

EXECUTIVE SUMMARY

A. Introduction

We conducted the audit on the Municipal Government of Buenavista (MGB). The Municipal Government of Buenavista (MGB) was officially inaugurated on January 6, 1919. It has a land area of 8,155.6873 hectares and classified as a 4th class municipality with 15 barangays of which 4 are situated in the Poblacion and 11 are in the rural area.

Our audit was made in accordance with International Standards of Supreme Audit Institutions and we believe that it provided a reasonable basis for the audit results.

The audit covered the examination of the accounts and financial transactions of the MGB for CY 2019. The audit scope included pre-identified audit areas of the Local Government Unit's (LGU's) operations as disseminated in various audit instructions of the COA Local Government Sector Assistant Commissioner.

The audit was aimed to (a) determine whether Management presented fairly the financial statements in adherence to the Philippine Public Sector Accounting Standards; (b) ascertain the level of assurance that may be placed on management's assertions in the financial statements; (c) evaluate the extent of compliance with laws and regulations as well as the propriety and validity of transactions; (d) recommend agency improvement opportunities; and (e) determine the extent of implementation of prior year's audit recommendations.

B. Financial Highlights

The financial highlights of the MGG for CY 2019 with comparative figures for CY 2018 as follows:

Accounts	2019	2018	Increase/ (Decrease)	%
Assets	₱286,241,156.84	₱245,520,830.89	₱40,720,325.95	16.59
Liabilities	73,490,826.46	89,363,501.67	(15,872,675.21)	(17.76)
Government Equity	212,257,584.90	156,157,329.22	56,100,255.68	35.93
Revenue	92,737,606.48	84,995,322.30	7,742,284.18	9.11
Expenses	73,098,226.27	57,619,961.96	15,478,264.31	26.86
Surplus (Deficit)	18,282,596.29	23,176,244.63	(4,893,648.34)	(21.11)
Appropriations	100,553,181.47	87,979,024.50	12,574,156.97	14.29
Allotments	100,553,181.47	87,979,024.50	12,574,156.97	14.29
Obligations	81,419,141.06	65,397,423.74	16,021,717.32	24.50

Hereunder are the Comparative Statement of Fund Transfers to and from National Government Agencies (NGAs), Government-Owned and Controlled Corporations (GOCCs), Local Government Units (LGUs), Non-Government Organizations (NGOs) and People's Organizations (POs):

Account Title	2019	2018	Increase/ (Decrease)
<i>Funds Transferred to Other Agencies:</i>			
Due from NGAs	19,936.33	19,936.33	0.00
Due from GOCC	750.00	750.00	0.00
Due from LGUs	3,913,648.51	3,913,648.51	0.00
Due from NGOs/POs	464,796.94	5,479,796.94	(5,015,000.00)
Total	<u>₱ 4,399,131.78</u>	<u>₱ 9,414,131.78</u>	<u>₱ (5,015,000.00)</u>
<i>Funds Received from Other Agencies:</i>			
Due to NGAs	₱ 24,177,619.47	₱44,205,186.67	(20,027,567.20)
Due to GOCCs	15,342.58	15,342.58	0.00
Due to LGUs	6,487,528.04	6,244,183.00	243,345.04
Due to NGOs/POs	0.00	0.00	
Total	<u>₱ 30,680,490.09</u>	<u>₱ 50,464,712.25</u>	<u>₱ 19,784,222.16</u>

C. Audit Opinion on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality of Buenavista for CY 2019 due to:

- a. Unreliable balances of Cash in Bank accounts totaling ₱74,378,109.63 due to a) continuous failure of the Accountant to prepare and submit the required Bank Reconciliation Statements (BRS) and b) non-reconciliation with the Municipal Treasurer cashbook balances contrary to paragraph 3.1 and 3.2 of COA Circular No. 96-011 dated October 2, 1996 and Section 74 of Presidential Decree (PD) No. 1445;
- b. Doubtful balance of the Advances accounts in the total amount of ₱482,412.68 due to non-reconciliation with the reported cash advance of ₱841,113.23 in the Report of Unliquidated Cash Advances (RUCA) as of December 31, 2019 with a discrepancy of ₱358,700.55;
- c. Unreliable balance of ₱8,728,999.50 as of year-end, with NFDs and COEs, due to disparity of ₱2,042,951.67 between the amount stated in the Statement of Suspension, Disallowances and Charges (SASDC) attributed to the non-reporting of settled disallowances to the Office of the Auditor amounting to ₱1,650,151.63, non-recording of disallowances covered with NFD in the books in totaling ₱384,551.17 and erroneous recording of over-settlement of ₱8,248.87 in the books;

- d. Doubtful (i) existence, accuracy, correctness and validity of the Property, Plant and Equipment (PPE) Accounts with net book value of ₱158,722,218.82 due to a) continuous failure to conduct complete physical inventory taking and prepare the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as required in Section 124 of the Manual on the New Government Accounting System (NGAS), Volume 1; and b) non-provision of depreciation for PPE accounts totaling ₱45,182,138.27 contrary to IPSAS No. 17;
- e. Erroneous recording of expenditures amounting to ₱12,005,021.39 to inappropriate accounts contrary to COA Circular No. 2015-009 dated December 1, 2015 thereby, affecting the fairness of the presentation of the affected accounts in the financial statements for CY 2019; and
- f. Erroneous recording of bulk purchases of fuel, oil and lubricants totaling ₱1,148,054.64 as an outright expense instead of recording them as inventories contrary to Sections 51 and 114 of the Manual on New Government Accounting System (MNGAS) Volume 1 thereby, understating the corresponding inventory and overstating the expense accounts of the Municipality.

D. Significant Observations and Recommendations

For the exceptions cited above, we recommended that:

- a. Management (a) suspend the salary of the Municipal Accountant for continuously disregarding the preparation and submission of the required monthly BRS as required under paragraph 3.0 of the COA Circular No. 96-011; (b) draw a journal entry taking up the transfer of depository accounts from PNB to LBP; and (c) compel the Municipal Accountant and Municipal Treasurer to regularly conduct periodic reconciliation of the cash in bank accounts, any discrepancy thereon should be adjusted accordingly;
- b. Local Chief Executive require the Municipal Accountant to immediately reconcile all the noted deficiencies to reflect the proper balance of the cash advances account in the Statement of Financial Position;
- c. Management (a) take the necessary actions to expedite the collection of the unsettled disallowances; (b) instruct the Municipal Treasurer to exhaust all possible remedies to collect from each of the liable persons; (c) cause all the liable and certifying approving officers, who took part in the disbursement of disallowed expenditures, to assume responsibility in the final settlement of the remaining balance of the disallowance; and (d) require the Municipal Accountant to (i) prepare the necessary adjusting entries to reflect the correct balance of the account Receivables-Disallowances/Charges account; (ii) ensure that before allowing settlement of disallowances through installment payment the same was authorized

and approved by COA; and (iii) submit to the Office of the Auditor a schedule containing partial settlement of disallowances of each liable persons and the corresponding Journal Entry Voucher for the issuance of notice of settlement;

- d. Management a) instruct the Inventory Committee to give importance and fast-track the on-going conduct of physical inventory taking of properties and render the corresponding report to facilitate the reconciliation of (i) the records between the GSO/MTO and the Accounting Office and to ascertain the reliability of the PPE accounts; and (ii) submit the physical inventory report thereon to COA not later than January 31 of each year; and b) require the Municipal Accountant to provide depreciation for all depreciable PPEs as provided for in No.17 of IPSAS;
- e. Management instruct the Municipal Accountant to a) (i) strictly observe/follow the updated description of accounts as prescribed under COA Circular No. 2015-009; (ii) reclassify the expenses to proper inventory or expense account; and (iii) furnish copy of Chart of Accounts to all offices/end-users for proper identification of accounts in the PPMP to be submitted to the Municipal Budget Office; and b) instruct the Municipal Budget Office to adopt the new account codes as prescribed under COA Circular No. 2015-009 in the preparation of the agency's budget;
- f. Management (a) require the Municipal Accountant to strictly observe the guidelines under Sections 51 and 114 of MNGAS in the proper recording of purchases of supplies/fuel to asset/inventory account; (b) instruct the Municipal Accountant and Treasurer to maintain supplies ledger cards and stock cards, respectively to monitor and record the issuance of fuel; and (c) direct the Municipal Treasurer to prepare the Summary of Supplies and Materials Issued supported by Requisition and Issue Slip to be submitted to the Municipal Accountant to support recording of expenses in the books of accounts and adjusting the inventory accounts.

In addition, the following are the significant observations and recommendations in the audit of Municipality of Buenavista for Calendar Year (CY) 2019:

1. The Cash in Bank accounts totaling ₱74,378,109.63 still could not be ascertained due to a) continuous failure of the Accountant to prepare and submit the required Bank Reconciliation Statements (BRS) and b) non-reconciliation with the Municipal Treasurer cashbook balances contrary to paragraph 3.1 and 3.2 of Commission on Audit (COA) Circular No. 96-011 dated October 2, 1996 and Section 74 of Presidential Decree (PD) No. 1445 thus, affecting the existence, accuracy and validity of the amounts reported at year-end.

In view of the foregoing, we reiterated our recommendations to the management (a) suspend the salary of the Municipal Accountant for continuously disregarding the preparation and submission of the required monthly BRS as required under paragraph 3.0 of the COA Circular No. 96-011; (b) draw a journal entry taking up the transfer of depository accounts from PNB to LBP; and (c) compel the Municipal

Accountant and Municipal Treasurer to regularly conduct periodic reconciliation of the cash in bank accounts, any discrepancy thereon should be adjusted accordingly. (*Observation No. 1*)

2. Management failed to provide adequate control in the grant, utilization and liquidation of cash advances resulting in accumulation of unliquidated cash advances totaling ₱841,113.23 for as long as 22 years contrary to Sections 4.1.2 and 4.1.3 and 5.8 of COA Circular No. 97-002 dated February 10, 1997 and Section 89 of PD No. 1445 thus, constituting a ground for withholding the payment of the money due from the accountable officers. Moreover, concerned Accountable Officers (AOs) failed to liquidate their cash advances despite final demand hence, shall be held liable for Gross Neglect of Duty and imposed with penalty of dismissal from government service per Section 5.4(a) of Civil Service Commission (CSC) Memorandum Circular No. 23 series of 2019. (*Observation No. 2*)

We recommended the following courses of action to Management to prevent accumulation of outstanding cash advances a) compel the accountable officers including the Municipal Accountant, Municipal Treasurer, Municipal Budget Officer and other concerned to immediately liquidate their cash advances otherwise, withhold the payment of the money due to these officials and employees as provided under Section 5.1.3, COA Circular No. 97-002 dated February 10, 1997 or demand full payment of the amount advanced to them specially those who had already separated from service; b) instruct the Municipal Accountant to (i) stop granting of additional cash advances to concerned officials and employees unless the previous cash advances granted to them had already been liquidated; (ii) inform the AOs that their failure on their part to comply herewith shall constitute “prima facie” presumption under Article 217 of the Revised Penal Code that they have malversed the funds to their personal interest and benefit (Martinez vs. Sandiganbayan, GR No. 126413 dated August 10, 1999). Likewise, their failure to liquidate within the prescribed period shall correspond to administrative liability with a corresponding penalty of suspension from government service enumerated under Section 5 of CSC Memorandum No. 23 series of 2019 and shall otherwise constitute violation of Article 218 of the Revised Penal Code for failure to render accounts and Section 89 of PD No. 1445 which is punishable under Section 128 of the same code; and c) strictly comply with the provisions of the abovementioned circulars to avoid the penalty stated thereon.

3. Cash advances in the total amount of ₱38,019,440.96 for the period January to December 2019 were not supported with complete documents as required under Section 4 of PD No. 1445 and Section 1.0 of COA Circular No. 2012-001 dated June 14, 2012 thus, casting doubt as to the propriety, validity and regularity of claims which may result to loss/misuse of government funds. Moreover, ten disbursement vouchers for payments thereon totaling ₱3,526,928.40 does not bear the approval of the proper official contrary to Item 5, Section 4 of PD No. 1445

thereby casting doubt on the legality and propriety of payment. (*Observation No. 4*)

We recommended that the Local Chief Executive a) direct the Municipal Accountant to stop processing of transaction without complete and properly filled up documentation and ensure that the previous cash advances were liquidated prior to grant of the new one; and b) instruct the Municipal Treasurer to (i) refrain from paying cash advances with lacking or incomplete supporting documents as prescribed under COA Circular No. 2012-001 dated June 14, 2012 and (ii) submit explanation for such practice.

4. Despite previous years' audit observation, the existence, accuracy, correctness and validity of the Property, Plant and Equipment (PPE) Accounts with net book value of ₱158,722,218.82 still could not be ascertained due to a) continuous failure to conduct complete physical inventory taking and prepare the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as required in Section 124 of the Manual on the New Government Accounting System (NGAS), Volume 1; and b) non-provision of depreciation for PPE accounts totaling ₱45,182,138.27 contrary to IPSAS No. 17 thus, affecting the fair presentation of the accounts in the Statement of Financial Position. (*Observation No. 7*)

In view of the foregoing observations, we reiterated our recommendations that Management a) instruct the Inventory Committee to give importance and fast-track the on-going conduct of physical inventory taking of properties and render the corresponding report to facilitate the reconciliation of (i) the records between the GSO/MTO and the Accounting Office and to ascertain the reliability of the PPE accounts; and (ii) submit the physical inventory report thereon to COA not later than January 31 of each year; and b) require the Municipal Accountant to provide depreciation for all depreciable PPEs as provided for in No.17 of IPSAS.

5. Terminal leave benefits totaling ₱4,944,124.22 were paid to former municipal officials and employees despite incomplete documentary requirements contrary to the provisions of Item 5.13 of COA Circular No. 2012-001 dated June 14, 2012. Moreover, Management failed to enforce settlement of the remaining balance of liabilities with an aggregate amount of ₱297,780.57 from these officials and employees prior to issuance of clearance from property, money and legal accountability and payment of said claims in accordance with Items 5 and 6 of COA Resolution No. 2017-021 dated November 3, 2017 thus, poses difficulty on the recovery of government funds and casts doubt on the legality and propriety of the disbursements. (*Observation No. 11*)

In view of the foregoing, we recommended that Management a) strictly adhere with the documentary requirements as listed per COA Circular No. 2012-001 in the processing and granting of terminal leave benefits; b) direct the Municipal Accountant to stop processing claims in the absence or lack of supporting

documents, particularly those appointive and elective officials who were not issued clearance from properly, money and legal accountabilities; c) strictly require settlement of any remaining liabilities of former officials and employees prior to the issuance of clearance; and d) require the immediate submission of all lacking documents for each of the terminal leave benefit claims of former officials and employees.

6. We have audited the fuel, oil and lubricants expenses for CY 2019 totaling ₱1,148,054.64 and noted the following deficiencies: (*Observation No. 12*)
 - a) The Municipality failed to provide adequate controls in the utilization of fuel, oil and lubricants due to improperly accomplished Driver's Trip Tickets and non-preparation and submission of the Monthly Report of Fuel Consumption and Monthly Report of Official Travels contrary to the provisions of COA Circular No. 77-61 dated September 26, 1977 casting doubt on the reasonableness and regularity of fuel consumed during the year. Moreover, utilization of government vehicle was not properly controlled and regulated thus, may have been used for personal purpose which is prohibited by the same COA Circular.

We recommended that Management a) adhere strictly to the guidelines by complying with the standard format of the Drivers Trip Ticket with all the needed data indicated and requiring the drivers to properly accomplish the serially numbered trip ticket for every trip undertaken in order to properly evaluate the reasonableness of fuel consumption and propriety on the use of government vehicle; b) regulate the issuance of fuel to drivers and operators by using the requisition and issue slip properly to ensure that withdrawal of fuel from the supplier/gasoline station are duly authorized; c) ensure that government vehicles are exclusively and strictly used for official business only and prohibit its use for personal purposes; d) ensure that trips undertaken for attendance to meetings, conventions, conferences, trainings and seminars outside the province which involves the use of government vehicles were duly supported with approved travel order; e) regularly prepare and submit to the Audit Team the Monthly Report of Official Travels and Monthly Report of Fuel Consumption for validation; and f) establish adequate controls to ensure that expenditures on fuel and lubricants are effectively controlled and monitored, properly accounted for and limited to the minimum to avoid wasteful, excessive and unnecessary consumption.

- b) Bulk purchases of fuel, oil and lubricants totaling ₱1,148,054.64 were recorded in the books as an outright expense instead of recording them as inventories contrary to Sections 51 and 114 of the Manual on New Government Accounting System (MNGAS) Volume 1 thereby, understating the corresponding inventory and overstating the expense accounts of the Municipality.

We recommended and the Management agreed to a) require the Municipal Accountant to strictly observe the guidelines under Sections 51 and 114 of MNGAS in the proper recording of purchases of supplies/fuel to asset/inventory account; b) instruct the Municipal Accountant and Treasurer to maintain supplies ledger cards and stock cards, respectively to monitor and record the issuance of fuel; and c) direct the Municipal Treasurer to prepare the Summary of Supplies and Materials Issued supported by Requisition and Issue Slip to be submitted to the Municipal Accountant to support recording of expenses in the books of accounts and adjusting the inventory accounts.

7. Payment of labor payrolls totaling ₱55,103.00 for the Rehabilitation of School Building used as evacuation center at Barangay Bagtingon and Improvement of Mayor Recaredo Sarmiento Freedom Park project were incurred prior to delivery of the component materials putting in question whether services were actually rendered or not, hence not in accordance with Section 61 of PD No. 1445 thus, rendering the transaction irregular. (*Observation No. 16*)

We recommended the Management to a) require the MPDC and ME to submit explanation/justification on the performance of labor prior to the delivery of materials which they pointed out in the certification and accomplishment report that the labor was accomplished and completed despite non-delivery yet of the materials; b) ensure that payment of expenses is properly documented and have been actually incurred as required under Section 61 of PD No. 1445; and c) require the laborers to refund the amount paid to them as wages because of the impossibility to accomplish said work items in the absence of materials which are integral to the project.

8. Certainty on the propriety of the payment of salaries, wages, allowances for the month of January and February amounting to ₱196,345.02 could not be ascertained due to non-submission of Daily Time Records (DTR) by employees in violation of Section 1 and 2 Rule XVII (Government Office Hours) of Omnibus Rules Implementing Book V of Executive Order No. 292 and Other Pertinent Civil Service Laws. (*Observation No. 17*)

We reiterated our recommendations and the Local Chief Executive agreed to a) direct the Municipal Accountant to stop processing of payrolls for salaries, wages and allowances in the absence of properly filled-up and signed DTRs and other supporting documents; and b) instruct the Municipal Treasurer to suspend payment of salaries, wages, allowances and processing of monetization of leave credits without complete supporting documents until such time that they have complied with the requirements.

9. The Municipality incurred lapses in the implementation of Solid Waste Management (SWM) program particularly on strict enforcement of mandatory segregation of different types of waste, establishment and operation of Material

Recovery Facility (MRF) for re-use, recycling and composting of wastes as required in Sections 32 and 33 of Republic Act (RA) No. 9003, and implementation of environmental programs, projects and activities thus, the total protection of the environment and general welfare of the constituents in harmony with economic development may not be substantially attained. (*Observation No. 26*)

In view of the foregoing, we recommended the Management to a) require strict enforcement/implementation of specifically Kapasiyahan Blg. 45-2017 dated February 20, 2017 on segregation of wastes; intensify the campaign on “no segregation, no collection” policy; and firmly impose fines and penalties against violators of prohibited acts to ensure compliance of all and to provide additional funding for solid waste management activities; b) take appropriate action necessary for the construction of Material Recovery Facility (MRF) of the Municipality to make it operational; c) prioritize the implementation of programs and projects identified in the Solid Waste Management Plan and Annual Investment Plan pertaining to solid waste management; and d) if budget allows, consider the creation of plantilla position of Municipal Environmental and Natural Resources Officer (MENRO) who will handle the implementation and monitoring of solid waste management programs, projects and activities.

10. Audit disallowances totaling ₱10,771,951.17 remained unsettled as of December 31, 2019 despite the issuance of Notice of Finality of Decision (NFD) and COA Order of Execution (COE) contrary to Section 7 of COA Circular No. 2009-006 dated September 15, 2009 thus, depriving the Municipal Government of the use of the recovered funds for other beneficial projects. Moreover, the unsettled balance of disallowances with NFDs and COEs in the total amount of ₱10,771,951.17 per Statement of Suspension, Disallowances and Charges (SASDC) does not tally with the ending balance of the Receivables-Disallowances and Charges account amounting to ₱8,728,999.50 thus, affecting the validity of the total receivables reported in the Statement of Financial Position. (*Observation No. 27*)

In view of the foregoing, we recommended that Management (a) take the necessary actions to expedite the collection of the unsettled disallowances; (b) instruct the Municipal Treasurer to exhaust all possible remedies to collect from each of the liable persons; (c) cause all the liable and certifying approving officers, who took part in the disbursement of disallowed expenditures, to assume responsibility in the final settlement of the remaining balance of the disallowance; and (d) require the Municipal Accountant to (i) prepare the necessary adjusting entries to reflect the correct balance of the account Receivables-Disallowances/Charges account; (ii) ensure that before allowing settlement of disallowances through installment payment the same was authorized and approved by COA; and (iii) submit to the Office of the Auditor a schedule containing partial settlement of disallowances of each liable persons and the corresponding Journal Entry Voucher for the issuance of notice of settlement.

The above audit observations and recommendations as contained in the report were discussed with the concerned municipal officials and staff through telephone inquiry and duly accomplished Summary of Audit Observations and Recommendations submitted to the Audit team on June 25, 2020. Management's views and reactions were considered in the report, where appropriate.

E. Summary of Total Suspensions, Disallowances and Charges as of year-end

Particulars	Beginning Balance, January 1, 2019	Issued During the Year	Recoveries/ Settlement During CY 2019	Balance as of December 31, 2019
Notice of Suspension	₱ 79,500.00	₱ 0.00	₱ 0.00	₱ 79,500.00
Notice of Disallowances covered by Notice of Finality of Decision (NFD)/COE	10,710,121.36	61,829.81	0.00	10,771,951.17
Notice of Disallowances not covered by Notice of Finality of Decision (NFD)	164,104.59	0.00	0.00	164,104.59
TOTAL	₱ 10,953,725.95	₱ 61,829.81	₱ 0.00	₱11,015,555.76

F. Status of Implementation of Prior Year's Audit Recommendations

There were 21 observations contained in the CY 2018 Annual Audit Report for which 53 recommendations were offered. As of report date, eight were fully implemented, 16 were partially implemented and 29 were not implemented. The details are discussed in Part III of the report.