

EXECUTIVE SUMMARY

Introduction

Villanueva is one of the twenty three (23) municipalities of the Province of Misamis Oriental established on July 29, 1962 when Republic Act No. 3492 was enacted and signed into a law. Its mission is to deliver the basic services to its constituents geared for the enhancement of the general welfare of its populace.

The Municipality is headed by Honorable Jennie Rosalie T. Uy, ably assisted by 16 department heads, 11 elective officials, 111 permanent, 265 job order, 0 casual, 2 coterminous, and 0 temporary personnel.

A financial and compliance audit was conducted on the accounts and transactions of the Municipality of Villanueva, Misamis Oriental, for the period January 1 to December 31, 2016 specifically on the following thrusts: a.) Bottom-up Budgeting; b) Fund Transfers; c) Local Disaster Risk Reduction Management; d) Special Education Fund; e) Environmental Compliance/ Solid Waste Management; and f) Procurement Process.

The audit consisted of a review of operating procedures, inquiry of concerned agency personnel, verification, reconciliation and analysis of accounts, and such other procedures considered necessary. The audit was aimed to verify the level of assurance that maybe placed on management's assertions on the financial statements; recommend agency improvement opportunities; and determine the extent of implementation of prior years' audit recommendations.

Financial Highlights

As of December 31, 2016, the consolidated financial condition of the Municipality, excluding Barangays, showed the following:

Particulars	CY 2016	CY 2015	Increase/(Decrease)	
			Amount	Percent
Assets	253,860,279	205,750,224	48,110,055	23.38%
Liabilities	94,675,381	112,811,562	- 18,136,181	-16.08%
Equity	159,184,898	92,938,662	66,246,236	71.28%
Income	227,325,283	155,905,676	71,419,607	45.81%
Expenses	157,327,294	138,623,317	18,703,977	13.49%

On the other hand, the comparative presentation of the appropriation/allotment/obligation is shown below:

Particulars	CY 2016	CY 2015	Increase/(Decrease)	
			Amount	Percent
Appropriation	219,231,717	207,000,000	12,231,717	5.91%
Allotment	219,231,717	207,000,000	12,231,717	5.91%
Obligation	171,295,853	194,585,203	- 23,289,350	-

Auditor's Opinion

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of Villanueva for the period ended December 31, 2016 due to unliquidated cash advances for various purposes granted to various personnel in the total amount of P156,715 remained unliquidated as of December 31, 2016 contrary to the provisions of COA Circular No. 97-002 and the Municipality's annual physical inventory of its property, plant and equipment (PPE) has not been reconciled with the accounting records totalling ₱171,628,763 contrary to Section 114 and 124 of Local NGAS Manual, thus the existence, condition and valuation of the PPE could not be ascertained.

Significant Audit Observations and Recommendations

The following are the significant observations and recommendations, which were discussed with the concerned management officials whose comments were incorporated in the report where appropriate:

1. Revenue Collectors/Collector-designate authorized to receive and collect moneys arising from taxes, revenues or receipts of any kind do not remit intact the full amounts so received and collected by them to the Liquidating Officer/Municipal Treasurer contrary to Section 69 of PD No. 1445, COA Circular No. 92-382 and Section 32 of the NGAS Manual for LGUs, thus exposing the accumulated unremitted collections to possible loss thru theft and/or misuse.

Likewise, Statement of Accountable forms may not have been regularly checked by the Municipal Treasurer/ Liquidating Officer for balances remaining in the custody of the collector, contrary to Section 30 of the NGAS Manual for LGU, resulting to unremitted collections of accountable forms issued by the collectors in the previous year

We recommended that:

- a. The Revenue Collecting Officers remit immediately the remaining collections still on hand and stop immediately the practice of not remitting their collections intact and to record all collections whether remitted or unremitted in the cashbook to reflect its correct balance.
- b. Management effect the immediate relief of the defaulting Revenue Collecting Officer from his duties as Accountable Officer.

- c. Management direct the Municipal Treasurer/Liquidating Officer to verify the Report of Collections and Deposits; check the statement of accountable forms as to initial balances on hand, receipts, issues and the ending balances on hand; make a physical count of the accountable forms remaining in the custody of the collector/teller and check the same against the new balances on hand column. No issuance of Accountable Forms should be made to Revenue Collecting Officer who has balances on hand, receipts and issues to monitor the collection and remittance of each Revenue Collector.
- d. Management direct the Municipal Treasurer to set up a system of internal control within the Municipal Treasurer's Office that will ensure the remittance of the collection of every revenue collecting officers daily so that deposit of collections shall be made at least once a week, or as soon as the collections reach P10,000.00. As required in the abovementioned COA Circular. Since these are regular income of the municipality, this forms part of the cash back up of the appropriation in the annual budget. Implementation of Projects, programs and activities may be delayed due to limited availability of cash resulting from this deficiency, thus it is important that all collections be deposited intact immediately without delay.
- e. As part of the internal control of the Municipality, all collectors, if possible, remit their collections to the Liquidating Officer to monitor full remittance.

We also recommended that Management require the immediate submission of the written explanation of the Revenue Collectors why shortages occurred.

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2. Lapses in the internal control in the Municipal Treasurer's Office (MTO) resulted to the issuance of accountable forms to designated sub-collectors which permitted them to collect and be in custody of government funds, even though they were not properly bonded, in violation to Sec. 305 (f) of Republic Act No. 7160.

We recommended that the Municipal Treasurer properly bond all personnel of the Municipality whose duties and responsibilities permit or require the possession or custody of local funds, so that all collectors will maintain and record all their collection in their respective cashbooks. Moreover, we recommend that the Municipal Treasurer direct all sub-collectors to remit all their collections immediately to their designated bonded Revenue Collector and stop the practice of designating sub-collectors and set up a strong internal control within the MTO.

3. Several rules and procedures provided under the Local Treasury Operations Manual to strengthen the Internal Control in the Municipal Treasurer's Office were not strictly followed resulting to records that are arduous and confusing to

verify and some procedures implemented may be contrary to pertinent rules and regulations.

We recommended that Management direct and/or remind the Municipal Treasurer to strictly follow the rules and procedures set forth under the Local Treasury Operations Manual in discharging her functions to safeguard and provide adequate protection of the cash that goes to her custody.

We required the Municipal Treasurer to retain and maintain files of the Report of Collection and Deposit (RCD) of her collection, RCD of those collectors who remitted their collection to her, duplicate copies of Deposit Slips and any other documents that would readily show proof of her deposit for each and every RCD that the Collectors and Liquidating Officer submitted to her and use a different stub of AF 51 for the collection of each and every Fund. The Municipal Treasurer should keep a record which will enable her to identify which RCD is included for each and every deposit slip to give assurance that all collection are deposited intact. And she should also reflect the reference no./date of the RCD on the reference portion of the cashbook for easy verification.

We also recommended that the Municipal Treasurer;

- a. Stop the issuance of receipts to “sub-collectors” for they are not bonded.
 - b. Maintain an adequate permanent record book which also contains the column “date reported totally used, sold, issued” to readily determine the whereabouts of the Accountable Forms.
 - c. Require her collectors to prepare and file the Requisition and Issue Slip and avoid the borrowing or transfer of Accountable Forms between collectors or “sub collectors”.
 - d. Submit to the Office of the Auditor the Consolidated Report of Accountability of Accountable forms every 5th day of the ensuing month as required.
 - e. Report immediately loss of accountable forms and submit letter request for its relief as required under Sec 100, Book II, Vol I, GAAM.
 - f. Maintain separate cashbook for the DBP and LBP depository bank accounts under the General Fund of the Municipality and to reflect its beginning and ending balances every month.
4. The Report of Checks Issued (RCI) and The Report of Disbursement (ROD) were not submitted by the Treasurer and Disbursing Officer, respectively, contrary to Sections 43 and 46 of the Manual on NGAS for LGUs thus verification of entries in the JEV, Check Disbursement and Cash Disbursement Journals are difficult to accomplish.

We recommended that Management direct the Municipal Treasurer to strictly follow Section 43 and Section 46 of the Manual on NGAS for LGUs to facilitate verification of entries in the JEV, Check Disbursement Journal and Cash Disbursement Journal.

5. Delay in the submission of the accounts of the Municipality ranges from 20-111 days contrary to Section 107 of PD No. 1445, Section 7.2.1 of COA Circular No. 2009-006, thereby, casting doubts on the validity and propriety of the transactions made.

We recommended that the Municipal Accountant comply strictly with the provisions of PD No. 1445 and COA Circular No. 2009-006 to provide us the timely post-audit of the transactions.

6. Audit of the Property, Plant and Equipment of the Municipality showed the following deficiencies:
 - c. The Municipality categorized as 2nd class municipality did not appoint/designate person that is responsible to monitor, take custody of and be accountable for properties owned by the local government unit and those granted to it in the form of donation, reparation, assistance and counterpart and hereto enforce policies on records creation, maintenance and disposal for its PPE amounting to P171, 628, 763 which comprises 67% of the total assets, contrary to sound system of internal control.
 - d. The Municipality failed to adopt systems and procedures required in the monitoring, accounting and recording of its PPEs for the fair presentation of this account in the financial statements.
 - d. The existence, valuation and validity of the Property, Plant and Equipment account balances totalling P171, 628, 763 which is 67% of the total assets as of December 31, 2016 , could not be ascertained due to the failure of management to maintain PPELC and property cards for each category of PPE and submit a Report on Physical Count of Property, Plant and Equipment as of December 31, 2016 in violation of Section 114 and Section 124 of NGAS Manual, Volume 1, respectively.

We recommended that the Accounting and the General Services Office adopt systems and procedures required in the accounting and recording of PPEs for the fair presentation of this account in the financial statements.

The Accounting Department should:

- Maintain PPELC for each category of PPE as required in Section 114 of NGAS Manual. Start from the current year and backwards.

- Monitor the submission of the Report of Physical count of PPE and periodically conduct reconciliation of accounts for immediate preparation of JEV on accounts that will require adjustments.
- Provide depreciation for every PPE at year end

The General Services Office should:

- As part of the inventory committee, prepare specific time table for the conduct of physical inventory of PPE to facilitate the timely submission of the RPCPPE to the Local Chief Executive and to COA.
- Maintain property cards for reconciliation with the accounting ledger cards.

7. The Municipality failed to submit the various documents necessary to facilitate contract review of the various contracts with a contract amount totalling P27,506,953.89 contrary to the Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184 and COA Circular No. 2009-001; precluding timely technical review and evaluation, thereby casting doubt on the validity, propriety and legality of the projects.

We recommended that Management abide by the Revised Implementing Rules and Regulations of Republic Act No. 9184 to avoid sanctions and penalties for non-compliance. In this regard, we recommend the following:

- a. Submit the lacking documents enumerated in accordance with the GPPB prescribed forms under the Philippine Bidding Documents 4th Edition, the Revised IRR of RA No. 9184, and COA Circular No. 2009-001 in order to facilitate technical review and evaluation.
 - b. Strictly observe and execute the duties of the BAC and TWG as stipulated in the Revised Implementing Rules and Regulations of RA No. 9184.
8. Approved Contract and supporting documents for the purchase of one (1) unit 4x4 Diesel Engine Pick-up by the municipality during the year amounting to P1,418,000.00 were not submitted to the office of the auditor for review in violation of Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009, thereby casting doubts if the Implementing Rules and Regulations of RA No. 9184 were strictly followed and payments made to the contractors are valid.

We recommended that Management strictly follow the provisions of COA Circular 2009-001 dated February 12, 2009 regarding contracts and POs. We require the submission of the approved contracts/PO together with its complete supporting documents (bidding docs, performance security and other documents peculiar to

the transaction such as those required by AO No. 233) of the above mentioned procurement to the Office of the Auditor immediately to enable us to review and make decisions in audit, otherwise transactions covered by the unsubmitted documents may be suspended in audit.

9. The Municipality did not consolidate the requisitions for the purchase of one or more equipments needed at or about the same time by the elementary school in the amount totaling P147,000.00 to purchase the equipments below the threshold which may have circumvented the public bidding process in as prohibited under Section 54.1 of IRR of RA No. 9184.

We recommended that Management submit justification/explanation of the above-mentioned transactions for evaluation and to immediately stop this practice.

We also recommended that the Municipality strictly follow the provisions under DECS-DBM-DILG JC No.1, as amended on the SEF utilization

10. Disbursements amounting to P586,617.58 were inappropriately charged to the Special Education Fund, contrary to Section 100 of the Local Government Code and DECS/DBM/DILG Joint Circular No. 01 s1998 dated April14, 1998, thereby defeating the purpose for which the fund was created.

We recommended that Management observe strictly Section 100 of RA No. 7160 and the implementation of DECS-DBM-DILG JC no.1, as amended on the SEF utilization and to stop this practice immediately to avoid suspension/disallowance.

We also recommended that Management submit a justification/explanation for those expenses which are contrary to the above mentioned Joint Circular.

11. The following are the deficiencies/errors noted in the audit of submitted documents for the Construction of the Municipal Hall Building Complex (Phase1):
 - a. Lapses on the planning stage of the Construction of the Municipal Hall Building Complex (Phase 1) caused undue delay.
 - b. Documents pertaining to 8 time extensions made were submitted after the completion of the contract thus timely validation of the reasonableness of the grounds for the issuance and the period of the requested extension of contract time for infrastructure project was not made.

We recommended that Management adequately plan the incoming projects of the Municipality to prevent undue delay upon implementation. We also recommend the timely submission of documents pertaining to time extensions of incoming projects to enable us to validate the reasonableness of the grounds for the issuance and the period of the requested extension of contract time for infrastructure project.

We have requested that Management provide COA with an update on the status of the titling of the lot where the New Municipal Hall building is currently being constructed.

12. The BAC did not prepare a procurement monitoring report in the prescribed form by the GPPB that cover all procurement activities specified in the APP within fourteen (14) calendar days after the end of each semester contrary to Section 12.2 of the Implementing Rules and Regulations of RA No. 9184.

We recommended that Management strictly follow the provisions of the IRR of RA No. 9184 and to prepare the above-mentioned documents for its procurement.

13. The Financial Assistance extended to indigents and other constituents of the Municipality totalling P124,093.99 lack the necessary documents to support and validate the claim contrary to Section 4 Item 6 on the Fundamental Principles of PD No. 1445. Further, assistance given in varied amounts ranging from P10,000-20,000 have no valid basis.

We recommended that Management support the transaction with complete documentation to validate the claim for financial assistance otherwise it will be suspended/disallowed in audit.

We also recommended that Management adopt systems and procedures in determining the amounts extended as financial assistance that would show fairness, equality and uniformity upon its constituents since resources in the municipality is limited.

14. The Municipality paid cash incentives award to the outgoing Elective Officials and Municipal employees upon retirement totaling P375,000.00 contrary to the existing Civil Service Commission policy on Program on Awards and Incentives for Service Excellence (PRAISE) and Article 170 (c) and 77 of the IRR of RA No. 7160.

We recommend that the granting of cash incentives awards to LGU Employees and Elective Officials should be in accordance with the existing Civil Service Commission policy on Program on Awards and Incentives for Service Excellence (PRAISE). We also recommended that Management strictly follow Article 77 and 170 (c) of the IRR of RA 7160 in payment of compensation and benefits to local officials and employees.

We further recommended that Management stop the payment of cash incentives to outgoing local officials and employees without legal basis to prevent disallowances.

Summary of Total Suspension, Disallowance and Charges

Particulars	Beginning Balance	Issued	Settlement	Ending Balance
Notice of Suspension	3,857,078.29	53,519,134.82	42,519,634.82	14,856,578.29
Notice of Disallowances	3,647,074.31	-	-	3,647,074.31
Charges	-	-	-	-

Status of Implementation of Prior Years' Audit Recommendations

Out of twenty-three (23) audit recommendations embodied in 2015 Annual Audit Report, five (5) were fully implemented, twelve (12) were partially implemented and six (6) were not implemented.