651,981.00 cannot be determined due to very late transmittal by Management to the audit team of the Acceptance and Inspection Report as prescribed under COA Circular No. 96-010.

To avoid exceptions in audit, Management is enjoined to strictly comply with the aforementioned regulations. Agency official responsible for accepting deliveries must notify the Auditor within twenty-four (24) hours from such acceptance.

3. The Productivity Enhancement Incentive (PEI) granted to elected and appointed officials and employees of the LGU Baao in the total amount of ₱1,443,363.95 was not in accordance with Section 9 of the DBM Budget Circular No. 2013-3 dated November 21, 2013 and Section 325(a) of R.A. No. 7160, hence, considered irregular.

The LGU should exercise prudence in the use of its local funds. In determining the amount of the PEI, the sanggunian should ensure that the same is reasonable and that the expenditure will not violate the provision cited in the preceding paragraph, and ensure that this will not, in any way, adversely affect the delivery of services to the public. To avoid disallowance in audit, the total amount of ₱1,443,363.95 should also refunded.

4. Disbursements for the 2012 Palarong Panlalawigan in the total amount of ₱316,155.65 were irregular and unnecessary as described under COA Circular Nos. 85-55A and 2012-003.

To avoid disallowance in audit and to prevent misspending and/or wastage of government funds, the Municipality is highly enjoined to abide strictly with the guidelines for the prevention and disallowance of IUEEU set forth by COA Circular No. 2012-003.

5. Appropriation for Personal Services for CY 2013 by the Municipality in the amount of ₱41,748,094.10 was not in accordance with Section 325(a) of R.A. No. 7160, hence, an excess appropriation of ₱6,156,873.49.

To avoid disallowance in audit, the Municipal Budget Office is enjoined to be cautious in its preparation of the Municipality's Annual Budget, taking into consideration the general limitations on personal services set under Section 325 of the Local Government Code of 1991. Obligations for personal services in excess of the limit set by the aforementioned Section are not allowed.

6. Report on Sources and Utilization of DRRMF (Annex B) was not prepared by the Municipal Accountant resulting to the failure by the Local Disaster Risk Reduction and Management Officer (LDRRMFO) to submit such report to the Office of the Auditor as required under Section 5.1.5 of COA Circular No. 2012-002 dated September 12, 2012, hence, preventing the timely verification and review of transactions to determine whether said fund have been expended strictly in accordance with the prescribed guidelines.

We recommend that the following officials are enjoined to do the following tasks:

- a) *Municipal Accountant - to prepare monthly the Report on Sources and Utilization of DRRMF or Annex B; and*
 - b) *LDRRMO – to submit the above-mentioned Report to the COA Audit Team of the LGU on or before the 15th day after the end of each month through the LDRRMC and the Local Development Council.*
7. The unexpended/ unobligated balance of the Priority Development Assistance Fund (PDAF) in the total amount of ₱371,301.28 were not remitted to the Bureau of Treasury as per Supreme Court Decision regarding the disposition of remaining PDAF funds resulting to the misstatements of Due to Other NGAs and Government Equity accounts and consequently depriving the government of any benefits accruing thereon.

We recommend that the unexpended/unobligated balance of the remaining PDAF covered by the permanent injunction shall not be disbursed/ released by the Municipal Government but rather be remitted to the National Treasury for its reversion to the Unappropriated Surplus of the General Fund of the government.

8. The Municipality of Baao, Camarines Sur failed to prepare/formulate a Gender and Development (GAD) Plan as required under Section 28 of RA 10352, otherwise known as the General Appropriations Act of 2013, thus determination whether activities reported in the Annual Gender and Development (GAD) Accomplishment Report for CY 2013 were geared towards promoting gender-responsive governance, protecting and fulfilling women's human rights, and promoting women's economic empowerment of the Municipality cannot be determined.

The Municipality is required to provide sufficient amount of appropriation for its GAD activities, prepare the annual GAD plans & programs, submits such plan to

NCRFW for review and endorsement prior to the submission of the agency budget proposal and render reports as required under Section 28 of GAA 2013 and Circular No. 20014-1 of DBM, NEDA and National Commission on the Role of Filipino Women.

9. The Municipality of Baao, Camarines Sur continuously failed to enforce settlement of audit suspensions and disallowances in the respective amounts of ₱55,581.10 and ₱3,000.00 contrary to Sections 7.1.1 COA Circular No. 2009-006 and 82 of P.D. No. 1445.

We recommend the following:

1. *Settlement of disbursements suspended in audit within ninety (90) days from receipt of the Notices of Suspension to avoid its maturity into a disallowance pursuant to Section 82 of P.D. No. 1445.*
2. *Settlement by the liable municipal officials and employees of the disallowed amount of ₱3,000.00. Liable officials and employees are also reminded that they have six (6) months within which to settle the disallowances, otherwise it will be final and executory.*

The aforecited observations and recommendations were discussed with concerned officials of the Municipality during the exit conference held for the purpose. Management views and reactions were considered in the report, where it is deemed appropriate.

STATUS OF IMPLEMENTATION BY THE MUNICIPALITY OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Of the sixteen (16) audit recommendations embodied in the previous years' audit reports, eight (8) were fully implemented, six (6) were partially implemented and two (2) were not acted upon by the Municipality.