

EXECUTIVE SUMMARY

Introduction

The Municipality of Agdangan is a fifth class municipality that belongs to the 3rd Congressional District of the Province of Quezon known as the Bondoc Peninsula area. The Municipality for CY 2014 aims to deliver the essential basic services to its constituents thru giving of the necessary social services and providing maintenance work on the infrastructure facilities in the Municipality.

The Municipality maintains General Fund, Special Education Fund and Trust Fund.

During 2014, the Municipality was headed by Municipal Mayor Vicenta C. Aguilar and assisted by the Sangguniang Bayan headed by Vice Mayor Arnold M. Par and by the other department heads.

Financial Highlights

The Municipality generated a total income of P38,259,637 from local taxes, permits and licenses, service and business income and internal revenue allotment which increased by P3,803,433 compared to last year's total income of P34,456,204.

For the year 2014, the Municipality appropriated P37,444,614. Of the said amount, total expenditures amounted to P34,873,245.

The Municipality's financial condition and results of operations for Calendar Year 2014 compared with that of the preceding year are summarized below and shown in detail in the attached audited financial statements:

	2014	2013	Increase
Assets	P 44,432,552	P 40,060,326	P 4,372,226
Liabilities	22,525,770	20,275,194	2,250,576
Equity	21,906,783	19,785,132	2,121,651
Income	38,259,637	34,456,204	3,803,433
Expense	35,465,358	33,135,326	2,330,032

Scope of the Audit

Financial and compliance and value for money audits were conducted on the accounts and operations of the Municipality of Agdangan, Quezon for Calendar Year 2014. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the Municipality to laws, rules and regulations as well as the economical, efficient and effective utilization of resources.

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 because:

- The existence and valuation of Property, Plant and Equipment (PPE) account balance of ₱10,514,397.43 could not be ascertained due to the failure of the Municipality to complete the physical inventory during the year as well as to prepare and maintain property cards and subsidiary ledgers for each category of PPE.
- Transfer Certificate of Titles of three parcels of land purchased at ₱390,000.00 remained in the name of the sellers, and three parcels received as donation recorded at assessed value of ₱859,595.00 were not yet titled in favor of the Municipality.
- The balance of Real Property Tax/Special Education Tax Receivable totaling ₱4,931,293.16 was unreliable due to failure of the Municipal Treasurer to prepare and submit the list of taxpayers with corresponding amount due for 2014 and to submit the list of delinquent taxpayers as of year-end.
- Dormant/non-moving Receivables account of ₱71,606.43 remained outstanding in the books for more than 15 years, rendering their balances in the financial statements doubtful.
- Monitoring of dispersal of large cattles and carabaos accounted under the Livestock Inventory was not made regularly, thus the objective of the dispersal program was not fully achieved to the detriment of other potential beneficiaries; and inventory balance of ₱925,000.00 was overstated by ₱583,000.00 for failure of the Municipal Accountant to record the cost of 34 cattles/carabaos that were already sold and dead.
- Other Assets balance of ₱266,847.00 which has been in the books for more than fifteen (15) years is of doubtful validity for lack of documentation.
- Direct expense method was used in recording the purchases and issuance of supplies and materials costing ₱1,252,871.69, instead of the Perpetual Inventory Method rendered the inventory and the related expenses account balances unreliable. Likewise, issuances were not properly controlled and supported with Requisition Issue Slip and Summary of Supplies and Materials Issued exposing such items to possible misuse/misappropriation.
- Various expenses totaling ₱8,885,314.99 were improperly charged to Other Maintenance and Operating Expenses (969) thereby misstating the expenditure classifications and adversely affecting the fairness of presentation in the financial

statements. Moreover, expenses totaling ₱398,424.31 exceeds the appropriations and had no specific appropriation, hence considered illegal expenditures.

For the exceptions cited above, the Auditor recommended that the Municipal Mayor:

- Require the Inventory Committee to complete the physical inventory of all property of the Municipality and prepare and submit immediately the pertinent inventory reports;

Require the Municipal Accountant to prepare and maintain complete and updated PPE Ledger Cards;

Require the Municipal Treasurer to prepare and maintain complete and updated property cards; and

Require the Municipal Treasurer and Municipal Accountant to reconcile their records regularly.

- Designate a responsible person to facilitate titling of subject lots to avoid contingent claims that may arise in the future and to create an Appraisal Committee that will determine the appraised value of the three donated lots to serve as basis in adjusting the recorded assessed value.
- Instruct the Municipal Treasurer to submit the list of delinquent taxpayers showing separately the collectibles from 2002-2014 and those prior to 2002;

Require the Municipal Accountant to adjust the RPT/SET Receivables based on the collectibles for 2002-2014; and

Instruct the Municipal Treasurer to enforce collection of the delinquent real property taxes.

- Require the Sangguniang Bayan to prepare and submit a resolution requesting the write-off of the Receivables from KKK proponents, to the Office of the Auditor, in accordance with the above cited regulation and attach copies of the proof of efforts exerted by the Municipality to recover the said amount, (e.g. collection letters to KKK proponents).
- Require the Municipal Agriculturist and the General Services Officer to:
 - a) conduct investigation on the circumstances surrounding the death of the animals and determine if negligence was committed so that the concerned recipients may be compelled to refund the cost of animals as part of their responsibility, pursuant to the Animal Dispersal Contract;

- b) submit timely Livestock Death Certificate to the Municipal Accountant to support the dropping from the books of the cost of dead animals in accordance with the rules and regulations for the relief from accountability;
 - c) conduct a more intensive monitoring and evaluation of the project implementation to determine the success or failure of the program for further decision making; and
 - d) require the Municipal Accountant to make necessary adjustments of the Livestock Inventory account and other affected accounts, once the reports are received from the Municipal Agriculturist, for fair presentation of balances in the financial statements.
- Require the Municipal Accountant to communicate with DBM and to request copy of the Debit Advice for the deduction made by DBM on the IRA of the Municipality for GSIS contributions of municipal employees and present the same to the GSIS to facilitate tracing of the related records and action on the claim.
 - Require the Municipal Accountant to record purchases of office supplies, drugs and medicines, medical and dental laboratory supplies and agricultural supplies as debit to appropriate asset account using the perpetual inventory system regardless of whether they were consumed within the accounting period or not, and the Supply Officer to prepare the Report of Supplies and Materials Issued (RSMI) to be submitted to the Accounting Office for recording purposes in accordance with the above cited regulations.
 - Require the Municipal Accountant to prepare the necessary adjusting entries to reclassify the affected expense accounts in order to present fairly the accounts in the financial statements.

The following are the summary of the other significant audit observations and recommendations in the audit of the Municipality of Agdangan for the year 2014:

1. Liquidation Vouchers for cash advances totaling ₱700,700.00 were not properly supported with required documentation in violation of Section 4(6) of Presidential Decree No. 1445 and COA Circular No. 97-002, hence the legality, regularity and validity of the transactions could not be established.

We recommended that the Municipal Mayor require the Municipal Accountant to:

- ensure that all the required supporting documents are attached to the liquidation vouchers before processing the payments;
- submit to the Auditor the supporting documents, per *Annex 6* for further audit.

2. Immediate and full settlement of the balance of the short term loans (micro financing benefits) of ₱731,299.42, the grant of which is contrary to Section 16 of Local Government Code of 1991 and Section 84(2) of Presidential Decree No. 1445, was not enforced.

We reiterated our recommendation that the Municipal Mayor require the Municipal Treasurer and the Municipal Accountant to implement immediately the full settlement of the total amount of ₱731,299.42 through deduction from the salary or from whatever money due the concerned municipal officials/employees.

3. Dormant/unexpended balances of various trust receipts from national agencies and other local government units totaling ₱294,391.68 as of year-end were not reverted to the National Treasury, contrary to Section 29(3) Article VI of the Constitution, Section 122 of Government Accounting and Auditing Manual Volume I and Executive Order No. 431, thereby, deprived the national government of the opportunity for the immediate use of said funds to its other vital projects and exposing them to possible misuse.

We recommended that the Municipal Mayor require the Municipal Treasurer to deposit the amount of ₱294,391.68 to the account of the National Treasury.

4. Payments for purchases of office supplies, office equipment and various maintenance and operating expenses totaling ₱1,224,195.32, were made thru reimbursements to the Municipal officials and employees, in violation of COA Circular No. 97-002 dated February 10, 1997, Section 93 of PD No. 1445, and Section 48 of RA No. 9184. Also, taxes due the BIR totaling ₱4,878.14 were not withheld in most of the reimbursements made, in violation of Section 2 (a) of BIR Revenue Regulation No. 1-87 dated April 2, 1987, thus, depriving the government of income due thereon.

We recommended that the Municipal Mayor require the:

- Municipal Accountant and the Municipal Treasurer to ensure that all payments are made by check payable either directly to the creditor to whom the money is due or to a disbursing officer for official disbursement; and
- Municipal Accountant to submit at least three (3) price quotations from bona fide suppliers to support the claims for reimbursements.

We also recommended to refund the amount of ₱4,878.14 for the taxes which were not withheld and remit the same to the BIR.

5. Special accounts for the operation of public utilities/economic enterprises and 5% Local Disaster Risk Reduction and Management Fund were not maintained in the General Fund, contrary to Section 313 of Republic Act No. 7160 as reiterated under Section 105 of the Manual on the New Government Accounting System

(NGAS), Volume I, thus, depriving the Municipality and the users of the financial statements of the vital information on their operations and utilization of funds.

We reiterated our recommendation that the Municipal Mayor require the Municipal Accountant to maintain complete sets of subsidiary ledgers for all public utilities/economic enterprises operated by the Municipality including the 20% Development Fund and LDRRMF to facilitate monitoring and preparation of the required financial statements in compliance with Section 313 of RA No. 7160 and Sections 105 and 110 of the Manual on NGAS.

6. Expenses totaling ₱380,901.92 used for 75th anniversary of Agdangan, Quezon was charged to 20% Development Fund, which did not contribute to the development of the Municipality, contrary to Joint Memorandum Circular No. 2011-1.

We recommended that the Municipal Mayor:

- Instruct the Municipal Planning and Development Coordinator to see to it that only projects that truly contribute to the development of the Municipality are included in the 20% Development Fund in accordance with Joint Memorandum Circular No. 2011-1 of DILG and DBM.
 - Request the SB to appropriate funds of ₱980,323.92 under the General Fund so that the amount can be reverted to the 20% Development Fund.
 - Require the Municipal Budget Officer to revert the amount of ₱380,901.92 in addition to ₱599,422.00 or a total of ₱980,323.92 to the 20% Development Fund.
7. Monthly honorarium totaling ₱737,460.00 were paid to Bids and Awards Committee (BAC) Chairman and Members, Technical Working Group and BAC Secretariat although no competitive bidding activities were conducted, and payments were not supported with available funds, contrary to Budget Circular No. 2004-5A and Budget Circular No. 2007-3, respectively.

We recommended that the Municipal Mayor:

- stop the granting of honorarium to the BAC, TWG and Secretariat when there is no competitive bidding activities conducted in compliance with Budget Circular No. 2004-5A dated October 7, 2005 and there is no available funds;
 - Refund the amount of ₱737,460.00 in addition to the ₱200,736.38 balance in 2013.
8. Implementation of various infrastructure projects totaling ₱2,205,414.00 by administration were not supported by required documentation, contrary to Section 4(6) of Presidential Decree No. 1445, and Appendix 1 Revised Guidelines for the implementation of Infrastructure Projects by Administration of IRR of RA No. 9184, hence the legality, regularity and validity of payments could not be established.

We recommended that the Municipal Mayor require the Municipal Accountant to submit to the Auditor the above cited documents for evaluation.

9. The Municipality resorted to piecemeal procurement thru shopping as alternative mode of procurement for goods totaling ₱2,793,369.23 in violation of Section 48.2 and Section 52 of IRR-A of RA No. 9184, which provides that the agency shall adopt public bidding as a general mode of procurement, hence it has not availed of savings in terms of lower cost and less time and efforts to processing, inspection, acceptance and payment.

We recommended that the Municipal Mayor require the BAC to stop the practice of procuring supplies and materials by piecemeal through shopping as alternative mode of procurement and adopt Public Bidding as the primary mode of procurement in compliance with RA No. 9184.

10. The Municipality granted Personnel Enhancement Incentive (PEI) to its personnel in the amount of ₱25,000.00 each or a total of ₱1,157,500.00 exceeding the authorized amount of ₱5,000.00 by ₱20,000.00 or a total of ₱926,000.00; and exceeding the Personal Services limitation by ₱939,008.56, contrary to DBM Budget Circular No. 2014-3 and Section 325 (a) of R.A. 7160.

We recommended that the Municipal Mayor adhere strictly to the 55% Personal Services limitation as provided in Section 325 of RA 7160 to avoid incurrence of excessive Personal Services and consider the financial capability of the Municipality and the PS limitation before granting the Productivity Enhancement Incentive.

We also recommended to refund immediately the excess payment of ₱20,000.00 each or a total of ₱926,000.00 in addition to ₱705,000.00 excess in 2012.

11. Unutilized balances of Priority Development Assistance Fund (PDAF) totaling ₱1,138,868.83 in 2013 were still not reverted to the National Treasury as of December 31, 2014, in violation of the Supreme Court decision dated November 19, 2013 and exposing the funds to possible misuse.

We recommended that the Municipal Mayor require the Municipal Treasurer to deposit the amount of ₱1,138,868.83 immediately to the account of the National Treasury.

The observations and recommendations were discussed with concerned Management officials and staff on August 17, 2015 and their comments were incorporated in the report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the 27 prior year's audit recommendations embodied in the 2013 Annual Audit Report, nine were fully implemented, six were partially implemented and 12 were not implemented by the Municipality.