

EXECUTIVE SUMMARY

Introduction

The Municipality of Baungon was created and became an independent regular municipality in 1957 by virtue of Executive Order No. 272 issued by the former President Carlos P. Garcia. It is a 2nd class municipality composed of sixteen (16) Barangays.

Financial Highlights

In CY 2018, the Municipality of Baungon has appropriated the total amount of ₱174,418,078.76 in the General Fund, ₱172,618,078.76 in the Economic Enterprise and P2,722,496.31 in the Special Education Fund, or a total of P188,780,286.97, with breakdown shown in the table below:

	General Fund	SEF	TOTAL
PS	57,670,104.00	-	57,670,104.00
MOOE	62,301,808.76	1,547,000.00	63,848,808.76
Capital Outlay	6,165,000.00	253,000.00	6,418,000.00
20% LDF	39,240,133.00	-	39,240,133.00
5% MDRRMF	7,225,033.00	-	7,225,033.00
5% MDRRMF- Reserved	16,000.00	-	16,000.00
Total	172,618,078.76	1,800,000.00	174,418,078.76

For the year ended December 31, 2018 the financial condition and results of operations of the Municipality of Baungon are summarized as follows:

Financial Condition:

The LGU's financial condition for calendar year 2018 compared with that of the preceding year is shown below:

	2018	2017	Increase (Decrease)
Assets	325,027,061.27	250,589,250.86	74,437,810.47
Liabilities	110,905,848.26	64,441,501.69	46,464,346.57
Government Equity	214,121,213.01	186,147,749.17	27,973,463.84

Results of Operations:

	2018	2017	Increase (Decrease)
Income and Subsidies	145,507,579.91	137,402,214.07	8,105,365.84
Expenses	109,498,636.83	108,184,448.68	1,314,188.15

Transfers, Assistance and Subsidy From /To	(3,890,220.74)	(4,390,983.07)	(500,762.33)
Net Income	32,118,722.34	24,826,782.32	7,291,940.02

AUDITOR'S 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 Baungon for the year ended December 31, 2018 as discussed in the Independent Auditor's Report presented in Part I of the report and summarized as follows:

1. Due to non-submission of the Property Inventory Report, the failure to conduct actual physical count, and the non-reconciliation of property and accounting records, evaluation on the reliability of the PPE year-end account balance of ₱87,772,746.86 (net of accumulated depreciation) could not be confirmed in audit, contrary to the provisions of 124 Volume I of the Manual on the New Government Accounting System.
2. The Construction in Progress Account was over by ₱8,082,138.88 compared with project status reports from the Office of the Municipal Engineer on the on-going and completed projects due to failure of the Municipal Accounting Office to reclassify those completed projects to appropriate PPE accounts on the premise that the former failed to furnish Certificate of Completion to the latter, contrary to Section 4 and 111 of the Presidential Decree 1445, thereby casting doubt on the validity of the Construction in Progress Account.
3. Inherited variance aggregating to ₱1,030,994.21 exists between the Due to Other Funds and Due from Other Funds (Reciprocal Accounts) accounts of the Consolidated Financial Statements of LGU Baungon, contrary to Section 4 of Presidential Decree 1445, thereby casting doubt on the reliability of the asset and liability accounts.
4. The recorded land account of the Municipality of Baungon amounting to ₱2,380,460.00 as of December 31, 2018 is understated by ₱4,193,011.00 due to various unbooked and undervalued land properties, contrary to Philippine Public Sector Accounting Standards (PPSAS) 17 and Section 112 of Presidential Decree 1445.
5. Land Properties with book value of ₱1,050,000.00 were neither covered by Transfer Certificates of Title (TCT) nor Original Certificates of Title (OCT) and/or tax declarations under the name of the Municipality of Baungon contrary to Section 148 of the Supply and Property Management and Section 39 Item (2) of Presidential Decree 1445, thereby casting doubt on the validity of the claim of ownership and rights over said properties.
6. Loans Receivable account of the Municipality of Baungon totaling ₱3,080,430.33 were not backed-up with loan agreements to support recording of receivable account

and right to enforce collections, contrary the Paragraph 10 and 16 of Philippine Public Sector Accounting Standards (PPSAS) 29 and Section 112 of Presidential Decree 1445; thereby overstating the receivables account for lack of right to collect.

7. Reconciling items addition to book balance (Stale Checks, Interests Income, Credit Memos and other reconciling items) aggregating to ₱809,154.49 and reconciling items deduction to book balance (Debit Memos, Unrecorded Disbursements, and other reconciling deduction) aggregating to ₱146,894.22 consistently appearing in their monthly Bank Reconciliation Statements (BRSs) because the management failed to reflect those reconciling items in their records resulting to net understatement ₱662,260.27, contrary to Section 4 of Presidential Decree 1445; thereby understating the cash account.
8. Guaranty/Security Deposits Payable has a difference of ₱336,828.01 in the Subsidiary and General Ledger Balances, thereby casting doubt on the accuracy and reliability of the liability account, contrary to Section 111(2) of the Presidential Decree 1445.

Summary of Significant Findings and Recommendations

The following are the summary of significant observations and recommendations in the audit and/or evaluation of the operations of the Municipality of Baungon, Bukidnon for the year 2018. Other audit observations are fully discussed in Part II of this report:

1. Guaranty/Security Deposits Payable has a difference of ₱336,828.01 in the Subsidiary and General Ledger Balances, thereby casting doubt on the accuracy and reliability of the liability account, contrary to Section 111 (2) of the Presidential Decree 1445.

We recommended the Municipal Accountant should endeavor to properly identify the creditor to which that reconciling difference can be attributed so as to established validity of future payment, otherwise institute appropriate accounting remedy consistent with standard government accounting practice, law, rules and procedures.

2. Deposit made on June 16, 2017 amounting to ₱ 189,942.77 and on January 5, 2018 amounting to P 32,000,00 were not credited the account of the Agency though validated by the bank, while the latter deposit was erroneously credited to other fund of the municipality, thus management consistently considered these deposits in transit in the monthly Bank Reconciliation Statements (BRSs) as addition to bank balances, contrary to Section 4 of Presidential Decree 1445; thereby casting doubt on the existence of cash deposit.

We recommended the Municipal Treasurer to address the matter to the banks concerned to secure the funds that should have been credited against the account of the Municipality. Lastly, we encourage that the Municipal Treasurer and the Municipal Accountant to regularly reconcile their respective records records in order to expedite action/adjustment of balances as needed.

3. The Municipality failed to settle their loan account with the Department of Agriculture (DA) within five (5) years that supposedly ending the year CY 2008 for the cost two (2) units Farm Tractors costing P 3,146,000.00 (equivalent loan amount) with remaining book balance of P1,982,927.00, thus potentially exposing the agency the risk of paying penalties for delayed payments, contrary to the declared policy of the state and sound management enunciated under Section 2 and 4 (8) of P.D. 1445.

We recommended that the management, thru the Municipal Accountant (MA), to procure a copies of the contracts/agreements for appropriate reference in the recording and adjustment of any discrepancy of the recorded transactions by the MACO.

Likewise, the MA should verify from DA the status of the loan and exhaust effort for condonation of penalties or surcharges, if any, including proposition for loan restructuring to come up with agreeable terms and conditions with the new administration.

Further, the Municipal Budget Officer should also ensure that payment of yearly amortizations should be appropriated in the next budget years including coming up for supplemental budget for the current year payments.

Lastly, the MA or the Municipal Treasurer should monitor prompt payment of account to avoid incurring penalties under the contract.

4. Of the twenty-three (23) national government funded projects aggregating P31,035,712.00, ten (10) or 43% remained unimplemented while the other thirteen (13) projects were partially implemented costing P 18,913,779.48, thus causing not only prejudicial to the projected strategic objective and time line of the government on project implementation, but ultimately the expected economic benefits the projects have to greatly contribute to the targeted beneficiaries.

In view hereof, we recommended that municipal management should expedite the completion of the said project not only to satisfy the provisions of the agreement, but likewise to have the services of said project available to the intended beneficiaries at much needed time. Otherwise, return to source agencies the unutilized project funds for the unimplemented projects.

5. The construction of three (3) Water System projects of the Municipality of Baungon with aggregating contract cost of P15,148,763.52 all under contract with JOAN CONSTRUCTION had incurred an average negative slippage of 251 calendar days, thereby delaying the projects significantly. On the other hand, the municipal management failed to exercise its rights to rescind or terminate the contract for incurring undue delays in the completion of the projects (a negative slippage of more than fifteen percent) and forfeit the Performance Security,

contrary to the provisions of Implementing Rules and Regulations (IRR) of RA 9184.

We recommended that the Municipal Mayor, Municipal Engineer and Project In-charge should endeavor to expedite the completion of the projects. Adequate monitoring and supervision of the projects should also be put in place to ensure completion of the projects in accordance with plans and specifications.

Should termination of contract be warranted to undertake, we therefore recommend the following;

Create Contract Termination Review Committee (CTRC) and required them to conduct Verification Report on the condition of the project;

Evaluation the Verification Report and performed other termination procedures prescribed under Anne "I" of the IRR or RA 9184; and

Without prejudice to imposition of administrative liability, subject the foregoing contracts with liquidated damages and forfeiture of Performance Security as prescribed under Paragraph 8 of 2016 IRR of RA 9184 "Annex E", cited in relation to 68 of the IRR.

6. Significant programs/projects essential to social and economic development of the Municipality funded under the General Fund and 20% Local Development Fund for CY 2018 aggregating P 37,090,133.00 were not adequately carried out as planned because management's short of absorptive capacity to implement altogether those nationally and locally funded projects, thus adversely affect the municipality's efficiency and effectiveness and potentially demoting public perception and timely needs, contrary to sound management.

We recommended the Municipal Engineer, Bids and Award and Municipal Planning Development Office to place those projects to its proper phasing to ensure timely and proper implementation of projects.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Of the thirteen (13) CY 2013-2017 prior year's audit recommendations eight (8) were implemented and five (5) partially implemented.