

Republic of the Philippines

**COMMISSION ON AUDIT**

Commonwealth Avenue

Quezon City

`

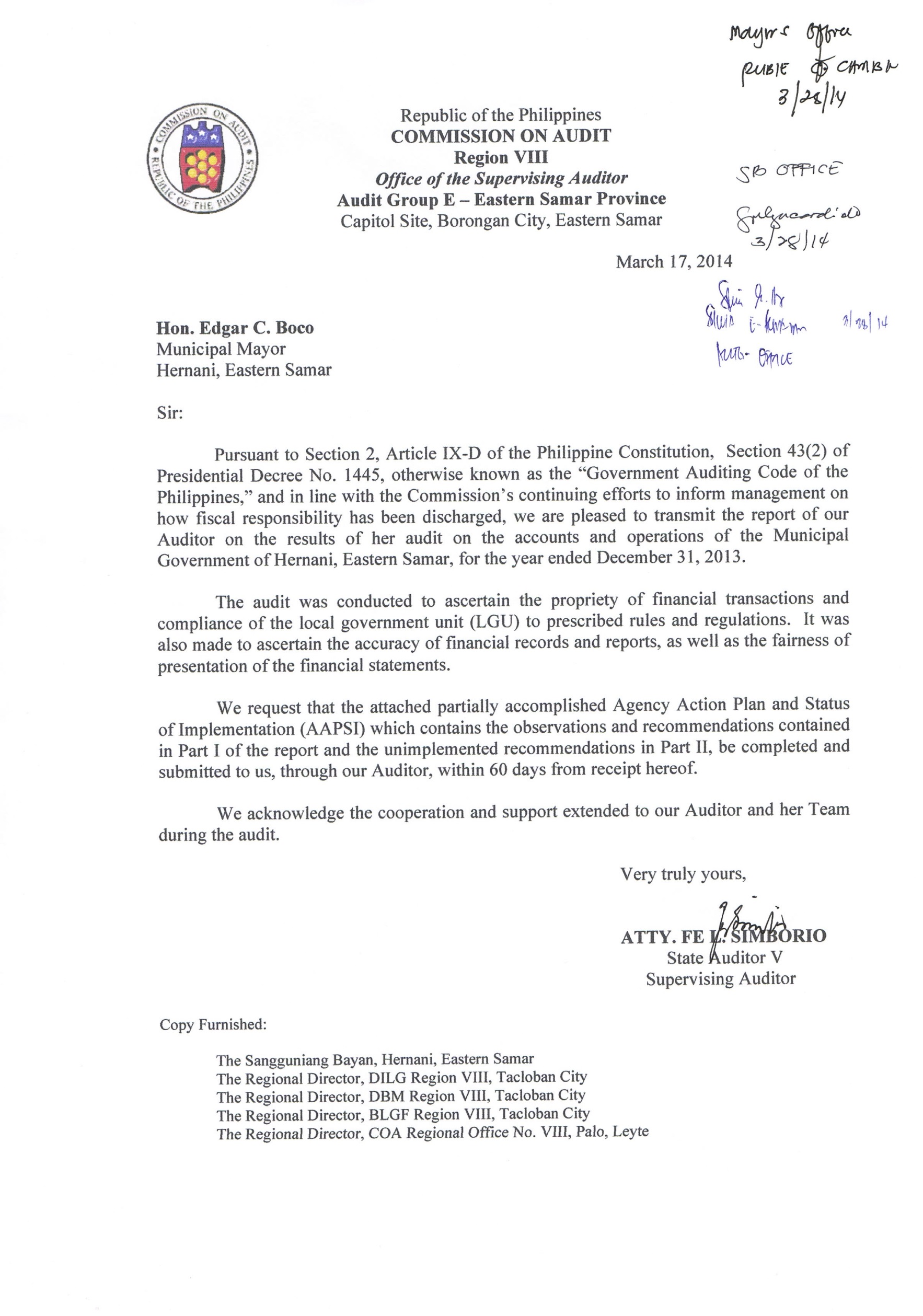
**ANNUAL AUDIT REPORT**

**ON THE**

**MUNICIPALITY OF HERNANI**

**Province of Eastern Samar**

For the Year Ended December 31, 2013

****

**ANNEX A**

Municipality of Hernani

Eastern Samar

**AGENCY ACTION PLAN and**

**STATUS of IMPLEMENTATION**

**Audit Observations and Recommendations**

For the Calendar Year 2013

As of December 31, 2013

| Ref | Audit Observations | Audit Recommendations | Agency Action Plan | | | | Status of Implementation | Reason for Partial/Delay/ Non- Implementation, if applicable | Action Taken/Action to be Taken |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Target Implementation Date | |
| Action Plan | Person/Dept.  Responsible | From | To |
| AAR, CY 2013 | The year-end financial statements and schedules, disbursement vouchers with supporting documents, collection reports and official receipts, and other financial reports representing agency transactions for the period July to December 2013 were not submitted for review, evaluation and audit, contrary to Section 347 of R. A. 7160, Section 122 of P. D. 1445, Section 7.2.1.a of COA Circular No. 2009-006 dated September 15, 2009, Section 4.1 of COA Circular No. 2010-001 dated March 2, 2010, and Sections 70 and 73, Volume I of the Manual on the New Government Accounting System (NGAS) for Local Government Units. | Require the Municipal Accountant and other concerned officials to adhere strictly to the aforecited provisions in the submission of financial reports and statements, and to submit immediately their request for writing off of accountabilities supported with notice of loss and inventory of documents and properties that were lost or destroyed due to the aftermath of the super typhoon Yolanda (Haiyan). |  |  |  |  |  |  |  |
| AAR, CY 2013 | Government projects undertaken by the local government in CY 2013, whether funded from their local budget or financial assistance or grants from other national agencies, were not reported to our Office in the manner and form prescribed in Sections 2.0 and 3.1 of COA Circular No. 2013-004 dated January 30, 2013, thus resulting to the delays in the reporting and validation of the projects. | Require the Municipal Engineer and other concerned officials to adhere strictly to the provisions of COA Circular No. 2013-004 dated January 30, 2013 to enable the Audit Team to undertake prompt validation of the projects. |  |  |  |  |  |  |  |
| AAR, CY 2013 | Procurement of construction materials, in the total amount of P52,966.08, for the construction of MDRRMC office was artificially divided into two Purchase Requests and paid in two separate vouchers, apparently to make the transaction qualify under the alternative mode of shopping in violation of Section 54.1 of the Revised IRR of R. A. 9184. | Observe strictly the provisions of R. A. 9184 and its Revised IRR. |  |  |  |  |  |  |  |
| AAR, CY 2013 | Unlimited mobile expenses were reimbursed on prepaid and postpaid plans of officials and employees without duly observing the provisions of COA Circular No. 2012-003 dated October 29, 2012 thus, may prejudice the fund requirement of more important programs of the LGU and its delivery of basic services. | Stop immediately the wrongful practice of allowing actual unlimited reimbursements for mobile expenses.  Adopt formal policy setting the rule on: the position titles of officials entitled to mobile expenses and the monthly limit that each qualified official may be entitled. |  |  |  |  |  |  |  |
| AAR, CY 2012 | The existence and validity of Property, Plant & Equipment (PPE) accounts totalling ₱27,517,229.80 as of December 31, 2012, could not be established due to the failure of management to conduct the annual physical count of its properties, contrary to Section 124 of the NGAS Manual for LGU, Volume 1, and the possible inclusion in the asset account of unserviceable properties subject for disposal. | Create a committee to conduct the annual physical count of all PPE and to prepare and submit the RPCPPE;  Direct the Municipal Accountant to reconcile the PPE account ledger balances with that of the RPCPPE; and  Direct the Municipal Accountant and/or Property Officer to prepare the I & I report of all Unserviceable Properties prior to the conduct of disposal, if any. |  |  |  |  |  |  |  |
| AAR, CY 2012 | The accuracy and reliability of the balance of the Cash in Bank – Local Currency, Current Account (LCCA) in the amount of P5,712,482.08 as of December 31, 2012 could not be ascertained due to the non-preparation of the Bank Reconciliation Statements, contrary to Sections 3.2, 3.3 and 3.4 of COA Circular No. 96-011 dated October 2, 1996. | Instruct the Municipal Accountant to prepare and submit monthly bank reconciliation statements in order to present a reliable balance of the Cash in Bank – LCCA account. |  |  |  |  |  |  |  |
| AAR, CY 2012 | Intelligence and Confidential Funds granted to Mayor Edgar C. Boco, totaling P76,000.00, were immediately taken up as Intelligence Expenses (882), instead of recording it as Advances to Officers and Employees (148), contrary to COA Circular No. 2003-003 dated July 30, 2003, thus monitoring the utilization of the funds could not be made and may expose the funds to possible misuse. | Instruct the Municipal Accountant to reclassify the accounts and make necessary adjusting entry to record the same as Advances to Officers and Employees.  Adhere strictly to the provisions of COA Circular No. 2003-003 dated July 30, 2003 in the liquidation of the cash advance. |  |  |  |  |  |  |  |
| AAR, CY 2012 | Management failed to formulate its Gender and Development (GAD) Plan duly approved by the Commission On Women and allocate at least 5% of their budget for Calendar Year 2012 contrary to R.A. No. 7192, Executive Order 273, Joint Circular No. 2004-1 dated April 5, 2004, and the General Appropriations Act (GAA) for FY 2012 (R.A. 10155), thus gender issues and concerns affecting the full development of women may not have been addressed. | Instruct all concerned LGU officials to formulate and prepare the GAD Plan and Budget to insure that funds are allocated for the implementation of Gender and Development programs/projects. |  |  |  |  |  |  |  |
| AAR, CY 2011 | The Municipal Accountant and Municipal Treasurer did not maintain appropriate ledger cards, and property cards, respectively, and that no physical inventory was conducted on the LGU’s Property, Plant and Equipment valued at P23,113,363.24, contrary to section 114 and 124 of the NGAS Manual for LGU’s, Volume I, thus the accuracy of the recorded assets was not ascertained and their existence was not established. | We recommended that the Municipal Accountant and the Municipal Treasurer be required to maintain appropriate ledger cards, and property cards, respectively. Likewise, the Local Chief Executive should ensure that physical inventory taking is conducted periodically. |  |  |  |  |  |  |  |
| AAR, CY 2009 | The total appropriation for personal services exceeded the budgetary limitations by P3,456,603.90 or 18.09% in violation of adequate budget for maintenance and other operating expenses and needed development project. | The Local Chief Executive should limit the appropriations for personal services to 55% of the total annual income from regular sources of the next the municipality and the community as a whole. |  |  |  |  |  |  |  |
| AAR, CY 2009 | Management failed to submit approved copies of contracts/purchase order, and notices of deliveries for additional review and evaluation contrary to the mandates of COA Circular No. 2009-001. | Copies of the perfected contracts/purchase orders should be submitted within five (5) days after the execution/issuance. |  |  |  |  |  |  |  |
| AAR, CY 2008 | The validity of Land, Land Improvements and Building accounts valued P9,872,463.10 could not be ascertained due to lack of property cards, subsidiary ledgers and certificate of title contrary to Section 23(2), Title I, Book V, 1987 Administrative Code. | We recommended strict compliance to Section 23(2), Title I, Book V, 1987 Administrative Code. |  |  |  |  |  |  |  |

Agency sign-off:

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_

Name and Position of Agency Officer Date

Note: Status of Implementation may either be (a) Fully Implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed

**EXECUTIVE SUMMARY**

**Introduction**

The Municipality of Hernani was founded around the year 1850 by Miguel “Totoy Yadawon” Candido, a settler from Guiuan, Eastern Samar. Formerly called NAG-AS (derived from the name of the river located southeast of the town proper), the settlement is nestled on a flat coastal terrain facing the vast Pacific Ocean.

NAG-AS reached the epochal point of its development when it was made a regular and independent municipality as embodied in a Royal Decree issued by Spanish Governor-General Rafael Echague on the 4th of January 1864. The royal fiat also mandated the change of the old name NAG-AS to HERNANI.

Right after the Philippine-American War, the political status of Hernani was reduced into a barrio under the jurisdiction of Lanag (now Llorente). In 1912, its status as a Municipality was restored but the seat of local government was transferred to Pambujan (now Gen. MacArthur). However, in 1926, the Municipality of Hernani regained back the township by virtue of an Executive Order issued by the American Governor-General Leonard Wood.

Hernani is a 5th class municipality with thirteen (13) barangays. Its vision - “*A prosperous community characterized by enlightened and self-sufficient citizens engaged in diversified livelihood undertakings in an ecologically balanced environment and inspired by a just and efficient local government leadership*”.

**Highlights of Financial Operation**

The Municipality’s assets, liabilities and equity as of December 31, 2013 could not be presented due to non-submission of the financial statements and reports as discussed in Part I of this Report.

**SIGNIFICANT ACCOMPLISHMENTS OF THE LGU**

As of September 30, 2013, the LGU has completed the following infrastructure projects within the target number of days:

1. Construction/Rehabilitation of Padang-Nagaja Farm-to-Market Road (Phases I and II); and
2. Construction of 1-Classroom Elementary School Building at Barangays Nagaja and Batang.

**SCOPE OF AUDIT**

The audit was conducted on the accounts and operations of the Municipality of Hernani, Eastern Samar, for the period from January to June 30, 2013. As alleged by management, the documents evidencing transactions comprising the period July, 2013 to November 7, 2013 were totally damaged, destroyed, and washed out when the super typhoon Yolanda hit Hernani causing severe destruction to the Municipal Building and other properties and losses of its PPE. The Team had occasion to undertake ocular inspection of the extent of damage caused by the super typhoon on the properties and records of the LGU on December 6, 2013 when the Team was assigned to monitor the DSWD relief operations covering the Municipalities of Marabut, Samar to Maydolong, Eastern Samar. The Municipality of Hernani was included in the coverage of the Team’s Squad monitoring.

However, the Team has yet to receive the formal notice of the LGU informing of the particular documents, properties, and pieces of equipment that were severely destroyed/damaged or lost on the occasion of the super typhoon.

The audit was aimed to ascertain the propriety and validity of disbursements and receipts as well as the reliability of the accounts as presented in the financial statements. The audit consisted of review of operating procedures, verification and analysis of accounts, interview with concerned municipal officials and employees, and such other audit procedures considered necessary in the circumstances.

Disbursement vouchers and official receipts for the period January to June 2013 were verified and examined.

**INDEPENDENT AUDITOR’S OPINION**

The auditor has no basis to render an opinion since the agency has not submitted the financial statements, as of December 31, 2013. The LGU submitted only the Financial Statement for the General Fund as of June 30, 2013 only.

**SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS**

**A. Financial and Compliance Audit**

1. The year-end financial statements and schedules, disbursement vouchers with supporting documents, collection reports and official receipts, and other financial reports representing agency transactions for the period July to December 2013 were not submitted for review, evaluation and audit, contrary to Section 347 of R. A. 7160, Section 122 of P. D. 1445, Section 7.2.1.a of COA Circular No. 2009-006 dated September 15, 2009, Section 4.1 of COA Circular No. 2010-001 dated March 2, 2010, and Sections 70 and 73, Volume I of the Manual on the New Government Accounting System (NGAS) for Local Government Units.

*Require the Municipal Accountant and other concerned officials to adhere strictly to the aforecited provisions in the submission of financial reports and statements, and to submit immediately their request for writing off of accountabilities supported with notice of loss and inventory of documents and to file their request for relief from accountability for properties that were lost or destroyed due to the aftermath of the super typhoon Yolanda (Haiyan).*

1. Government projects undertaken by the local government in CY 2013, whether funded from their local budget or financial assistance or grants from other national agencies, were not reported to our Office in the manner and form prescribed in Sections 2.0 and 3.1 of COA Circular No. 2013-004 dated January 30, 2013, thus resulting to the delays in the reporting and validation of the projects.

*Require the Municipal Engineer and other concerned officials to adhere strictly to the provisions of COA Circular No. 2013-004 dated January 30, 2013 to enable the Audit Team to undertake prompt validation of the projects.*

1. Procurement of construction materials, in the total amount of P52,966.08, for the construction of MDRRMC office was artificially divided into two Purchase Requests and paid in two separate vouchers, apparently to make the transaction qualify under the alternative mode of shopping contrary to Section 54.1 of the Revised IRR of R. A. 9184.

*Observe strictly the provisions of R. A. 9184 and its Revised IRR.*

1. Unlimited mobile expenses were reimbursed on prepaid and postpaid plans of officials and employees without duly observing the provisions of COA Circular No. 2012-003 dated October 29, 2012 thus, may prejudice the fund requirement of more important programs of the LGU and its delivery of basic services.

*Stop immediately the wrongful practice of allowing actual unlimited reimbursements for mobile expenses.*

*Adopt formal policy setting the rule on: the position titles of officials entitled to mobile expenses and the monthly limit that each qualified official may be entitled.*

Deficiencies observed in the course of audit were earlier communicated through an Audit Observation Memoranda (AOM) and discussed in an exit conference on February 26, 2014 with the officials concerned whose comments were considered in the report, where appropriate.

**B. Local Disaster Risk Reduction and Management Fund (LDRRMF)**

The budget for its Local Risk Reduction and Management Fund and the disbursements from the said fund were not submitted by the Municipal Accountant for audit and there was no compliance with the provisions of COA Circular No. 2012-002 dated September 12, 2012.

**C. Audit of Funds and Activities for Gender and Development (GAD)**

The agency has prepared and submitted its GAD Plan and Budget. However, no validation was done due to non-submission of the List of Expenditures and Accomplishment Report for CY 2013.

**D. Compliance with Tax Laws**

For the period January to June 2013, management complied with BIR Revenue Regulation No. 10-2008 dated July 8, 2008 and has remitted taxes withheld from compensation, expanded final VAT and government money payments together with a copy of the Summary of Tax Withheld (STW) to support the Tax Remittance Advice (TRA) duly certified by the Accountant and approved by the Head of Agency or his duly authorized representative.

**STATEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES (SASDC)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Beginning Balance (As of January 1, 2013) | This Period  January 1 to December 31, 2013  (See B Below) | | Ending Balance  (As of  December 31, 2013) |
| NS/ND/NC | NSSDC |
| Notice of Suspension | 0.00 | 0.00 | 0.00 | **0.00** |
| Notice of Disallowance | 0.00 | 0.00 | 0.00 | **0.00** |
| Notice of Charge | 0.00 | 0.00 | 0.00 | **0.00** |
| Total | **0.00** | **0.00** | **0.00** | **0.00** |

**STATUS OF IMPLEMENTATION OF PRIOR YEARS’ AUDIT RECOMMENDATIONS**

Of the eight (8) recommendations embodied in the CY 2012 Audit Report, two (2) were partially implemented and six (6) were not implemented.

**TABLE OF CONTENTS**

**Page**

**Part I – Detailed Findings and Recommendations** 1

**Part II – Status of Implementation of Prior Years’ Audit** 9

**Recommendations**

**Part III – Annexes**

A - Working Paper on Mobile/Telephone Expenses

**PART I - FINDINGS AND RECOMMENDATIONS**

**Financial and Compliance Audit**

1. **The year-end financial statements and schedules, disbursement vouchers with supporting documents, collection reports and official receipts, and other financial reports representing agency transactions for the period July to December 2013 were not submitted for review, evaluation and audit, contrary to Section 347 of R. A. 7160, Section 122 of P. D. 1445, Section 7.2.1.a of COA Circular No. 2009-006 dated September 15, 2009, Section 4.1 of COA Circular No. 2010-001 dated March 2, 2010, and Sections 70 and 73, Volume I of the Manual on the New Government Accounting System (NGAS) for Local Government Units.**

The Municipal Accountant, Municipal Treasurer and Municipal Budget Officer are mandated to render their accounts and submit financial reports and statements to the Auditor, under the following laws, rules and regulations:

1. Section 347 of R. A. 7160 (The Local Government Code of 1991):

*“Local treasurers, accountants and other local accountable officers shall render their accounts within such time, in such form, style, and content and under such regulations as the COA may prescribe.”* (Underscoring Supplied)

1. Section 122 of P. D. 1445 (The Government Auditing Code of the Philippines):

*“Whenever deemed necessary in the exigency of the service, the Commission may under regulations issued by it require the agency heads, chief accountants, budget officers, cashiers, disbursing officers, administrative or personnel officers, and other responsible officials of various agencies to submit trial balances, physical inventory reports, current plantilla of personnel, such other reports as may be necessary for the exercise of its functions.”*

1. Section 7.2.1.a of COA Circular No. 2009-006 dated September 15, 2009:

*“7.2.1. The Chief Accountant, Bookkeeper or other authorized officials performing accounting and/or bookkeeping functions of the audited agency shall ensure that:*

*a) the reports and supporting documents submitted by the accountable officers are immediately recorded in the books of accounts and* ***submitted to the Auditor within the first ten (10) days of the ensuing month****;”* (Emphasis Ours)

1. Section 4.1 of COA Circular No. 2010-001 dated March 2, 2010:

*“The Accountants shall submit to the auditor the year-end FS and schedules required in 2.0 above* ***on or before February 14 of each year****. Xxx”* (Underscoring and Emphasis Supplied)

1. Sections 70 and 73, Volume I of the Manual on the New Government Accounting System for Local Government Units:

*“Sec. 70. Pre-Closing Trial Balance. Xxxx*

*Monthly pre-closing trial balance for each fund shall be submitted not later than the twentieth day after the end of the month. It shall be supported by the Status of Appropriations, Allotments and Obligations, for both the current and continuing appropriations.”*

*“Sec. 73. Interim Reports. Xxxx The following interim financial statements and the Notes to Financial Statements shall be prepared and submitted quarterly:*

1. *Balance Sheet;*
2. *Statement of Income and Expenses; and*
3. *Statement of Cash Flows”* (Underscoring Supplied)

For CY 2013, the Municipal Accountant – Designate has submitted only the following reports:

1. Monthly Report of Checks Issued, for the period January to June 2013;
2. Monthly Report of Cash Disbursement, for the period January to June 2013;
3. Monthly Report of Collections and Deposits, for the period January to June 2013, and
4. Trial Balance, Balance Sheet, Statement of Income and Expenses, and Statement of Cash Flows, General Fund, as of June 30, 2013.

The Team has audited/verified these reports and the corresponding audit observations/findings were discussed with concerned officials last August 13, 2013. Likewise, an Interim Audit Report, as of June 30, 2013, was prepared/submitted and transmitted to management.

One of the matters discussed was the submission of financial reports and statements and their required deadlines for submission, which the concerned officials agreed to follow. Yet, financial reports and statements for the period July to December 2013 were not submitted.

Hernani was one of the worst hit and devastated municipalities brought about by Typhoon Yolanda (or Haiyan). The typhoon practically destroyed almost all structures in the thirteen (13) barangays, including municipal buildings and other structures owned by the local government. The devastation resulted in total or partial destruction/loss of its properties, various official documents, financial records, reports, etc. The lost documents may have included the financial reports, transaction documents, accounts that were due for submission to the Team for audit. No report, however, was submitted to us although the Accountant and Treasurer verbally informed us that their documents, records, and files were all washed out as a result of the aftermath of the super typhoon Yolanda (Haiyan). The said officials were briefed on the procedures to be observed and were furnished with copies of pertinent regulations governing request for writing off of accountabilities over lost records evidencing financial transactions.

Thus, the scope of our audit was limited to the transactions (disbursements and collections) for the period January to June 2013 only. The second quarter Financial Statements – General Fund, as of June 30, 2013, were likewise verified.

*Management Comment:*

The Municipal Accountant explained that they are on the process of reconstructing their records from the documents that were recovered from the debris. She promised to submit the financial statements as soon as the same is completed. Likewise, management promised to submit their request for relief of accountabilities and/or writing off of accountabilities.

*Auditor’s Rejoinder:*

The Team emphasized the need to submit their request for relief and/or writing off of accountabilities, including the inventory of documents and properties, the soonest possible time because there is a mandated time frame or deadline for the reporting of these accountabilities.

**Require the Municipal Accountant and other concerned officials to adhere strictly to the aforecited provisions in the submission of financial reports and statements, and to submit immediately their request for writing off of accountabilities supported with notice of loss and inventory of documents and properties that were lost or destroyed due to the aftermath of the super typhoon Yolanda (Haiyan).**

Notice of Suspension/Disallowance may not yet be possible at this time until the accountability for particular equipment or property, documents, etc. has been sufficiently established and determined depending on the management’s request for relief or writing off of accountabilities.

1. **Government projects undertaken by the local government in CY 2013, whether funded from their local budget or financial assistance or grants from other national agencies, were not reported to our Office in the manner and form prescribed in Sections 2.0 and 3.1 of COA Circular No. 2013-004 dated January 30, 2013, thus resulting to the delays in the reporting and validation of the projects.**

The subject of COA Circular No. 2013-004 dated January 30, 2013 is the Information and Publicity on Programs/Projects/Activities (PPA) of Government Agencies. Section 2.0 is the general guidelines relevant to the PPA of government agencies, and we quote, in particular, Section 2.1:

*“At the beginning of the year, all government agencies shall provide their respective assigned Supervising Auditors (SAs) and Audit Team Leaders (ATLs) with a list of all on-going government projects/programs/activities (“PPA”) and those that are to be implemented during the year. The list shall include the project name; implementing unit, office and division if it is not the agency as a whole; brief description of the PPA; contractor or supplier, if any; mode of procurement; funding source; cost or approved budget; project duration including start and completion dates; and location. Other information on the PPA may be requested by the SA or ATL anytime for audit purposes.”* (Underscoring Supplied)

While Section 3.1, states that:

*“****The Head of Agency shall inform its SA and ATL within ten (10) days after the award of the infrastructure project or before the start of the program/project/activity that the appropriate project signboards and/or public notices are already posted****, and the SA and ATL shall validate the same.”*  (Emphasis Ours)

For As of September 30, 2013, the local government has implemented the following programs/projects/activities:

1. Construction/Rehabilitation of Padang-Nagaja Farm-to-Market Road, Phase I and II;
2. Various Kalahi Projects; and
3. Various PPA from the 20% Development Fund.

Some of these projects were already completed as of September 30, 2013. Yet, from the planning stage to implementation down to completion of the PPA, information pertaining to these projects that required verification/validation by COA was not immediately submitted. It was only when we demanded the submission of the information on PPA that the same was submitted. Thus, verification/validation of the PPA was not conducted on time. Rather, this was conducted during post-audit of the transactions.

*Management Comment:*

The Municipal Engineer promised to comply with the requirements.

**Require the Municipal Engineer and other concerned officials to adhere strictly to the provisions of COA Circular No. 2013-004 dated January 30, 2013 to enable the Audit Team to undertake prompt validation of the projects.**

The above observation may not give rise to the issuance of the Notice of Suspension or Disallowance as it involves mere submission of financial reports.

1. **Procurement of construction materials, in the total amount of P52,966.08, for the construction of MDRRMC office was artificially divided into two Purchase Requests and paid in two separate vouchers, apparently to make the transaction qualify under the alternative mode of shopping in violation of Section 54.1 of the Revised IRR of R. A. 9184.**

Section 54.1 of the Revised IRR of R. A. 9184 states that:

*“54.1. Splitting of Government Contracts is not allowed. Splitting of Government Contracts means a division or breaking up of GOP contracts into smaller quantities and amounts, or dividing contract implementation into artificial phases or sub-contracts for the purpose of evading or circumventing the requirements of law and this IRR, especially the necessity of public bidding and the requirements for the alternative methods of procurement.”*

Annex H and Appendix 18, Ibid., provides for the Thresholds for Shopping and Small Value Procurement and the Guidelines for Shopping and Small Value Procurement, respectively.

Our audit of the transactions for the month of February 2013 disclosed that the municipality procured construction materials for the construction of the MDRRMC office, thru the alternative mode of shopping/canvass. There were two Purchase Requests prepared and approved for the procurement, resulting to the issuance of two checks for payment. These are:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | Check No. | Payee | Nature of Transaction | Amount |
| February | 517176 | Leonilo Monteclaro | Construction materials for the construction of MDRRMC office | 17,991.36 |
|  | 517177 | -do- |  | 34,974.72 |
| **TOTAL** |  |  |  | **52,966.08** |

Considering that the items to be procured are of the same nature and the charges are drawn against the same fund and the proximity of the dates for their requisition is very apparent, the Team believes that breaking the amount into two (2) smaller contracts, was intentionally and artificially made in order that the amounts of the contract come within the threshold for the LGU.

*Management Comment:*

Management promised to comply with the recommendation in their succeeding procurement.

**Observe strictly the provisions of R. A. 9184 and its Revised IRR.**

The Team is not precluded from issuing the necessary Notice of Suspension/Disallowance until a thorough evaluation of the disbursements is made.

1. **Unlimited mobile expenses were reimbursed on prepaid and postpaid plans of officials and employees without duly observing the provisions of COA Circular No. 2012-003 dated October 29, 2012 thus, may prejudice the fund requirement of more important programs of the LGU and its delivery of basic services.**

COA Circular No. 2012-003 dated October 29, 2012 is the “Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures”.

Excessive expenditures, as defined in this Circular, “signifies unreasonable expense or expenses incurred at an immoderate quantity and exorbitant price. It also includes expenses which exceed what is usual or proper, as well as expenses which are unreasonably high and beyond just measure or amount. They also include expenses in excess of reasonable limits.”

Our audit of the transactions for the period January to June 2013 disclosed that there were reimbursement of prepaid (cellular cards) and postpaid plans of officials and employees, totaling P105,482.31, as shown in Annex A. These reimbursements are without limit to the amount allowed for each official, which according to the Municipal Accountant, is P1,000.00 per month per official or head of division. Further, postpaid plans reimbursed were personal plan of the

official/employee concerned and there were instances that both the postpaid plan and cellular cards were reimbursed by one individual. There were also instances of reimbursement of cellular cards by staff who were on travel status.

It was observed that the management had no clear policy guidelines on who are entitled to the facility and the maximum amount that may be allowed to said official/personnel.

*Management Comment:*

The Municipal Accountant explained that Division Head are allotted a P1,000.00 per month for mobile expenses. They admitted that reimbursements exceeded the monthly limitation. They promised to comply with the recommendation.

**Stop immediately the wrongful practice of allowing actual unlimited reimbursements for mobile expenses.**

**Adopt formal policy setting the rule on: the position titles of officials entitled to mobile expenses and the monthly limit that each qualified official may be entitled.**

The Team is not precluded from issuing the necessary Notice of Suspension/Disallowance in the event that the amounts reimbursed/paid to particular officials are in excess of the allowed limit and reimbursements given to other employees are not justifiable under any circumstance.

**B. Local Disaster Risk Reduction and Management Fund (LDRRMF)**

The budget for its Local Risk Reduction and Management Fund and the disbursements from the said fund were not submitted by the Municipal Accountant for audit and there was no compliance with the provisions of COA Circular No. 2012-002 dated September 12, 2012.

**C. Audit of Funds and Activities for Gender and Development (GAD)**

The agency has prepared and submitted its GAD Plan and Budget. However, no validation was done due to non-submission of the List of Expenditures and Accomplishment Report for CY 2013.

**D. Compliance with Tax Laws**

For the period January to June 2013, management complied with BIR Revenue Regulation No. 10-2008 dated July 8, 2008 and has remitted taxes withheld from compensation, expanded final VAT, and government money payments together with a copy of the Summary of Tax Withheld (STW) to support the Tax Remittance Advice (TRA) duly certified by the Accountant and approved by the Head of Agency or his duly authorized representative.

**STATEMENT OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES (SASDC)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Beginning Balance (As of January 1, 2013) | This Period  January 1 to December 31, 2013  (See B Below) | | Ending Balance  (As of  December 31, 2013) |
| NS/ND/NC | NSSDC |
| Notice of Suspension | 0.00 | 0.00 | 0.00 | **0.00** |
| Notice of Disallowance | 0.00 | 0.00 | 0.00 | **0.00** |
| Notice of Charge | 0.00 | 0.00 | 0.00 | **0.00** |
| Total | **0.00** | **0.00** | **0.00** | **0.00** |

**PART II - STATUS OF IMPLEMENTATION OF PRIOR YEARS’ RECOMMENDATIONS**

Of the eight (8) recommendations embodied in the CY 2012 Audit Report, two (2) were partially implemented and six (6) were not implemented.

| **Audit Observation** | **Recommendation** | **Ref** | **Management Action** | **Status of Implementation** | **Reason for Partial/Non-Implementation** |
| --- | --- | --- | --- | --- | --- |
| The existence and validity of Property, Plant & Equipment (PPE) accounts totalling ₱27,517,229.80 as of December 31, 2012, could not be established due to the failure of management to conduct the annual physical count of its properties, contrary to Section 124 of the NGAS Manual for LGU, Volume 1, and the possible inclusion in the asset account of unserviceable properties subject for disposal. | Create a committee to conduct the annual physical count of all PPE and to prepare and submit the RPCPPE;  Direct the Municipal Accountant to reconcile the PPE account ledger balances with that of the RPCPPE; and  Direct the Municipal Accountant and/or Property Officer to prepare the I & I report of all Unserviceable Properties prior to the conduct of disposal, if any. | AAR, CY 2012 |  | Not Implemented. | Committee was created but the actual inventory taking did not push through. |
| The accuracy and reliability of the balance of the Cash in Bank – Local Currency, Current Account (LCCA) in the amount of P5,712,482.08 as of December 31, 2012 could not be ascertained due to the non-preparation of the Bank Reconciliation Statements, contrary to Sections 3.2, 3.3 and 3.4 of COA Circular No. 96-011 dated October 2, 1996. | Instruct the Municipal Accountant to prepare and submit monthly bank reconciliation statements in order to present a reliable balance of the Cash in Bank – LCCA account. | AAR, CY 2012 |  | Not Implemented. | BRS for CYs 2012 and 2013 not submitted. |
| Intelligence and Confidential Funds granted to Mayor Edgar C. Boco, totaling P76,000.00, were immediately taken up as Intelligence Expenses (882), instead of recording it as Advances to Officers and Employees (148), contrary to COA Circular No. 2003-003 dated July 30, 2003, thus monitoring the utilization of the funds could not be made and may expose the funds to possible misuse. | Instruct the Municipal Accountant to reclassify the accounts and make necessary adjusting entry to record the same as Advances to Officers and Employees.  Adhere strictly to the provisions of COA Circular No. 2003-003 dated July 30, 2003 in the liquidation of the cash advance. | AAR, CY 2012 |  | Not Implemented. |  |
| Management failed to formulate its Gender and Development (GAD) Plan duly approved by the Commission On Women and allocate at least 5% of their budget for Calendar Year 2012 contrary to R.A. No. 7192, Executive Order 273, Joint Circular No. 2004-1 dated April 5, 2004, and the General Appropriations Act (GAA) for FY 2012 (R.A. 10155), thus gender issues and concerns affecting the full development of women may not have been addressed. | Instruct all concerned LGU officials to formulate and prepare the GAD Plan and Budget to insure that funds are allocated for the implementation of Gender and Development programs/projects. | AAR, CY 2012 |  | Partially Implemented. | GAD Plan and Budget for CY 2013 was submitted. However, this was not verified due to non-submission of the Accomplishment Report. |
| The Municipal Accountant and Municipal Treasurer did not maintain appropriate ledger cards, and property cards, respectively, and that no physical inventory was conducted on the LGU’s Property, Plant and Equipment valued at P23,113,363.24, contrary to section 114 and 124 of the NGAS Manual for LGU’s, Volume I, thus the accuracy of the recorded assets was not ascertained and their existence was not established. | We recommended that the Municipal Accountant and the Municipal Treasurer be required to maintain appropriate ledger cards, and property cards, respectively. Likewise, the Local Chief Executive should ensure that physical inventory taking is conducted periodically. | AAR, CY 2011 |  | Partially Implemented. | Only Subsidiary Ledger is maintained. No Property Card because there is no actual inventory of PPE. |
| The total appropriation for personal services exceeded the budgetary limitations by P3,456,603.90 or 18.09% in violation of adequate budget for maintenance and other operating expenses and needed development project. | The Local Chief Executive should limit the appropriations for personal services to 55% of the total annual income from regular sources of the next the municipality and the community as a whole. | AAR, CY 2009 |  | Not Implemented. | This was due to the implementation of Salary Standardization Law. |
| Management failed to submit approved copies of contracts/purchase order, and notices of deliveries for additional review and evaluation contrary to the mandates of COA Circular No. 2009-001. | Copies of the perfected contracts/purchase orders should be submitted within five (5) days after the execution/issuance. | AAR, CY 2009 |  | Not Implemented. | Contracts/ Purchase Orders are still not submitted within the time frame but rather these were attached to the disbursement voucher submitted for post-audit. |
| The validity of Land, Land Improvements and Building accounts valued P9,872,463.10 could not be ascertained due to lack of property cards, subsidiary ledgers and certificate of title contrary to Section 23(2), Title I, Book V, 1987 Administrative Code. | We recommended strict compliance to Section 23(2), Title I, Book V, 1987 Administrative Code. | AAR, CY 2008 | None | Not Implemented | No application submitted for certificate of ownership or title. |

**PART III - ANNEXES**

**Annex A – Working Paper on Mobile/Telephone Expenses**

