

EXECUTIVE SUMMARY

A. Introduction

The municipality of San Miguel, according to the pioneers was a sitio known as “aguas” name after a fish specie. Later, in 1930’s during the celebration of feast in honor of Santa Cruz the patron saint, “aguas” was changed to San Miguel in recognition and commendation to the invaluable services of Don Miguel Triunfante, Juez de Ganado of Bato.

San Miguel became a full-pledged municipality through Executive Order No. 503 dated May 15, 1952 signed by former President Elpidio Quirino. It is a fifth class municipality. Abaca is the main agricultural product and the main source of income of its people.

Financial Profile

1. Comparative Financial Position

Particular	CY 2013	CY 2012	Increase(Decrease)	
			Amount	%
Total Asset	P 46,985,403.84	P42,196,606.29	P4,788,797.55	11%
Total Liabilities	9,764,991.10	10,642,996.80	878,005.70	(8%)
Gov’t. Equity	37,220,412.74	31,553,609.49	5,666,803.25	18%
Income	45,187,221.97	37,878,413.24	7,308,808.73	19%
Expenses	39,796,105.34	34,311,574.10	5,484,531.24	16%

2. Sources and application of Funds

Particulars	CY 2013	CY 2012	Amount	Inc. (Dec)
Total subsidy income	-0-	-0-	-0-	-0-
Income from other sources	2,788,353.97	945,291.24	1,843,062.73	195%
IRA	42,398,868.00	36,933,122.00	5,465,746.00	15%
Total Income	45,187,221.97	37,878,413.24	7,308,808.73	19%
Less: Expenses				
Personal Expenses	24,368,380.26	21,573,676.68	2,794,703.58	13%
MOOE	14,512,074.02	10,987,820.63	3,524,253.39	32%
Financial Expenses	207,623.56	465,076.79	257,453.23	55%
Subsidies to LGU’s & other funds	708,027.50	1,285,000.00	576,972.50	(45%)
Total Exp.	39,796,105.34	34,311,574.10	5,484,531.24	16%

Excess of Income over expenses.	5,391,116.63	3,566,839.14	1,824,277.49	51%
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Operational Highlight

Major Accomplishments vis-à-vis Plans/ Targets. The Municipal Government set its Programs/Projects/Activities in the Annual Investment Plan (AIP) also known as the Annual Development Plan for CY 2013 in the total amount of P 8,427,554.00.

Of the total appropriation for Annual Development Plan, only P 4,046,763.61 actual obligations were incurred during the year, which means that only forty eight percent (48%) of the allotment have been utilized, as such the municipality has not substantially implemented its programs/projects/activities for CY 2013.

One of the major accomplishments of the Municipal Government of San Miguel funded out of the Economic Development Fund was the Installation of street lights at District I, District II and District III amounting to P2,230,000.00. Some of the projects implemented which were funded from various national government agencies include: Rehabilitation and reopening of Farm to Market Road at JMA amounting to P5,444,383.79, road concreting at Solong costing P1,999,555.84 and rehabilitation of Water System at District I and II amounting to P964,416.17.

B. Scope of Audit

We have conducted financial, compliance and value for money audit on the transactions and operations of the Municipality of San Miguel, Catanduanes covering the period from January 1, 2013 to December 31, 2013. We focused on the audit thrusts contained in COA Unnumbered Memorandum dated July 17, 2013 re: Instructions in the CY 2013 audits on LGU's and the Preparation and Submission of the Annual Audit Report (AAR).

C. Independent Auditor's Report

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements due to the failure of the agency to conduct physical count of its inventory and property, plant and equipments for CY 2013 totaling P17,355,772.53. The inadequacy of records did not permit us to apply adequate alternative procedures to determine the validity, existence, and correctness of the accounts appearing in the books of the agency.

D. Summary of Significant Observations and Recommendations:

The Audit Team discussed the observations and recommendations with the auditee on May 13, 2014. Their comments are incorporated in this report. Some of the significant observations and recommendations are as follows:

1. The Cash balance per Balance Sheet amounting to P25,056,104.67 do not tally with the Cash balance per Statement of Cash Flows amounting to P27,035,865.00, as of June 30, 2013, with a difference of P1,979,760.33, which is not in accordance with Section 79 of NGAS Manual Volume I, casting doubt on the validity and correctness of cash balance in the financial statements

We hereby recommended that the LCE should require the Municipal Accountant to analyze and trace the transactions involved and effect necessary adjustments in the books of accounts and in the Financial Statements.

2. The Cash in Bank account per books has a balance of P25,872,919.29 as of December 31, 2013. However, the accuracy of the said balance cannot be validated due to the absence of updated bank reconciliation statements which is not in consonance with Section 74 of PD 1445 and Joint Circular No. 1-90 of DOF and DBM.

We recommended that the LCE should require the Municipal Accountant to exert extra effort to prepare and update bank reconciliation statements for all funds and submit the same to COA for verification. The same will be used as basis to validate the balances recorded in the Financial Statements for CY 2013. Likewise, submission of the Bank Reconciliation for all funds as of December 31, 2012 claimed as prepared, should be made.

3. The balance of Cash in Vault account for three funds as reflected in the General Ledger amounting to P916,985.17 as of December 31, 2013, do not tally with the Cash Book balance of P59,416.19 due to failure to reconcile the entries between the cashbook and the accounting records and inclusion of accountabilities of past accountable officers in the GL thus, rendering the balance presented in the financial statement as unreliable and not in consonance with Section III-2 of Presidential Decree No. 1445 which is the keeping of accounts.

We recommended to the LCE to require the In-Charge of Office (ICO) Municipal Treasurer to reconcile his record with the accounting records in order to come up with corrected balances for all funds. We also recommend to the LCE to require the Municipal Accountant to effect the necessary correcting/adjusting entries of all items uncovered during the reconciliation process to ensure the correctness of the balance of the Cash-in-Vault account in the financial statements.

We also recommended that the Municipal Accountant should prepare the necessary adjusting entries to effect the reclassification and arrive at an accurate balance of Cash-in-Vault account.

4. Financial Assistance amounting to P415,700.00 were drawn by the Municipal Treasurer as Cash Advance, instead of issuing checks directly to the recipients, not in consonance with COA Circular 97-002 dated February 10, 1997, thereby the distribution of cash assistance to the rightful and qualified beneficiaries could not be ascertained.

We recommended that the LCE should require the Municipal Accountant to submit a justification why the drawing of said cash advance should not be disallowed by this office and to strictly observe the provisions of COA Circular 97-002 on the granting and utilization of cash advances and should always attach obligation request/SARO or any other document showing the funding source. It is further recommended that succeeding payments for financial assistance should be made through check directly issued to the payee.

5. For CY 2013, LGU San Miguel did not undertake the physical count of its supplies and properties, thus no report thereon was prepared and submitted to COA. The failure to come up with the inventory report provide no basis in verifying the actual existence and accumulated balances of assets totaling P 17,355,772.53 as shown in the financial statements contrary to Section 124, Chapter 7, Volume I of the NGAS Manual.

We recommended that the LCE should create an inventory committee if there is none yet and require this Inventory Committee to conduct inventory taking as required under Section 124, Chapter 7, Volume I of the NGAS Manual. It is also recommended that the Local Chief Executive should seriously look into this matter as this was a perennial observation/finding on the agency of which as of this writing was not given attention as evidenced by the non-submission of the mentioned report.

6. The claim for 15% advance payment/mobilization fee to various contractors for the construction/reopening/rehabilitation of various infra projects in the total amount of P1,568,442.91 were not supported with security, contrary to Section 4.2 of Annex E of IRR Revised RA 9184, thereby the LGU has no guaranty to run after the contractor in case of failure to implement the project.

We recommended that the LCE should require the Municipal Accountant to process disbursing voucher/claim on the advance payment/mobilization fee only upon submission to and acceptance by the procuring entity of an irrevocable standby letter of credit, bank guarantee or a surety bond as

prescribed by Section 4.2 of the Annex E of IRR-RA 9184. We also recommended that the accountant should comply with the other documents as requirements with Section 9.1.1 of COA Circular No. 2012-001 dated June 14, 2012.

7. The retention fee for the 49.91% partial payment on the project for Re-opening/Rehabilitation of Sitio Tucao-Sitio Coripdas at Barangay JMA San Miguel with a contract amount of P5,444,383.79 was insufficient by P81,665.76, the computation of which not in accordance with Section 6.1 of the Annex E of the Revised RA 9184, thereby resulted to the understatement of the retention fee deducted from the partial payment to the contractor, EUS Construction.

We recommended that the LCE should require the Municipal Accountant to compute correctly the retention fee in accordance with Section 6.1 of Annex E of Revised RA 9184. We also recommend that the accountant should retain/deduct the understatement of a retention fee by P81,665.76 for the succeeding billing in order to adjust/correct the error committed in the previous billing.

8. The procurement of drugs/medicines in the total amount of P315,385.52 were not supported with documentary requirements issued by Food and Drugs Administrator (FDA) and manufacturer, not in accordance with Item No. 9.1.3.1 of COA Circular No. 2012-001 dated June 14, 2012, thereby the genuine/quality & efficiency of the medicines delivered cannot be ascertained.

We recommended that the LCE should require the Bids and Awards Committee to impose the documents prescribed by item no. 9.1.3.1 of COA Circular No. 2012-01 dated June 14, 2012 before declaring the award to the lowest calculated responsive bidder. Agency Inspector should look into these documents and compare whether the delivered medicines was accredited/authorized thereof. We also recommended that the municipal accountant should require the submission of documentary requirements prescribed by the said circular before processing of disbursement.

9. The advertisement for the Invitation to Bid was not published in the newspaper of general nationwide circulation which is not in accordance with the Section 21.2.1 (a) of Revised IRR of RA 9184, thereby transparency for bid opportunity may not be completely widely/nationwide disseminated and may result to only one (1) or limited number of bidder participated.

We recommended that the LCE should require the Bids and Awards Committee to publish the Invitation to Bid with an ABC of more than five (5) million in the newspaper of general nationwide circulation which has been

regularly published for at least two (2) years before the date of issue of the advertisement. Adhere strictly with Section 21.2.1(a) of Revised IRR-RA 9184.

10. The advertisement for the Invitation to Bid for the construction of Level III water system with ABC of P6 million was published in Catanduanes Tribune Newspaper which may not be qualified as general nationwide circulation, contrary to Section 21.2.1 (a) of Revised IRR of RA 9184, thereby transparency for bid opportunity may not be completely widely/nationwide disseminated and resulted to only one (1) bidder participated in the bidding.

We recommended that the LCE should require the Bids and Awards Committee to publish the Invitation to Bid with an ABC of more than five (5) million in the newspaper of general nationwide circulation which has been regularly published for at least two (2) years before the date of issue of the advertisement. Adhere strictly with Section 21.2.1(a) of Revised IRR-RA 9184.

11. The issuance/sale of bidding documents for the construction of level III water system with P6 million ABC was allowed only after the pre bid conference and was closed three (3) days prior to the last day of submission & opening of bid, contrary to Section 17.3(a) of Revised IRR-RA 9184, thereby, bidders may unable to raise unclear instruction from bidding documents during the said conferences and others interested bidders at the last day of the dropping of bid cannot participated in the bidding.

We recommended that the LCE should require the Bids and Awards Committee to sell/issue the bidding documents to the interested bidders at the start of the publication of the Invitation to Apply for Eligibility and to Bid until the last day of the dropping & opening of Bid and should adhere strictly with Section 17.3(a) of the IRR-RA 9184.

12. The retention money of the ALXM Construction for the construction/improvement of Bagsakan Center & rehabilitation of Municipal Library in the total amount of P74,456.96 were not yet due for release because the projects were not yet finally accepted and not supported with security, contrary to Section 6.2 of Annex E of IRR-RA 9184, thereby the purpose of warranty to run after the contractor in case any defects occurred within the liability period/before the final acceptance may be defeated.

We recommended that LCE should require the Municipal Accountant:

- to require the contractors to post security for the defects liability period before the release of the retention money, otherwise it should not be release until project is finally accepted.
- not to approve disbursement on the release/withdrawal of retention money unless supporting documents are completed, such as the certification of municipal engineer/concerned official that the project was satisfactory implemented in accordance with the schedule and etc.

13. The agency allowed regular employees to receive a net take home pay of lower than four thousand pesos (P4,000.00) per month from January to December 2013 in violation of Section 37 of the General Provisions of General Appropriations Act of FY 2013.

We recommended that the LCE should require the Municipal Accountant to strictly comply with Section 37 of the General Provisions of GAA of FY 2013.

14. The Municipal Mayor was granted transportation allowance notwithstanding the assignment of motor vehicle for use in the performance of her official functions, in violation of the provisions of LBC No. 79 and considered illegal under COA Circular 2012-003 dated October 29, 2012, thus disallowable in audit.

We recommended that the payment of Transportation Allowance to the Municipal Mayor should be stopped in compliance with the provisions of LBC No. 79 and COA Circular 2012-003 dated April 1, 2005 and October 29, 2012, respectively. We further recommend that the Municipal Mayor should refund the Transportation Allowance granted to her during the year.

15. The FY 2013 Productivity Enhancement Incentive (PEI) granted to municipal officials and employees resulted to the excess in the municipality's PS cap/limitation, contrary to item 9.1 of DBM Budget Circular No. 2013-3, dated November 21, 2013. The excess amount of P1,558,377.08 used for PEI was unauthorized and could have been utilized to implement other development & priority projects needed by the constituents.

We recommended that the LCE should require the Municipal Accountant & Budget Officer to strictly observe the Item 9.1 of DBM Budget Circular No. 2013-3 and 325(a) of RA 7160 before granting the PEI.

We also recommended that the payment of Productivity Enhancement Incentives (PEI) to the municipal officials & employees that exceeded the PS cost over the PS cap/limitation should be refunded.

16. Liquidation of cash advance for salaries of municipal employees of LGU San Miguel, Catanduanes for CY 2013 are found to be lacking of the basic documentation such as, the Daily Time Record (DTR) which is not in consonance with Section 194 of Government Accounting and Auditing Manual (GAAM), Volume I thus, validity and propriety of salaries paid were not properly determined.

We recommended that the LCE should require the Municipal Accountant to see to it that Paragraph 3, Civil Service Rule XV, Executive Order No. 5, series of 1909 and Section 194 of GAAM, Volume I is strictly complied with by requiring the submission of Daily Time Record of each officials and employees in their claims of salary.

17. The agency hired the services of a private legal counsel to render legal services for the agency for a monthly fee of P10,000.00 in violation of COA Circular 98-002 dated June 9, 1998, thus disallowable in audit

We recommended that the Agency Head and the Municipal Accountant should submit an explanation why payment was made despite the restrictions stated in COA Circular 98-002 dated June 9, 1998. We further recommend that the Agency Head should require the Sangguniang Bayan Members to submit a written explanation why they executed a resolution which violates an existing law.

18. The Local Chief Executive reimbursed her travelling expenses and found to be excessive contrary to Section 3.1.1.4 of COA Circular No. 96-004 and Section 4 of EO 298, where government funds in the amount of P27,548.16 was improperly utilized.

We recommended that the LCE should require the Municipal Accountant to adhere strictly with Section 3.1.1.4 of COA Circular No. 96-004 and Section 4 of EO No. 298 in the processing of traveling expenses. Likewise, refund should be made for the excess travel claim of P27,548.16.

19. The reimbursement on travelling expenses within and outside the province by the LCE of the municipality were not supported with driver's trip tickets and complete documentation, contrary to Section 361 e, (1) and Section 138 (f) of Government Accounting and Auditing Manual (GAAM), Vol. 1, thereby cannot justify the validity of the cost of travel/fuel spent in the total amount of P111,483.46.

We recommended that the LCE should require the Municipal Accountant to return to the claimant concerned the reimbursements of travel expenses that do not comply with the basic requirements for this particular transaction, the drivers trip ticket as well as the basic documents required by Section 361 6,(1) and Section 138 (f) of GAAM, Volume I, respectively.

20. The agency failed to prepare and submit the Monthly Report of Fuel Consumption as required under Section 361.g of Government Accounting and Auditing Manual (GAAM) Volume I, thus reasonableness of the agency's fuel consumption could not be validated on time

We recommended that Agency Head should require the General Services Officer to prepare and submit the Monthly Report of Fuel Consumption as required under Section 361.g of the Government Accounting and Auditing Manual (GAAM) Volume I.

21. The advance copies of contracts/purchase orders and its supporting documents in the total amount of P14,556,128.15 were not submitted to the Office of the Auditor within/even beyond five (5) days from perfection of the contract, contrary to Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009, thereby contract review cannot be timely/immediately performed.

We recommended that the LCE should require the BAC to submit the advance copies/certified photo copies of contracts and purchase orders including its supporting documents to the Auditor within the prescribed period cited by Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009.

22. The accounts for CY 2013 of LGU San Miguel was submitted beyond the reglamentary period prescribed by item 7.2 of COA Circular 2009-006 thus, preventing the auditor from performing a timely review and examination of transactions of the agency.

We recommended that the Agency Head should require the Municipal Accountant to strictly comply with Item 7.2 .1(a) of COA Circular No.

2009-006 for timely and efficient audit and to submit the accounts for February 2013.

23. Some of the vehicles were not marked "For Official Use Only" and the corresponding name of the Local Government Unit of San Miguel does not appear on the sides, or on the front or back of the equipment, not in conformity with Section 361.e.2 of GAAM Volume I, thus vehicle could be used for private or other non-public purposes.

We recommended that all motor vehicles enumerated above should be permanently marked "For Official Use Only" with the name of the Local Government Unit prominently written.

24. The payments in the total amount of P24,882.00 for the purchase of fuel have no monthly report of fuel consumption and not properly supported by drivers' trip tickets & documents, contrary to COA Circular No. 77-61, thereby the legality & reasonableness for fuel utilization cannot be ascertained.

We recommended that the LCE should require the municipal accountant to ensure the submission of Monthly Report on Fuel Consumption and properly accomplished driver's trip tickets in compliance with COA Circular No. 77-61. Likewise, we recommended that the LCE should require the GSO to submit promptly the purchase order, inspection and acceptance report of the inspectorate committee.

25. (a) The implementation of Hog Raising Project of the Municipal Government of San Miguel resulted to a net loss performance of P97,931.68, thereby continued operation of the project would only result to wastage of government funds.

We recommended for management to plan for a more feasible project that would benefit the constituents and at the same time, the municipal government.

(b) From the reported sales of P116,100.00, only P31,410.00 was remitted to government coffers while the remaining amount of P84,690.00 representing receivables of the LGU was not booked up as of December 31, 2013 which is not in consonance with Section 64 of Government Accounting and Auditing Manual (GAAM), Volume I thereby understating the agency's asset of the same amount.

We recommend for the LCE to compel the Municipal Treasurer for the immediate collection of the long overdue receivables out of sale from hog raising project of the LGU and require the Municipal Accountant to book-up the said receivables.

26. The Municipality of San Miguel paid a total amount of P75,000.00 for the subscription of one whole page of souvenir program of various organizations which is considered irregular under COA Circular 2012-003 dated October 29, 2012, thus disallowable in audit

We recommended that the Agency Head and the Municipal Accountant should submit an explanation why the reimbursement was allowed in payment despite the prohibition under COA Circular 2012-003 dated October 29, 2012. We further recommended that the total amount of P75,000.00 should immediately be refunded.

G. STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

A review and evaluation of the implementation of past year's audit recommendations disclosed that out of twenty one (21), one (1) was implemented, six (6) were partially implemented and fourteen (14) were not implemented.