

## **EXECUTIVE SUMMARY**

### **A. Introduction**

The Municipality of Bulan is located at the southwestern most tip of the island of Luzon facing and sharing the Ticao Pass with the island town of Jacinto of the Masbate Islands. With an area of 20,094 hectares, it caters to a diversified population of almost 100,000 people living in its 63 barangays.

#### **A.1. Creation and Mandated Functions**

In 1569, the expedition of Capitan Luis Enriquez de Guzman and Fray Alonzo Jimenez, an Augustinian friar held the first mass in small native settlement believed to be Otavi. In 1572, “Bililan” (Bulan) was declared as a royal encomienda. In January 1690, Bulan was constituted as a Pueblo Civil with Gate as its townsite. But in 1746, devastated by Moro attack, Gate was destroyed and Bulan was virtually wiped out from existence until 1799 when it was re-established. Bulan since then has thrived economically to become a first class municipality in the Province of Sorsogon.

The Local Government Unit (LGU) as the governing body of the Municipality commits itself to the betterment and upliftment of the moral, social and economic conditions of its constituents by implementing programs aimed at benefiting the greater number of its inhabitants.

#### **A.2. Financial Profile**

For calendar year 2013, the municipal government derived a total income of ₱150,398,394.24 from Internal Revenue Allotment (IRA), local taxes, permits and licenses, business and other income. An increase of ₱11,958,579.91 or 8.64 per cent against last year’s income of ₱138,439,814.33 was noted.

Current appropriations for General Fund (GF) and Special Education Fund (SEF) amounted to ₱158,278,993.75 and ₱800,00.00, respectively. Except for continuing appropriations, obligations incurred during the year amounted to ₱152,581,083.68 and ₱789,838.22 which resulted to unobligated balances of ₱5,697,910.07 and ₱10,161.78 for GF and SEF, respectively.

As of December 31, 2013, the financial condition of the agency disclosed increases in assets and liabilities by 4.65 and 11.51 per cent, respectively and a decrease in government equity by 3.61 per cent, as follows:

<b>Particulars</b>	<b>CY 2013</b>	<b>CY 2012</b>	<b>Increase (Decrease)</b>	<b>% of Increase (Decrease)</b>
Total Assets	139,798,342.33	133,589,650.20	6,208,692.13	4.65%
Total Liabilities	81,335,523.37	72,939,759.01	8,395,764.36	11.51%
Government Equity	58,462,818.96	60,649,891.19	(2,187,072.23)	(3.61)%

## **B. Scope of Audit**

Financial and Compliance as well as Value for Money (VFM) Audits were conducted on the accounts and operations of the Municipality of Bulan. The audit covered the period from January 1 to December 31, 2013. Thrusts for Financial and Compliance Audits were: Cash, Property, Plant and Equipment, Payables, Procurement and Local Disaster Risk Reduction and Management Fund (LDRRMF). The Value for Money (VFM) Audit was focused on the 20% Development Fund.

## **C. State Auditor's Report on the Financial Statements**

The auditor rendered a qualified opinion on the fairness of presentation of the financial statements because of the following exceptions:

1. The reliability of the reported Cash in Bank account balances totaling ₱16.140 million cannot be established because of the non-preparation/submission of bank reconciliation statements for all cash balances, non-reconciliation of cash balances per books, per bank and per cashbook and non-maintenance of subsidiary ledgers (SLs) for General and Trust Fund bank accounts.
2. Cash advances totaling ₱28.757 million remained unliquidated at year-end.
3. The reliability, accuracy and existence of the recorded Property, Plant and Equipment (PPE) accounts amounting to ₱141 million at year-end could not be ascertained because of the non-preparation/submission of a complete and accurate physical inventory report and non-reconciliation of the difference of ₱184 million between the inventory report and book balances which precluded the Auditor from comparing the recorded amounts in the general ledger with what is actually on hand.

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

For the exceptions cited in the Independent Auditor's Report, we recommended that Management (a) require the OIC – Municipal Accountant and the Municipal Treasurer to investigate the unreconciled amounts of ₱94,363.54 to ₱2,560,545.40 in the Cash in Bank accounts for all funds and prepare the necessary adjustments to reconcile the balances per Financial Statements, General Ledger and Cashbook with that of the bank; (b) undertake necessary measures for the immediate and full settlement of unliquidated cash advances and require the OIC –Municipal Accountant to identify the names of the accountable officers for each cash advance and maintain subsidiary ledgers for the Cash-Disbursing Officers (103) and Advances to Officers and Employees (148) accounts; and (c) come up with an accurate inventory report and require the Office of the Municipal Accountant and the Inventory Team to review and reconcile their records to come up with accurate balances of the PPE accounts. The Audit Team has discussed/communicated the findings and recommendations with the Auditee and that the latter's comments are incorporated in the report, where appropriate.

### Financial and Compliance Audit

1. The reliability of the reported Cash in Bank account balances totaling ₱16.140 million cannot be established because of the non-preparation/submission of bank reconciliation statements for all cash balances, non-reconciliation of cash balances per books, per bank and per cashbook and non-maintenance of subsidiary ledgers (SLs) for General and Trust Fund bank accounts, contrary to the provisions of COA Circular No. 96-011 and Section 10 of the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), Volume II.

We recommended that Management require the OIC - Municipal Accountant and the Municipal Treasurer investigate the unreconciled amounts of ₱94,363.54 to ₱2,560,545.40 in the Cash in Bank accounts for all funds and prepare the necessary adjustments to reconcile the balances per Financial Statements, General Ledger and Cashbook with that of the bank otherwise hold them liable for incurrence of overdraft, if any.

We recommended that the OIC - Municipal Accountant comply with pertinent provisions of COA Circular No. 96-011 on the preparation of bank reconciliation statements and Section 10 of the Manual on NGAS for LGUs, Volume II on the maintenance of subsidiary ledgers to achieve an accurate financial reporting of the Cash in Bank accounts.

2. Cash advances totaling ₱28.757 million remained unliquidated at year-end caused by the failure of Management to strictly enforce the existing rules and regulations on the grant, utilization and liquidation of cash advances as articulated in COA Circular No. 97-002, Presidential Decree No. 1445 and the Manual on the New Government Accounting Manual (NGAS) for Local Government Units (LGUs).

We recommended that Management:

- a. demand for the full liquidation ₱18,729,978.13 from the Disbursing Officer, otherwise withhold the payment of her salaries until such time the amount is fully liquidated.
- b. stop immediately the grant of additional cash advances to all officers with unliquidated cash advances until such time that previous cash advances are fully settled as required under Section 89 of PD 1445 and paragraph 4.1.2 of COA Circular No. 97-002.
- c. cause or order the withholding of the payment of any amount due the accountable officers with unliquidated cash advances totaling ₱10,026,922.21 as provided under paragraph 9.3.2 of COA Circular No. 97-002;
- d. strengthen the operation of preventive and monitoring controls to ensure timely submission of liquidation documents and full accounting of balances of cash advances by monitoring strictly the period of liquidating cash advances;
- e. send final demand letters to persons who have retired or out of service who still have unliquidated cash advances;
- f. undertake, as a last resort, appropriate legal actions for the recovery and/or settlement of unliquidated cash advances;
- g. effect adjustments to reflect the correct balances of Cash – Disbursing Officers and Due from Officers and Employees accounts. In the future, the Office of the Municipal Accountant is advised to properly classify the cash advances granted to regular Disbursing Officers as Payroll Fund (106) for payment of salaries and wages and Cash – Disbursing Officers (103) for other expenditures. Advances to Officers and Employees (148) account shall be used for cash advances granted for travels.

We also recommended that Management require the OIC - Municipal Accountant to clearly identify in the vouchers and journal entries/subsidiary ledgers the name of the accountable officer for each cash advance made and discontinue the practice of using "Various Employees" and using two or more names as accountable officers in order to establish accountability and avoid confusion.

Lastly, we recommended that the OIC – Municipal Accountant set up and maintain subsidiary ledgers for the Cash-Disbursing Officers (103) and Advances to Officers and Employees (148) accounts to easily determine the accountability of the officers and employees at any given time.

3. The reliability and accuracy of the recorded Property, Plant and Equipment (PPE) accounts amounting to ₱141 million as of December 31, 2013 could not be

ascertained because of the failure of the Municipality to prepare an accurate report on the physical count of all its PPE and reconcile the difference of ₱184 million between the inventory report and book balances contrary to Section 124, Chapter 7, Volume I of the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs).

We recommended that the Inventory Team review and come up with an accurate inventory report taking into consideration the following:

- a. property numbers should be indicated in the report for all movable properties of the Municipality;
- b. the unserviceable properties identified during the physical count should be reported in the Inventory and Inspection Report of Unserviceable Property (IIRUP) that will serve as basis for dropping these items from the books; and
- c. the properties under the Telegraph, Television and Cable account should be properly classified.

We also recommended that thereafter, the OIC - Municipal Accountant and the Inventory Team review and reconcile their records to come up with accurate balances of the PPE accounts. Discrepancies between the inventory report and the accounting records should be investigated and adjustments, if any, be effected.

4. The Municipality purchased one unit Sports Utility Vehicle (SUV) costing ₱1.254 million without the approval of the Department of Interior and Local Government (DILG) contrary to Section 3 of Administrative Order (AO) No. 15. Several deficiencies were also noted in the procurement procedures and mode of procurement employed which indicated non-compliance with the provisions of Republic Act (RA) No. 9184.

We recommended that Management observe the existing rules and regulations on the purchase of vehicles by LGUs. Also, the BAC should ensure that the provisions of RA No. 9184 or the New Procurement Law are strictly followed and the Municipal Treasurer/Accountant should warrant the completeness of supporting documents before transactions are paid/recorded to avoid future suspension or disallowance in audit.

#### Value for Money Audit

5. The Municipality failed to implement two (2) projects under the 20% Development Fund with a total appropriation of ₱1.643 million, hence deprived the constituents of the benefits that could have been derived therefrom. Also, several deficiencies were noted in the reports on the utilization of fund.

We recommended that Management exert effort to implement the programs and projects under the 20% Development Fund within the year to achieve the social, economic and environmental outcomes essential in the attainment of the constitutional objective of a desired quality of life for all. We likewise recommended that reprogramming and reallocation of resources be made as soon as the need arises to ensure that the LGU is maximizing its available resources to achieve the expected results it has committed.

Also, we recommended that the Municipal Planning and Development Office (MPDO) exercise its duty to monitor and evaluate the implementation of the different development programs, projects and activities in the local government unit concerned in accordance with the approved development plan.

Further, it is recommended that Management devise measures to improve its reporting of accomplishments in relation to the observed deficiencies.

#### **E. Status of Implementation of Prior Years' Audit Recommendations**

Out of the twenty-two (22) recommendations contained in previous years' Annual Audit Reports, eight (8) were fully implemented, six (6) were partially implemented and eight (8) were not implemented.