

EXECUTIVE SUMMARY

I. Introduction

Cauayan is a first-class municipality in the province of Negros Occidental, Philippines, around 113 kilometers from Bacolod City, the capital of Negros Occidental, and known for its sandy beaches, limestone, and dried fish products. Located on the southern portion of the province, Cauayan is bounded on the east by the municipality of Ilog; on the south by the municipality of Candoni; on the west by the mining City of Sipalay and the north by the Panay Gulf with its bountiful fishing grounds. The Municipality of Cauayan is made up of 25 barangays, categorized into the coastal and the upland barangays.

The Municipal Government is operating under the Local Chief Executive's Development Agency, the **CHANGE PLUS**. This is an acronym for Coastal Development, Health and Housing, Agriculture and Access to Rural Development, New Technology Transfer, Good Governance, Education and Environment, Potable Water, Livelihood, Unity, and Social Welfare and Sports. It is headed by Honorable Mayor John Rey D. Tabujara with the assistance of his Vice-Mayor and nine (9) Sangguniang Bayan Members.

II. Financial Highlights

a. Assets, Liabilities and Equity

The consolidated assets, liabilities and equity of the Municipality as of December 31, 2019 and 2018 are as follows:

	2019	2018	Increase
Assets	1,159,807,336.66	1,006,003,202.71	153,804,133.95
Liabilities	550,482,856.35	462,740,495.67	87,742,360.68
Equity	609,324,480.31	543,262,707.04	66,061,773.27

b. Sources and Application of Funds

For the calendar year 2019, the Municipality realized an actual surplus of P66,411,773.27. Details are shown below:

Gen. Fund	65,570,628.58
SEF	841,144.69
Total	66,411,773.27

c. Appropriation

This year's total current appropriation totaled P406,205,650.00, as shown below:

General Fund	404,205,650.00
Special Education Fund	2,000,000.00
Total	406,205,650.00

d. Obligations

Total current obligations incurred during the year was P245,905,379.79 broken down as follows:

General Fund	244,159,582.84
Special Education Fund	1,745,796.95
Total	245,905,379.79

e. Financial Ratios

Quick Ratio	1.81 : 1
Current Ratio	1.83 : 1
Debt to Equity Ratio	0.90 : 1
Return on Asset	0.07 : 1

III. Scope of Audit

A financial and compliance audit was conducted on the accounts and operations of the Municipality of Cauayan, Negros Occidental for the year ended December 31, 2019. The audit was conducted to ascertain the propriety of financial transactions and compliance of the local government unit to prescribed rules and regulations. It was also made to ascertain the accuracy of financial records and reports, as well as the fairness of the presentation of the financial statements.

For Calendar Year 2019, we have conducted financial and compliance audits on the transactions and operations of the Municipality of Cauayan, Negros Occidental. We focused on the audit thrust contained in COA Unnumbered Memorandum dated July 3, 2018, such as:

- Cash and Cash Equivalents
- Financial Liabilities
- Due from NGOs/POs
- Fund Transfers From National Government Agencies (NGAs)
- 20% Development Fund
- Solid Waste Management

- Gender and Development Fund
- Audit of Revenues

The objective of the audit was to ascertain the reliability of the Municipality of Cauayan's financial statements and to check the validity and propriety of some transactions.

IV. Auditor's Opinion on the Financial Statement

A qualified opinion was rendered on the fairness of the presentation of the financial statements of the Municipality of Cauayan, Negros Occidental as of December 31, 2019, given the exceptions noted in audit as stated in the Independent Auditor's Report, which together with the other audit observations and recommendations were discussed in detail in Part II of this report.

V. Significant Observations and Recommendations

1. Mandatory cash examination was not conducted on the cash and accounts of two Accountable Officers (AOs), who retired from service and/or transferred to another office, contrary to COA Memorandum No. 2013-004 dated July 9, 2013, hence actual cash accountabilities was not determined.

We recommended that Management inform the Audit Team of any retirement or movement of Accountable Officers so that this Office can conduct the mandatory cash examination as required under existing regulations.

We likewise recommended that the Management thru the Municipal Treasurer to require the subject AOs to settle their unaccounted accountable forms, otherwise face possible charges as they are not yet cleared of their accountabilities as AOs.

2. Pre-signed checks by the Municipal Mayor and the Acting Municipal Treasurer were used to transact business with the bank, contrary to Section 40 of the Manual of New Government Accounting System (MNGAS) for LGUs, Volume 1, thus the risk that checks maybe encashed without prior review or approval of Disbursement Vouchers by authorized signatories is very possible and alarming.

We recommended and the Management agreed that the Municipal Mayor and the Acting Municipal Treasurer immediately stop the practice of signing checks ahead of a duly processed and approved disbursement voucher/transaction.

Designate proper officials to act as counter-signatories of checks in case of their absence so as not to hamper the operation of the LGU.

3. Monthly Reports of Accountability for Accountable Forms were not prepared and submitted to the Audit Team by the Acting Municipal Treasurer and Collecting Officers contrary to Section 98 of Government Accounting and Auditing Manual, Volume 1 thus, individual accountability over the Accountable Forms cannot be properly determined.

We recommended and the Management agreed to require each Collecting Officer to prepare and submit the Monthly Report of Accountability for accountable forms.

We also recommended that the Acting Municipal Treasurer prepare and submit the consolidated Monthly Report of Accountability for accountable forms in compliance with the existing regulations.

4. Cashbook-Cash in Bank is not maintained by the Acting Municipal Treasurer as provided under Section 27 of the Manual of New Government Accounting System (MNGAS) for LGUs, Volume 2, thus risk that checks may be drawn against an insufficient fund is very high and possible.

We recommended that Municipal Mayor require the Acting Municipal Treasurer to maintain the Cash in Bank-Cashbook for all funds in compliance with existing regulations, and for proper monitoring of the Cash in Bank balance.

5. The Acting Municipal Treasurer was not provided with a safe case to safeguard cash collection and accountable forms, contrary to sound internal control procedures thus, exposing government funds to risk of unauthorized use or loss.

We recommended and the Management agreed to provide the Acting Municipal Treasurer with safe or vault to safeguard cash collections, accountable forms as well as other important documents solely for her use.

6. Accountable Forms (AFs) issued to particular Collectors were allowed to be used by another collector, contrary to sound internal control on accountability for accountable forms thus, proper accounting and reconciliation of accountabilities as regards requisitions, issuances, and balances of AFs is difficult to establish and is not facilitated.

We recommended that Management thru the Acting Municipal Treasurer refrain from issuing accountable forms to personnel who are not duly bonded with the Bureau of Treasury, and transfer of accountable forms from one person to another, especially not duly bonded should be strictly prohibited.

Likewise, the Acting Municipal Treasurer should ensure that only regular and bonded employees should be authorized to collect revenues.

Furthermore, proper control procedure should be put in place over the accountable forms that is, the logbook should be duly signed by the requisitioning-collector acknowledging receipt of a particular series of accountable forms.

7. The Manager of Cauayan Water System acts as collector and at the same time the record keeper contrary to Section 50 of the Government Accounting and Auditing Manual (Volume III) thus, exposing the cash fund of the system to the risk of irregularities and/or misappropriation

We recommended that the Municipal Mayor assign a different person under the Accounting Office to maintain the subsidiary records of water consumers/customers.

Likewise, the Municipal Accountant should take-up the receivables from consumers in the books of accounts as these are already considered revenue although not yet collected by the agency.

8. Wages of KALAH I laborers in the total amount of P724,615.00 were processed and paid even without complete supporting documents contrary to Section 4, Paragraph 6 of PD 1445 thus, impeding transparency in government spending.

We recommended that Management require the project supervisor to require each laborer to submit the DTR and Accomplishment Reports to support the services being paid.

We also recommended that the Municipal Accountant process only claims that have complete supporting documents, otherwise be held personally responsible and accountable thereof.

9. Local Disaster Risk Reduction and Management Fund (LDRRMF) amounting to P5,857,363.28 was not utilized during the year contrary to JMC No. 2013-1 dated March 25, 2013, thereby depriving the constituents of the benefits that could have derived had the funds been efficiently used.

We recommended that the Management require the LDRRM Council to review their LDRRM Plan, consolidate all unexpended funds from previous years, and formulate viable projects and activities to be implemented in the ensuing year.

We also recommended that the LDRRM Officer ensures the timely utilization of the fund in order to improve the LGU's ability to prepare for and respond to threats of calamities and disasters.

10. Prior years' unutilized balance of the LDRRMF was not used in the disaster risk reduction and management activities as provided in the LDRRMFIP contrary to Section 5.1.13 of COA Circular No. 2012-002, thus defeating the specific purpose for which the fund was created.

We recommended that Management require the Municipal Disaster and Risk Reduction Management Council to consider in the formulation of disaster risk reduction management programs/projects/activities the previous years' unexpended balance of LDRRMF. Likewise, ensure that these programs/projects/activities are implemented in the ensuing years to attain maximum utilization of the fund and enhance the agency's disaster preparedness and response capabilities.

11. Monthly Reports on the Utilization of the LDRRMF and other disaster risk reduction and management resources for CY 2019 were not submitted to the Audit Team, contrary to Section 12.c.24 of RA No. 10121 and Section 5.1.5 of COA Circular No.

2012-002 dated September 12, 2012, thus, hindered the timely review and verification of the expenses charged against the said fund.

We recommended and the Management agreed to require the Municipal LDRRM Officer and/or the Municipal Accountant to regularly prepare a monthly report on the utilization of the LDRRMF and submit the same to the Audit Team within the prescribed period for assessment and monitoring of the implementation of the projects/programs/projects, so that any setbacks may be brought to the attention of concerned officials the soonest possible time for their immediate and appropriate action.

12. Loans granted to People's Organization (POs) amounting to P775,000.00 was debited to expense account instead of a receivable account contrary to COA Circular Nos. 2015-009 and 2007-001 thus, the expense is overstated while receivable is understated by the same amount.

We recommended that Management require the Municipal Accountant to draw JEV to correct the affected accounts as follows:

	Dr.	Cr.
Due from NGO/PO	P775,000.00	
Prior Period Adjustment (instead of expense)		P775,000.00

We also recommended that the Accounting Office maintain a subsidiary ledger to record the PO's account, to monitor the payment, and to support the general ledger control account, and require appropriate liquidation of the funds granted to POs.

13. Fourteen (14) contracts valued at P19,952,688.38 were awarded by the Municipality from a single bid thus, undermines the essence of the competitive bidding process, and in violation of Section 14 (a)(2) of the Republic Act No. 10667 or the Philippine Competition Act of 2015.

We recommended that Management require the BAC to disseminate widely the Notice of Bid among qualified suppliers/contractors and consider postponement of bidding if only a single bidder has submitted their bid proposal to promote a competitive bidding process.

Likewise, we recommended that the BAC periodically review the history of bid tenders for particular procurement/project and discern suspicious patterns of bid collusion among suppliers/contractors and impose sanctions thereto if warranted.

14. The accuracy and reliability of the year-end balance of the Property, Plant and Equipment account of ₱432,357,819.72 could not be ascertained and validated due to non-preparation and submission of updated inventory reports, contrary to Section 124 of the NGAS Manual, Volume I, hence affected the fair presentation of related accounts in the financial statements.

We recommended that Management require the Inventory Committee to prepare and submit to the Auditor an updated inventory report on the physical count of the properties not later than January 31 of each year pursuant to Section 124 of the NGAS Manual, Volume I.

15. Seventeen (17) out of thirty-six (36) projects funded under the CY-2019 20% Development Fund (DF) were not implemented as of December 31, 2019, contrary to DILG-DBM Joint Memorandum Circular No 2017-01, depriving the constituents of the timely basic and value-added services and benefits that could be derived therefrom.

We recommended that Management require the Municipal Planning and Development Officer to ensure that the Municipality's AIP includes the detailed breakdown by clearly specifying each project to be prioritized for implementation, and facilitate its inclusion in the Annual Budget. Furthermore, directs the Offices concerned to expedite the implementation of all projects funded by 20% DF to ensure optimum utilization of the fund.

We also recommended that the Municipal Planning and Development Officer closely monitor and evaluate the implementation of the different development projects in accordance with the AIP for the timely delivery of basic and value-added services and benefits to its constituents.

16. Procurement of farm equipment and working animals with a total cost of P1,215,000.00 was delayed despite the receipt of corresponding funds from the source agencies, depriving the beneficiaries of the timely use of such equipment and animals.

We recommended that Management appoint a BUB Focal Person to closely supervise and monitor the implementation of all BUB projects by conducting a timely evaluation to avoid delays or to complete the projects on time.

17. The year-end balance of the Due from Other Funds account of P24,862,550.42 does not reconcile with its reciprocal account of Due to Other Funds of P36,703,501.49 or a difference of P11,840,951.07, casting doubt on the accuracy of the recorded transactions, thus affecting the fair presentation of the accounts in the financial statements.

We recommended that Management require the Municipal Accountant to make a detailed review of the accounts and determine the cause/s of the unreconciled amounts. Thereafter, make the necessary adjustments/corrections in the books of accounts to present the correct balances of the affected accounts. Henceforth, exercise prudence in recording and classifying the Municipality's financial transactions to ensure that the balances of the reciprocal accounts are at all times equal.

18. Disbursement of funds received from National Government Agencies (NGA) and Local Government Unit (LGU) was not correctly recorded, contrary to Section 104 of

the Manual on New Government Accounting for LGUs or the prescribed accounting entries for Trust Fund thus, understating the accounts Due to NGA, Due to LGU and Property, Plant and Equipment (PPE) by P5,480,255.33, P1,997,580.42 and P7,477,835.75, respectively, at year-end.

We recommended that Management require the Municipal Accountant to draw JEV to correct the affected accounts in the Trust Fund books, as follows:

	Dr.	Cr.
Construction in Progress	7,477,835.75	
Due to NGA		P5,480,255.33
Due to LGU		1,997,580.42

We also recommended that henceforth, the prescribed journal entries should be observed to record the fund transferred from NGAs and its related transactions in the books for a fair presentation of accounts in the financial statements.

VI. Status of Suspensions, Disallowances and Charges

The Municipality of Cauayan has no outstanding audit suspension, disallowance and charge as of December 31, 2019.

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

Of the 15 recommendations contained in the prior years' Annual Audit Reports, five were implemented, eight were partially implemented and two remained unimplemented and reiterated in this year's report.