

EXECUTIVE SUMMARY

INTRODUCTION

The Municipality of Vincenzo Sagun was created by virtue of Batas Pambansa Blg. 173 in 1965. It is classified as a 4th class municipality of the Province of Zamboanga del Sur with fourteen (14) barangays. It has a total land coverage of 6,569 hectares, most of which has been classified as agricultural.

To accelerate the social and economic growth, the municipality was able to implement various infrastructure projects such as concreting of municipal streets, rehabilitation of water systems and construction of drainage canal.

AUDIT METHODOLOGY

The Commission has been implementing risk-based audit in the conduct of its audit services. However, to meet the evolving developments in public governance and fund management, the results-based approach in audit was incorporated. The integration of these two approaches, called the Integrated Results and Risk-Based Audit (IRRBA) Methodology, was applied in the audit of the accounts and operations of the LGU.

SCOPE OF AUDIT

A comprehensive audit was conducted on the accounts and operations of Municipality of Vincenzo Sagun, Province of Zamboanga del Sur for 2015. The audit consisted of review of operating procedures, evaluation of the Local Government Units (LGU's) programs and projects, interview of concerned government officials and employees, verification, reconciliation, and analysis of accounts, and such other procedures considered necessary.

Specifically, the objective of the audit is to ascertain the propriety of the financial transactions and compliance of the agency to prescribed laws, rules and regulations. It was also made to ascertain the accuracy of the financial records and reports as well as fairness of the presentation of the financial statements. Performance audit was likewise conducted with the objective of informing management where improvement can be instituted in the field of revenues, expenditures and management of resources.

As a result of the risk assessment conducted and in compliance with the identified audit thrust of the Local Government Sector for CY 2016, the following audit areas/accounts were looked into:

1. Fund transfers (from national government agencies to local government units, to non-government organizations/people's organization, and to other LGUs);
2. 20% Development Fund;
3. Local Disaster Risk Reduction Management Fund (LDRRMF);

4. Solid Waste Management/Environmental Compliance;
5. Special Education Fund;
6. Financial assistance, contributions and other disbursements of LGUs to Leagues of Provinces, Cities, Municipalities and Barangays;
7. All fiesta related expenses and revenues of LGUs; and
8. Implementation of the 1% of Internal Revenue Allotment (IRA) allocation for the Local Councils for the Protection of Children (LCPC) programs.

FINANCIAL HIGHLIGHTS

The financial position and financial performance of the Agency as of December 31, 2016 are summarized as follows (*in thousands of Pesos with comparative figures for CY 2015*):

	<u>2016</u>	<u>2015</u>
Assets	145,442	117,345
Liabilities	66,240	70,641
Equity	79,202	46,704
Income	75,019	66,663
Expenses	67,307	58,820

The LGU's appropriations and obligations for the year were as follows:

- Current Legislative Appropriations

Function/ Program/ Project/ Activity	Appropriations		Allotment		Obligation	
	2016	2015	2016	2015	2016	2015
General Fund						
PS	27,837,210.07	26,886,146.24	27,837,210.07	26,886,146.24	27,302,862.64	25,672,620.62
MOOE	13,311,395.72	10,929,076.78	13,311,395.72	10,929,076.78	12,478,849.34	10,364,914.41
Capital Outlay	952,386.00	680,000.00	952,386.00	680,000.00	605,194.00	553,341.00
20% EDF	12,022,490.00	11,177,033.20	12,022,490.00	11,177,033.20	8,454,838.06	9,953,392.88
5% MDRRMF	3,178,872.50	2,875,183.70	3,178,872.50	2,875,183.70	3,178,872.50	2,837,841.51
5% GAD	3,178,872.50	4,081,050.38	3,178,872.50	4,081,050.38	3,051,954.18	3,798,717.77
1% MCPC	635,774.50		635,774.50		565,498.30	
1% SC and PWD	635,774.50		635,774.50		279,315.00	
Municipal Peace and Order Council	3,000,000.00		3,000,000.00		2,774,654.40	
Tourism Promotion Activities	1,798,904.54		1,798,904.54		1,796,191.49	
Election Reserve	300,000.00		300,000.00		205,504.43	
Sports Development Activities	121,235.00		121,235.00		121,226.00	
Aid to Barangay	14,000.00		14,000.00		14,000.00	
Terminal Leave Benefits	1,077,729.42		1,077,729.42		1,077,729.42	
JHCSC						
PS	1,602,950.00	861,650.00	1,602,950.00	861,650.00	1,506,550.00	804,650.00
MOOE	819,803.73	623,744.26	819,803.73	623,744.26	682,285.00	616,989.25
Capital Outlay	29,170.00	80,000.00	29,170.00	80,000.00	29,170.00	80,000.00
Economic						
PS	206,596.96	355,512.96	206,596.96	355,512.96	206,596.96	313,762.96
MOOE	4,325,697.94	4,117,487.04	4,325,697.94	4,117,487.04	4,087,409.52	2,656,367.13
Capital Outlay	80,000.00	425,000.00	80,000.00	425,000.00	79,980.00	-

Function/ Program/ Project/ Activity	Appropriations		Allotment		Obligation	
	2016	2015	2016	2015	2016	2015
Special Education Fund						
PS	-	-	-	-	-	-
MOOE	953,647.68	712,806.21	953,647.68	712,806.21	938,878.22	705,087.17
Capital Outlay	-	50,000.00	-	50,000.00	-	49,985.00
GRAND TOTAL						
PS	29,646,757.03	28,103,309.20	29,646,757.03	28,103,309.20	29,016,009.60	26,791,033.58
MOOE	19,410,545.07	16,383,114.29	19,410,545.07	16,383,114.29	18,187,422.08	14,343,357.96
Capital Outlay	1,061,556.00	1,235,000.00	1,061,556.00	1,235,000.00	714,344.00	683,326.00
20% EDF	12,022,490.00	11,177,033.20	12,022,490.00	11,177,033.20	8,454,838.06	9,953,392.88
5% MDRRMF	3,178,872.50	2,875,183.70	3,178,872.50	2,875,183.70	3,178,872.50	2,837,841.51
5% GAD	3,178,872.50	4,081,050.38	3,178,872.50	4,081,050.38	3,051,954.18	3,798,717.77
1% MCPC	635,774.50	-	635,774.50	-	565,498.30	-
1% SC and PWD	635,774.50	-	635,774.50	-	279,315.00	-
Municipal Peace and Order Council	3,000,000.00	-	3,000,000.00	-	2,774,654.40	-
Tourism Promotion Activities	1,798,904.54	-	1,798,904.54	-	1,796,191.49	-
Election Reserve	300,000.00	-	300,000.00	-	205,504.43	-
Sports Development Activities	121,235.00	-	121,235.00	-	121,226.00	-
Aid to Barangay	14,000.00	-	14,000.00	-	14,000.00	-
Terminal Leave Benefits	1,077,729.42	-	1,077,729.42	-	1,077,729.42	-
GRAND TOTAL	76,082,511.06	63,854,690.77	76,082,511.06	63,854,690.77	69,437,559.46	58,407,669.70

- Continuing Legislative Appropriations

Function/ Program/ Project/ Activity	Appropriations		Allotment		Obligation	
	2016	2015	2016	2015	2016	2015
General Fund						
PS	-	-	-	-	-	-
MOOE	37,342.19	-	37,342.19	-	37,342.19	-
Capital Outlay	30,000.00	1,091,801.00	30,000.00	1,091,801.00	-	1,091,781.00
20% D.F	1,380,543.92	1,100,000.00	1,380,543.92	1,100,000.00	1,188,722.15	1,100,000.00
5% MDRRMF	37,342.19	787,285.56	37,342.19	787,285.56	37,342.19	787,285.56
Financial Expenses	-	83,431.29	-	83,431.29	-	83,431.29
GRAND TOTAL						
PS	-	-	-	-	-	-
MOOE	37,342.19	-	37,342.19	-	37,342.19	-
Capital Outlay	30,000.00	1,091,801.00	30,000.00	1,091,801.00	-	1,091,781.00
20% D.F	1,380,543.92	1,100,000.00	1,380,543.92	1,100,000.00	1,188,722.15	1,100,000.00
5% MDRRMF	37,342.19	787,285.56	37,342.19	787,285.56	37,342.19	787,285.56
Financial Expenses	-	83,431.29	-	83,431.29	-	83,431.29
GRAND TOTAL	1,485,228.30	3,062,517.85	1,485,228.30	3,062,517.85	1,263,406.53	3,062,497.85

INDEPENDENT AUDITOR'S REPORT

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the LGU as of December 31, 2016 due to the following:

- Cash in Bank – Local Currency Current Account is overstated by P120,691.98 due to the unrecorded book reconciling. Also, the lack of proper action on various reconciling items that are to be added by the bank totalling P15,200.00 further cast doubts on the reconciliation process.
- Cash in Bank – Local Currency Current Account is overstated by P 189,725.80 due to unrecorded reconciling items representing checks drawn which were not supported with the required documents, thus creating doubts on the legality, validity and propriety of said disbursements.

- Cash Advances to Special Disbursing Officers and Officers and Employees amounting to P2,152,560.00 and P424,916.44, respectively remained unliquidated as of December 31, 2016 in violation of Section 89 of P.D. 1445 and Section 5.8 of COA Circular No. 97-002.
- Municipal Hall worth about P2 Million more or less, still was not booked up resulting to the understatement of the total assets and equity of the Municipality.

SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

Presented below are the significant audit observations and recommendations noted in the course of audit:

1. Appropriations for the 20% of the Internal Revenue Allotment (IRA) was not optimally utilized as required under Item 5.0 of DILG and DBM Joint Circular No. 2011-1 due to the unutilized amount of P3,567,651.94 for non-implementation of some programs, projects and activities, hence depriving constituents of the benefits of socio-economic and environmental projects.

We recommended that the LCE ensure compliance with the responsibilities provided for in paragraph 5.0 of DILG and DBM Joint Circular No. 2011-1 to achieve desirable socio-economic development and environmental outcomes so that appropriation for EDF will be optimally utilized. In addition, management ensure that appropriation for debt servicing will be based on loan amortization schedule for each loan availments to avoid over-appropriation. Furthermore, the Municipal Planning and Development Coordinator and the Municipal Development Council properly formulate the annual public investment programs by specifically identifying PPAs and monitor the implementation of the projects as incorporated in the Annual Investment Plan. Lastly, all MDC Resolutions for the re-alignment of PPAs shall be approved by the local legislative body.

2. CY 2011 unutilized balance of Local Disaster Risk Reduction and Management Fund (LDRRMF) amounting to P603,583.85 was programmed as one of the sources of funds for CY 2016 Annual Budget for General Fund (GF) transferred from Trust Fund (TF) contrary to Paragraph 3, Section 21 of RA 10121 and Paragraph 5.1.13 of COA Circular No. 2012-002 resulting to reduction of available funds in the disaster risk reduction and management activities.

We recommended that the Local Chief Executive with the assistance of the Municipal Budget Officer including the other members of the local finance committee and members of the Sangguniang Bayan to properly evaluate the estimates of income/sources of funds for appropriation so that only valid income sources will be included in the preparation, review, approval and enactment of annual budget. In addition, when unutilized LDRRMF is part of the sources of funds for appropriation, strict compliance to par. 3, Section 21 of RA 10121 and par. 5.1.13 of COA Circular No. 2012-002 is strictly observed so that appropriation

is made only for other social services. Lastly, transfer of funds for the unutilized LDRRMF from TF to GF will be made only after the lapse of five years as required by RA 10121 and COA Circular No. 2012-002.

3. Projects and activities to be charged to the unexpended balance of Local Disaster Risk Reduction and Management Fund (LDRRMF) of previous years 2011 to 2015 totaling P2,565,000.00 were not included in the LDRRMF Investment Plan (LDRRMFIP) as required under COA Circular No. 2012-002 dated September 12, 2012, thereby affecting the comprehensive formulation and implementation of disaster risk reduction and management activities.

We recommended that Municipal Disaster Risk Reduction and Management Officer (MDRRMO) include projects and activities to be charged to unexpended balances of LDRRMF of previous years in the LDRRMFIP under a separate caption for the comprehensive formulation and implementation of disaster risk reduction and management activities.

4. Report on Sources and Utilization of LDRRMF as required under COA Circular No. 2012-002 dated September 12, 2012 was not prepared and submitted, thus, timely evaluation on the implementation and monitoring of the disaster risk reduction management projects, programs and activities cannot be conducted.

We recommended that the MDRRMO and Municipal Accountant prepare and submit the Monthly Report on Sources and Utilization of DRRMF within the required period for the timely evaluation on the implementation and monitoring of the disaster risk reduction management projects, programs and activities.

5. Implementation of Solid Waste Management especially in the mandatory segregation and collection of waste materials through the use of Materials Recovery Facility (MRF) was not properly instituted within the area of jurisdiction of LGU-Vincenzo Sagun contrary to the provisions under Sections 10 and 21 of R.A. 9003 otherwise known as Ecological Solid Waste Management Act of 2000.

We recommended that management strictly adhere to the provisions of RA 9003 especially in the implementation of mandatory segregation and collection of solid waste within its area of jurisdiction.

6. Expenditures from the Special Education Fund (SEF) totaling P123,585.79 under the Maintenance and Other Operating Expenses (MOOE) were for non-priority expenditures, violating Section 272 of Republic Act (RA) No. 7160 and Section 1 of RA 5447, to the disadvantage of the public school students who could have benefited from the intended projects/programs/activities of the SEF.

We recommended that the Local School Board refrain from providing for non-priority expenditures in the SEF Budget, instead, allocate these funds for the construction and repair of school buildings, facilities and equipment, education

research, acquisition of books and periodicals, and sports development. Also, the LSB evaluate the programs/projects/activities to be included in the SEF budget, taking into consideration the objectives set forth in RA 7160 and RA 5447.

7. Pertinent provisions of Republic Act (RA) 9184 and its Revised Implementing Rules and Regulations (IRR) in the implementation of the horizontal infrastructure project totaling P1,874,915.40 were not strictly followed by the Bids and Awards Committee (BAC), thus deprived the municipal government in availing the most advantageous prices available in the market.

We recommended that management and BAC follow strictly the provisions of RA 9184 and its Revised IRR in the procurement and implementation of infrastructure projects. In addition, only authorized expenditures relative to the PPAs will be charged under the 20% EDF based on Annual Budget and AIP. Lastly, the Municipal Accountant strictly observe completeness of supporting documents before payment is made.

8. Provisions for Negotiated Procurement in the procurement of goods totaling P1,482,872.16 were not followed by the BAC as required in Item b of Sections 21.2.1 and 54 of the Revised IRR of RA 9184 defeating the purpose of transparency and competitiveness in government procurement.

We recommended that the BAC follow the provisions in Item b of Section 21.2.1 and 54.3 of the revised IRR of RA 9184 to avail of the most advantageous price in favor of the municipal government. In addition, Municipal Accountant examine completeness of supporting documents for every transaction of the municipality before payment is made to ensure validity, propriety and legality of the disbursements.

9. Procurement of various goods were undertaken with reference to brand names in contrast to Section 8 of RA 9184 and its Revised IRR resulting to incurrence of illegal expenditures totalling P333,109.04.

We recommended that the BAC and concerned officials to strictly comply with the provisions of RA No. 9184 and its Revised IRR in all its procurement activities to prevent incurrence of illegal expenditures. Also, the Municipal Accountant attach the necessary document as required in Item no. 9.1.3.4 of COA Circular No. 2012-001.

10. Adoption of Shopping as alternative mode of Procurement for the purchase of tires intended for the repair and maintenance of the Municipal vehicle amounting to P143,000.00 is not within the Provisions of Section 52 of RA 9184, hence deprived the Municipal government in availing the most advantageous price in the market.

We recommended that municipal government strictly abide with the provision of Section 52 of RA 9184 to allow the Municipal government to avail the most advantageous price in the market.

11. Payment for the services of the entertainer and celebrity artist totaling P215,000.00 and rental for the sound system and foam party machine totaling P95,000.00 during the celebration of 33rd Araw ng Vincenzo Sagun in CY 2016 did not undergo public bidding as required in Section 10 of RA 9184, thereby, the most advantageous price in favor of the municipal government was not availed.

We recommended that hiring for the services of the performer and celebrity artist must undergo competitive bidding since such services fall under the definition of “Goods” of RA 9184 and its IRR, unless the existence of conditions warranting the application of any alternative methods of procurement. Also, procurement process in the hiring for the sound system and foam party machine should be observed so that the lowest rental rates available in the market will be availed. Lastly, creditable withholding tax should be deducted to comply with the requirement of BIR Revenue Regulations No. 30-2003.

12. Procurement of heavy equipment whose budgetary requirements is not yet available was advertised in a newspaper for invitation to bid costing P50,000.00 contrary to Section 7 of RA 9184 and Section 138(a) of Government Accounting and Auditing Manual (GAAM) thereby incurring unnecessary expenses which could have been appropriated to other programs/projects/activities of the LGU.

We recommended that the LGU adhere to the provisions set forth in Section 138(a) of the GAAM, Section 7 of RA 9184, and Section 321 of RA 7160 to avoid incurring unnecessary expenditures.

13. Government Funds were disbursed despite incomplete supporting documents contrary to Paragraph 6, Section 4 of Presidential Decree No. 1445 and COA Circular No. 2012-001 dated June 14, 2012, thereby validity, propriety and legality of the expenditures totaling P6,131,829.56 cannot be ascertained.

We recommended that municipal officials involved in the approval and payment of the transactions examine the completeness of the supporting documents to ensure their validity, propriety and legality.

14. Gasoline, oil and lubricants totaling P900,232.59 were paid without complete documentation as required under Section 4, (6) of PD 1445 and COA Circular No. 77-61 dated September 26, 1977, hence, evaluation and verification of official travel and reasonableness of the fuel consumed could not be made.

We recommended that the report of official travel with the attached driver’s trip tickets and monthly report of fuel consumption be submitted for proper evaluation and verification as to the reasonableness of consumption of fuel. In addition, the

Municipal Accountant strictly demand submission of the required basic supporting documents for payment of gasoline before approving the claim.

15. Excessive travelling expenses totalling P139,754.79 was incurred relative to the submission of liquidation documents pertaining to cash advances for confidential fund contrary to Section 4, E.O. 248, as amended by E.O. 298 and Item 5.0 of COA Circular 2012-003 dated October 29, 2012, thereby depleting government funds which could have been used for other developmental programs/activities.

We recommended that management observe prudence in spending government funds in consideration to the scarce resources of the municipal government by strictly complying with the rules and regulations on travelling expenses particularly on the limitations provided in E.O. 248, as amended by E.O. 298 and COA Circular 2012-003 dated October 29, 2012.

16. Funds withheld for the BIR, GSIS, PAG-IBIG and PhilHealth in the total amount of P398,103.53 were not remitted on time which may cause forfeiture of claims/benefits due the member/employees of the municipality and deprived the agencies concerned of the timely use of said funds.

We recommended that the Municipal Accountant and the Municipal Treasurer facilitate the immediate remittance of withholding taxes and contributions particularly those pertaining to prior years due to BIR, GSIS, PAG-IBIG and Philhealth within the prescribed period to enable these agencies to use the needed funds for its operations in a timely manner and to preclude delay in the processing of members/ employees' claims and prevent possible forfeiture of the benefits due them to protect their interest.

17. Delinquent Real Property Taxes amounting to ₱204,969.85 were not collected due to inability of the Municipal Officials concerned to initiate remedies and measures prescribed under Section 254 and 258 of R 7160. As such, the municipality was deprived of additional income needed for the delivery of basic service to the constituents.

We recommended that the Municipal Treasurer to enforce the remedies and measures prescribed under Section 254 and 258 of RA 7160 to collect delinquent real property taxes. Strengthen collection system through intensified tax campaign to eliminate and/or minimize delinquencies.

18. Percentage tax applicable on the payment of services for those employed under contract of services and job order was not deducted and withheld as required under the National Internal Revenue Code (NIRC) of 1997 which was further clarified under BIR Revenue Memorandum Circular (RMC) No. 130-2016 depriving the national government of earning additional income to support its programs/projects/activities and the local government will incur additional expenses in penalty for violating the withholding tax provision of RA 8424.

We recommended that the LGU comply with the rules and regulations set forth in the NIRC of 1997 specifically in the withholding of taxes for the income payments to those employees under the contract of service or job order basis and remit to the BIR within the prescribed time. Otherwise, failure of the person in charged to deduct and withhold of any internal revenue tax be guilty of any offense punishable under Section 272 of RA 8424.

19. Total compensation income and other benefits of officers and employees declared by the Municipal Government in their 2016 Tax Alphabet is understated by P1,776,485.55 due to the non-inclusion of other gross compensation income and benefits contrary to Revenue Memorandum Order (RMO) No. 23-2014 dated June 20, 2014 and Section 32 (A) of the NIRC of 1997 and of Section 3 (A) of Revenue Regulation (RR) 30-2003 that resulted to the underpayment of income taxes for 2016.

We recommended that the Municipal Accountant and other personnel concerned to include all income and benefits paid by the LGU to its officers and employees in the computation of gross income to correctly impose and withhold income taxes and subsequent remittance thereof to the BIR to ensure compliance with tax laws, avoid penalties and surcharges, and imprisonment, in worst cases. Hence, recalculation of compensation income tax for CY 2016 be made and record the overpayment to officials and employees due to understated income tax by debiting Due from Officers and Employees and crediting Due to BIR.

SUMMARY OF TOTAL SUSPENSIONS, DISALLOWANCES AND CHARGES AS OF YEAR-END

The reported audit suspensions, disallowances, and charges of the LGU as of December 31, 2016 were as follows:

	Beginning Balance 01.01.2016	Issued This Period (1/1/16 to 12/31/16)	Settled This Period (1/1/16 to 12/31/16)	Ending Balance 12.31.2016
Notice of Suspension	0.00	25,000.00	0.00	25,000.00
Notice of Disallowance	588,040.31	120,000.00	0.00	708,040.31
Notice of Charge	0.00	0.00	0.00	0.00
Total	588,040.31	145,000.00	0.00	733,040.31

This does not include disallowances, suspensions and charges prior to the effectivity of the new Rules and Regulations on Settlement of Accounts under COA Circular No. 2009-006 dated September 15, 2009.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 30 audit recommendations in the prior years' Annual Audit Reports, 11 were fully implemented during the year, 10 were partially implemented and nine were not implemented.