

EXECUTIVE SUMMARY

INTRODUCTION

Pursuant to RA 7160 known as the Local Government Code of 1991, the Municipality of Maigo serves primarily as a general purpose government for the coordination and delivery of basic, regular and direct services and effective governance of the inhabitants within its territory.

The Municipal Government functions to promote health and sanitation, maintain peace and order as well as improve rural road network. Among its objectives are the speedy delivery of essential services and the realization of its programs and projects to enhance the livelihood of the people. It enforces laws and ordinances and enacts measures for greater efficiency and effectiveness of its operations.

The Local government with the help of its people is determined to achieve its vision for a developed and environment friendly municipality where they can live peacefully and enjoy a sustainable economic progress and ably guided by a dynamic local leadership.

HIGHLIGHTS OF FINANCIAL OPERATIONS

As of December 31, 2018, the consolidated financial condition and results of operations of the Municipality of Maigo, showed the following:

Particulars	CY 2018	CY 2017	Increase/Decrease	
			Amount	Percent
Assets	P 157,680,256	P 143,744,305	P 13,935,951	10%
Liabilities	75,497,475	72,474,589	3,022,886	4%
Equity	82,182,781	71,269,716	10,913,065	15%
Income	91,862,967	86,326,006	5,536,961	6%
Expenses	84,851,930	78,425,018	6,426,912	8%

SCOPE OF AUDIT

A financial and compliance audit was conducted on the accounts and transactions of the Municipality of Maigo, Lanao del Norte for the period January 1, 2018 to December 31, 2018 specifically on the following thrusts: a) Fund Transfers; b) 20% Development Fund; c) Local Disaster Risk Reduction Management Fund; d) Solid Waste Management/Environmental Compliance; e) Special Education Fund; f) Procurement; and g) Citizen Participatory Audit. The audit was aimed to verify the level of assurance that may be placed on management's assertions on the financial statements; recommend

agency improvement opportunities; and determine the extent of implementation of prior year's audit recommendations.

The audit was conducted with the use of applicable rules, regulations and policies as the criteria and standards; the examination, on a test basis, of the evidences supporting the amounts and disclosures in the financial statements; the assessments of the accounting principles used and the review of the significant estimates made by management, and the evaluation of the over-all financial statement presentation.

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

The Auditor rendered a modified qualified opinion on the fairness of the presentation of the financial statements as of December 31, 2018 due to cash shortages of P4,351,707; unreported accountable forms without money value of undermined amount and with money value of P767,345; unreported collections from Maigo Water Utilities amounting to P3,601,224; unliquidated cash advances totalling P5,226,005; and absence of Report on the Physical Count of Property, Plant and Equipment (RPCPPE) valued at P98,544,760.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations and recommendations in the audit of the Municipality of Maigo, Lanao del Norte for the Calendar Year 2018.

1. The OIC-Municipal Treasurer incurred a cash shortage amounting to P3,095,458 in violation of Article 217 of the Revised Penal Code of the Philippines and Section 103 of PD 1445 due to misappropriation of government fund.

We recommended to the Local Chief Executive the following:

- a.) Cause OIC-Municipal Treasurer for the immediate full restitution of the missing funds.
- b.) Direct the persons who made an IOUs/Vales to refund the amount.
- c.) Institute appropriate administrative and/or criminal charges against the Accountable Officer for malversation of public funds pursuant to Article 217 of the Revised Penal Code.
- d.) Require Municipal Treasurer and Municipal Accountant to reconcile their balances recorded in their books of accounts at least quarterly, and to submit reconciliation statement to the Audit Team for verification.
- e.) Require the Municipal Treasurer to install internal control measures to ensure

that all collection be remitted/deposited intact and daily.

2. The Collecting Officer incurred a cash shortage of P1,256,249 in violation of Article 217 of the Revised Penal Code of the Philippines and Section 103 of PD 1445 due to misappropriation of government funds.

We recommended to the Local Chief Executive the following:

- a.) Cause the Accountable Officer for the immediate full restitution of the missing funds.
 - b.) Direct the persons who made an IOUs/Vales to refund the amount.
 - c.) Institute appropriate administrative and/or criminal charges against the Accountable Officer for malversation of public funds pursuant to Article 217 of the Revised Penal Code.
3. Issuance of 28,638 pieces of accountable forms without money value with undetermined amount and accountable forms with money value in the amount of P767,345 were not reported and reflected in the Report of Collection and Deposits due to non-monitoring and non-compliance on the rules on requisition, handling, and reporting of accountable forms provided in COA Circular No. 92-382 dated July 3, 1992 and the Government Accounting and Auditing Manual (GAAM), thus exposing the Accountable Forms to loss and possible misuse.

We recommended to the Local Chief Executive to:

- a.) Direct the OIC-Municipal Treasurer to explain in writing why such accountable forms issued were not properly monitored and accounted for.
- b.) Require the persons who made an IOUs/Vales to refund the amount.
- c.) Require the OIC-Municipal Treasurer to determine their average monthly usage of Accountable Forms and on the basis thereof request Accountable Forms in sufficient quantities not to exceed three months' use.
- d.) Instruct the OIC-Municipal Treasurer to issue the Accountable Forms in strict numerical sequence with approved Requisition Issue Voucher.
- e.) Cause the Revenue Collecting Clerk III to produce and account for the missing Accountable Forms
- f.) Maintain a separate logbook for Accountable Forms and provide all the necessary details in strict observance of Section 95, Volume I of GAAM.
- g.) Prepare and submit religiously the Monthly Report of Accountable Forms in

accordance with section 37 of COA Circular No. 92-382.

4. Unrecorded collections from Maigo Water Utilities (General Fund) reached the amount of P3,601,224 kept in the custody of the OIC-Municipal Treasurer and the Collecting Officer from the period January 1, 2013 to November 7, 2017 contrary to Section 84 of P.D. 1445 and Section 8 of COA Circular No. 92-382 dated July 3, 1992, thereby exposing government funds to misuse or misappropriation.

We have recommended to the Local Chief Executive to:

- a.) Institute appropriate administrative and/or criminal charges against the Accountable Officer for malversation of public funds pursuant to Article 217 of the Revised Penal Code.
 - b.) Require the OIC-Municipal Treasurer as Head of the Treasury Office to explain in writing why issued accountable forms were kept for a long period of time and was not demanded for remittance or deposits by the collecting officer to the Authorized Depository Bank or her office as Municipal Treasurer.
 - c.) Direct the OIC-Municipal Treasurer to explain in writing why collecting officers were allowed to accept IOUs, vales or other forms of promissory notes out of the cash collections of the Municipality.
 - d.) Demand from the Officers and Employees to refund the amount of IOUs/vales and require the Municipal Budget Officer to appropriate and obligate the expenditures paid out from the collections.
5. Collecting Officers of the Local Government Unit were not covered with fidelity bond and were allowed to collect various collections contrary to Section 101 of PD 1445, Treasury Order No. 01-95 and Section 305 (f) R.A. No. 7160 which resulted cash shortages, thus government interest is not protected in case of loss thru theft, robbery or other fortuitous events.

We recommended to the Local Chief Executive:

- a.) Direct the OIC-Municipal Treasurer to require the Collecting Officers delegated with the task of collecting taxes and other revenues of the LGU to apply with the Bureau of Treasury a bond sufficient to cover their cash accountability.
- b.) Employees with Job Order Status and other Collecting Officers who were not bonded should not be allowed to collect.
- c.) Review the plantilla position of Treasury Office and deploy personnel/staff with competence, computer literate, and possess high-degree of integrity and

other core values, where trust and confidence can be relied upon.

d.) Require the Municipal Budget Officer to provide budget for bond premium.

6. Accumulated cash advances totaling P717,274 remained unliquidated as of December 31, 2018 contrary to Section 89 of P.D. 1445 and COA Circular No. 97-002 dated February 10, 1997, and non-keeping of accurate cashbook caused by laxity of the OIC-Municipal Treasurer may result to the possibility of misappropriation of government funds.

We recommended the Local Chief Executive to:

- a.) Cause the OIC-Municipal Treasurer to liquidate immediately her unliquidated cash advances for payroll and operating expenses.
- b.) Ensure that the Accountable Officers which were granted cash advance must liquidate their cash advances within the required period provided in item 5.1 of COA Circular No. 97-002 dated February 10, 1997.
- c.) Withheld the salary or any money payable to the OIC-Municipal Treasurer until the cash advances has been fully liquidated and settled pursuant to item 5.1 and 9.3.2 of COA Circular No. 97-002 dated February 10, 1997.
- d.) Recording of Liquidation should be made on a per cash advance basis and not on a monthly basis.
- e.) Record the ATM Payroll in a separate Subsidiary Ledger.
- f.) Maintain separate cashbooks for salaries, wages, allowances, etc and for operating expenses. The Accountable Officer shall record the transactions in the prescribed cashbook daily in accordance with Item 6 of COA Circular No. 97-002 dated February 10, 1997.

7. Rules on the Handling, Custody and Disposition of the Cashbook as provided under Section 6 of COA Circular No. 97-002 dated February 10, 1997, Section 26 of the National Government Accounting System (NGAS) Manual for LGUs, Volume II and Section 29 of COA Circular No. 92-382 dated July 3, 1992 were not duly maintained and observed by the Collecting Officers and OIC-Municipal Treasurer, thereby making the balances therein doubtful and unreliable.

We recommended the following:

- a.) Require the OIC-Municipal Treasurer and Collecting Officers to diligently and regularly update the posting of her cashbook; record collections and deposits on a daily basis for easy determination, monitoring and verification of balances.

- b.) Cause the Collecting Officer to maintain separate cashbook for each fund handled in accordance with what the National Government Accounting System Manual for LGUs prescribes.
 - c.) Direct both the Municipal Accountant and the OIC-Municipal Treasurer for immediate reconciliation of their records at least quarterly.
 - d.) Require the OIC- Municipal Treasurer to submit justification on the above-mentioned deficiencies.
8. Cash Advances granted to its official and employees totaling P5,226,005 remained unliquidated at year end, and liquidation reports thereof amounting to P12,513,081 were not submitted contrary to Section 89 of Presidential Decree 1445 and COA Circular No. 97-002, which resulted to overstatement of asset account and understated the expense account.

We recommended to the Local Chief Executive the following:

- a.) Strictly require the LGU officials and employees to liquidate their cash advances otherwise, the non-liquidation of the cash advances granted constitute for the cause of filing of malversation of funds under the Revised Penal Code and appropriate administrative proceedings.
 - b.) Direct the Municipal Accountant and the Municipal Treasurer to stop the granting of cash advances unless the previous cash advances were liquidated. Also, require that claims for traveling expenses should be supported with complete documentation before payment shall be made.
 - c.) Require the Municipal Accountant for the immediate submission of liquidation reports on cash advances granted to officers and employees.
9. Reliability, validity and existence of Property Plant and Equipment account amounting to P98,544,760 could not be ascertained due to failure to conduct complete physical inventory, non-submission of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and property ledger cards were not maintained in contrary to Section 156 of COA Circular No. 92-386, Section C.3 Chapter V of the Manual on Property Custodianship and Section 124 of NGAS Manual.

We have recommended the following:

- a.) Direct Local Chief Executive to create an Inventory Committee to conduct complete physical inventory count of all PPE and submit Report on the Physical Count of Property, Plant and Equipment (RPCPPE).

- b.) If possible designate another permanent personnel to handle the General Services Office to cope with the requirements.
 - c.) Instruct the General Services Officer/Supply Officer and the Municipal Accountant to regularly reconcile their records and review the composition of the PPE account to come up with an accurate Property, Plant and Equipment account balance.
10. The General Services Office and the Accounting Office failed to maintained Stock and Property Cards for supplies; and Property, Plant and Equipment Ledger Cards, respectively, thus validity and correctness of the Inventory and PPE accounts totaling P98,544,760 remained unreliable at year end.

We recommended to require the General Services Officer-Designate and the Municipal Accountant to maintain Stock and Property Cards for Supplies, and Property, Plant and Equipment Ledger Cards, respectively. The required records shall also be the basis by the GSO for its reconciliation with the actual physical inventory.

11. Money value of the accumulated leave credits of LGU employees were not recorded in the books of accounts which cause an understatement of liabilities contrary to the provisions of Philippine Public Sector Accounting Standards on the accounting for employee benefits and COA Circular No. 2015-009 which prescribes the Revised Chart of accounts for local government units, thus entails that proper recording and monitoring should employed by the management.

We recommended the following:

- a.) Require the Human Resource Management Officer to compute the accumulated leave credits of LGU employees.
 - b.) Require the Municipal Accountant to record the Terminal Leave Benefits due to the employees to ensure proper recording and monitoring of earned leave benefits.
 - c.) Direct the Municipal Budget Officer and Human Resource Management Officer to institute prioritization of payments to the employees soon to retire.
12. Hiring large number of job order personnel without proper documentation as to urgently needed in various programs and projects may cause the Management's inability to fill up the vacant position of the total plantilla and may result to overlapping of functions with the regular employees contrary to Section 17 of Republic Act No. 10924, CSC Resolution No. 02-0790 dated June 5, 2002 and Section 4(f) of PD 1445, thereby resulting in the non-attainment of Management's objectives.

We recommended to the Local Chief Executive to:

- a.) Direct the Head of Human Resource Management Office to submit the contract of service of the job orders and consultants with specific duties and functions and reconcile the manpower complement based on the actual manpower.
 - b.) Consider either one of the following:
 - Appoint Job Order personnel as regular employees if they are qualified and believes that their services are essential and contributory to the improvement of agency's operations or,
 - Stop hiring Job Order and fill up the vacant plantilla positions in accordance with the Civil Service Commission rules and regulations. Prioritize the division with undermanned in the filling-up of vacant plantilla position.
 - c.) Formulate a policy and internal control in the hiring of job order workers such as but not limited to requiring specific and detailed description of duties and responsibilities to eliminate workings having no definite purpose, if any.
13. The Management failed to submit the Disbursement Vouchers, Official Receipts, Trial Balances and Bank Reconciliation Statements within the reglementary period prescribed in Section 122 of PD No. 1445, Section 7.2 of COA Circular No. 2009-006 and Section 70 of NGAS Manual, thus, completeness and accuracy of the account balances reported in the trial balance could not be determined.

We recommended to Local Chief Executive to:

- a.) Direct the Municipal Treasurer to submit disbursement vouchers after payment with complete supporting documents to the Office of Municipal Accountant.
 - b.) Direct the Municipal Accountant to strictly adhere to the prescribed time frame for the submission of monthly and quarterly reports as well as transmitting all receipts and disbursement records with complete supporting documents to the Office of the Auditor.
 - c.) Direct the Municipal Accountant to closely coordinate with the Municipal Treasurer for the latter to submit immediately the required reports within the prescribed period, and to facilitate the recording of the transactions in the books of accounts.
14. Shopping and Small Value Procurement were frequently used in the procurement of goods contrary to pertinent provisions of the Implementing Rules and Regulation on RA 9184. Moreover, payments were made in the name of

Municipal employees and some on reimbursement basis. Thus, defeating the purpose of the Procurement Law.

We have recommended the following:

- a.) Strictly compel the Local Chief Executive to abide the Implementing Rules and Regulation on RA No. 9184 or the Procurement Law.
 - b.) Direct the Bids and Awards Committee to adopt competitive bidding in the procurement process and comply the conditions on the use of the alternative mode of procurement.
 - c.) Require the Supply Officer/General Services Officer Designate and the Bids and Awards Committee (BAC) to adopt proper planning, monitoring and control measures in the procurement of goods.
 - d.) Require the Municipal Accountant and the Supply Officer/General Services Officer Designate to refrain the processing of liquidation reports for the above-mentioned disbursements because the above disbursements may be suspended or disallowed in audit.
15. Copies of contracts together with their supporting documents were not submitted for contract review and evaluation within the prescribed period. Likewise, no request for technical inspection was submitted for completed projects, contrary to COA Circular Nos. 2009-001 dated February 12, 2009, thereby depriving the management of the opportunity to be informed of the deficiencies, if any, at the earliest time possible.

We recommended to the Local Chief Executive to direct the Bids and Awards Committee (BAC) Secretariat to comply with the regulations and furnish the Audit Team copies of the contract agreements together with the corresponding supporting documents within the prescribed period for the timely review, evaluation and inspection of the same.

16. All Purchase Orders (PO) and copies of Acceptance and Inspection Report on procured supplies and materials were not submitted to the Audit Team within 24 hours from acceptance of delivered items as required in COA Circular No. 95-006; thus, timely inspection of deliveries could not be undertaken.

We recommended to the procuring department to submit copies of purchase order upon perfection of the contract and the Municipal General Service Officer to immediately furnish the Audit Team a copy of the Acceptance and Inspection Report within 24 hours after acceptance of all consumable deliveries and / or soon after the inspection and acceptance by the LGU personnel concerned on other items so that timely inspection could be made.

17. The Municipality failed to submit the Gender and Development Accomplishment Report, contrary to the provisions of PCW-DILG-DBM-NEDA Joint Memorandum Circular No. 2013-01 and COA Circular No. 2014-001 dated March 18, 2014. Thus, creating doubts to the Audit Team as to the allocation of budget and implementation of programs for Gender and Development.

We recommended to the Local Chief Executive to require the GAD Focal Person to prepare and submit the corresponding GAD Accomplishment Report within the period prescribed under COA Circular No. 2014-001 dated March 18, 2014.

18. Infrastructure projects totaling P17,087,115 were not completed within the specified contract duration contrary to Implementing Rules and Regulation of Republic Act No. 9184, thus, depriving the public of the benefits that could have been derived from their immediate and maximum use.

We recommended to the Local Chief Executive to:

- a.) Direct the Municipal Planning and Development with the Engineering department to plan in carrying out accurate design and effective production of the projects in order to ensure immediate implementation when the funds are available.
 - b.) Instruct the Municipal Engineer to expedite the implementation of these projects to provide the expected benefits to the intended beneficiaries on time and to act promptly on issues or constraints causing the delay of the implementation of the projects.
 - c.) Require the Local Chief Executive through the Municipal Engineer to file and demand payment for liquidated damages for the number of days delayed. If not, issue a Blacklisting Order disqualifying the erring contractor from participating in the bidding of all government projects.
19. Despite the availability of funds received from various National Government Agencies totaling P3,306,288, the funds from DA and DILG were remained unused and unimplemented at year end in contrary to DA Department Order No. 03 series of 2007 and DILG Memorandum Circular No. 2018-47 dated April 5, 2018, respectively. Thus depriving the intended beneficiaries of the immediate and maximum use of the programs/projects and thereby defeating the purpose for which these funds had been set up.

We recommended to the Local Chief Executive to:

- a.) Require the proponents headed by Municipal Planning and Development with the Engineering department to conduct thorough planning in coming up with timely implementation of proposed projects.

- b.) Instruct the heads of the implementing offices to prioritize and expedite the implementation of these projects to provide the expected benefits to the intended beneficiaries on time and maximum use of the programs/projects, and to act promptly on issues or constraints causing the non-implementation of the projects.
20. Out of the total appropriations of P16,232,523 for the 20% development fund projects, only 64.05% or P10,398,297 was utilized for CY2018 contrary to Section 5.0 of DILG-DBM Joint Memorandum Circular No. 2017-01 dated February 22, 2017, resulting to delayed attainment of desirable socio-economic development and environmental outcomes.

We recommended to the Local Chief Executive to:

- a.) Direct the Local Development Council to judiciously plan the programs/projects/activities to be funded out of the 20% Development Fund (DF) in accordance with the mandate of DILD-DBM JMC No. 2017-01 dated February 22, 2017; and
 - b.) Promptly implement all the programs/projects/activities as embodied in the approved Annual Investment Plan in order to optimize the delivery of basic services to the people.
21. Programs, projects and activities in the aggregate amount of P896,960 were charged against the 20% Development Fund, despite non-compliance with the relevant provisions of DILG-DBM Joint Memorandum Circular No. 2017-01 dated February 22, 2017, thus depriving the constituents of the benefits from the fund.

We recommended to the Local Chief Executive to:

- a.) Refrain from using the 20% Development fund to pay expenditures that do not partake the nature of investment and capital expenditures. Henceforth, strictly observe the provisions of DILG-DBM Joint Memorandum Circular No. 2017-01 dated February 22, 2017 on the appropriation and utilization of the development fund.
 - b.) Implement sound internal control policy, such as creation of a working group to monitor the implementation of the projects, may likewise need to be developed in order to ensure that the fund was utilized in accordance with its purpose.
22. Improper utilization of the of Local Disaster Risk Reduction Management Fund (LDRRMF) in the amount of P97,970 contrary to COA Circular No. 2012-002 dated September 12, 2012 and NDRRMC-DBM-DILG Joint Memorandum

Circular No. 2013-01 dated March 25, 2013, which may hinders the non-achievement of desired purpose of the fund.

We recommended to the Management to plan and ensure that the projects for the LDRRMF are supportive to disaster risk management activities as provided under Section 3.0 of COA Circular No. 2012-002 dated September 12, 2012 and Section 21 of RA 10121 and to be cautious in charging expenditures to the LDRRMF.

23. The Municipality failed to submit a copy of the approved Local School Board Budget for the Special Education Fund (SEF) contrary to the provision of RA 7160 and DEPED-DBM-DILG Joint Circular No. 01 s. 2017, thus depriving the public schools of the utilization of the fund for their operation and maintenance.

We recommended to the Local Chief Executive to require the Local School Board and other employees concern to strictly adhere with the provision of Sec. 100 of RA 7160, DEPED-DBM-DILG Joint Circular No. 01 s. 2017 and other existing budgeting, accounting, and auditing rules and regulations.

The above observations were earlier communicated through an Audit Observation Memoranda (AOM) and discussed in the exit conference with concerned management officials and employees on March 20, 2019. Management's comments are incorporated in this report, where appropriate.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES

As of December 31, 2018, the Municipality has a total Notice of Suspension (NS) of P15,464,604.29 and Notice of Disallowance (ND) of P1,034,156 issued by the Audit Team.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of twenty six (26) audit recommendations embodied in the Calendar Year 2018 Annual Audit Report, five (5) were fully implemented, fourteen (14) were partially implemented and seven (7) were not implemented, which were reiterated and incorporated in the report.

Management is enjoined to faithfully comply with the recommendations cited in the Annual Audit Reports in order to improve the system and avoid the recurrence of problems. These shall all be expected to be contributing to the sound fiscal administration of governmental functions that rests primarily in the management itself.