

EXECUTIVE SUMMARY

A. Introduction

The Municipality of Caraga was created on October 29, 1903 by virtue of the enactment of Organic Act No. 21. The Municipality operates as a first-class local government unit that belongs to the First Congressional District of the Province of Davao Oriental. The Municipality has seventeen (17) component barangays.

Caraga envisions being an economically progressive Municipality with peaceful, empowered and God-loving citizenry, enjoying social equity, economic sustainability, ethnic and gender sensitivity, and political maturity.

The Municipality of Caraga is headed by Mayor Alicia B. Mori and Vice Mayor Marilyn S. Iturralde together with ten (10) Sangguniang Bayan Members and various department heads. For CY 2018, it has total personnel complement of 257, of which 88 are regular employees, 59 are casuals and 110 are on job order basis.

B. Audit Methodology

A comprehensive audit was conducted on the accounts and operations of the Municipality of Caraga, Davao Oriental for CY 2018. The audit consisted of review of operating procedures, evaluation of the LGU's programs and projects; interview of concerned government officials and employees; verification; reconciliation; and analysis of accounts; and such other procedures considered necessary.

C. Scope of Audit

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 Methodology, was applied in the audit of the accounts and operations of the agency.

D. Financial Highlights

The financial condition and results of operation of the Agency as at December 31, 2018 with comparative figures of 2017 are summarized as follows:

	2018	2017	Increase/ (Decrease)	Percentage
Assets	418,529,448.44	346,308,571.59	72,220,876.85	21%

	2018	2017	Increase/ (Decrease)	Percentage
Liabilities	129,250,256.31	104,929,824.35	24,320,431.96	23%
Equity	289,279,192.13	241,378,747.24	47,900,444.89	20%
Income	190,360,312.70	192,470,906.30	(2,110,593.60)	(1%)
Expenses	152,707,785.79	142,678,543.67	10,029,242.12	7%
Net Income	37,652,526.91	49,792,362.63	(12,139,835.72)	(24%)

Below is the summary of appropriations and obligations incurred for the year ended December 31, 2018:

➤ *Appropriations per Fund*

Description	2018	2017	Increase (Decrease)	%
Current Legislative Appropriations- General Fund				
Personal Services	67,668,264.18	63,117,805.77	4,550,458.41	7%
Maintenance and Other Operating Expenses	76,649,780.50	69,617,542.83	7,032,237.67	10%
Capital Outlay	51,262,031.20	48,345,074.40	2,916,956.80	6%
<i>Subtotal</i>	<i>195,580,075.88</i>	<i>181,080,423.00</i>	<i>14,499,652.88</i>	<i>8%</i>
Current Legislative- Appropriations-Special Education Fund				
Maintenance and Other Operating Expenses	350,000.00	350,000.00	0.00	0%
Total	195,930,075.88	181,430,423.00	14,499,652.88	8%

➤ *Appropriations, Obligations and Balances for all Funds*

Fund	Appropriations	Obligations	Balances
General Fund	195,580,075.88	156,691,373.17	38,888,702.71
Special Education Fund	350,000.00	322,689.00	27,311.00
Total	195,930,075.88	157,014,062.17	38,916,013.71

E. Auditor's Opinion on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements for the year then ended due to the following:

- The accuracy and reliability of the Cash-in-Bank balance of P151,152,528.43 as at December 31, 2018 could not be ascertained due to the existence of unreconciled amount of P7,611,253.88 and failure to timely submit the monthly Bank Reconciliation Statements contrary to Circular No. 96-011 dated October 2, 1996, thereby affecting the fair presentation of the account in the financial statements;

- The accumulation of unliquidated cash advances and other receivables from officers and employees in total amount of P67,403,833.39 as at year-end, 63% of which or P42,407,876.10 remained outstanding for more than 10 years, due to the failure to conduct regular monitoring and analysis of the accounts and strictly enforce settlements thereof, overstated total assets and government equity, thereby not fairly presenting the actual financial position and operations of the municipality;
- The correctness of reported PPE of P172,971,552.21 is doubtful due to the unreconciled balance of P171,383,564.01 between the Report of Physical Count of PPE submitted by the General Services Officer and the records of the Accounting Office, thereby casting doubt on the accuracy and reliability of the reported balances in the financial statements;
- Complete and timely submission of disbursement vouchers, various reports and other pertinent documents were not strictly complied with, despite previous audit recommendation, which resulted to bulk submission of vouchers and official receipts on February 2019. As at February 28, 2019, a total P14,440,277.87 vouchers and official receipts from October to December 2018 remained unsubmitted, thus hindering the application of substantive audit procedures and posing risk to non-detection of errors and/or irregularities.

F. Summary of Significant Observations and Recommendations

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

1. Delayed implementation of infrastructure projects in an aggregate amount of P49,520,058.00 funded by transfers from various NGAs, due to lack of manpower to properly plan and monitor, have deprived the intended recipients of the benefits of poverty alleviation, road accessibility and potable water.

We recommended that the management shall augment the personnel who shall closely monitor the implementation of projects. Also, consider the blacklisting of erring contractors in accordance with applicable rules and regulations. It also recommended that the agency shall identify the bottlenecks of their operations such as the procurement process and formulate strategies to address the same.

2. Of the current appropriations of DF intended for various projects/programs/activities in the total amount of P23,671,812.76, a significant portion of 80% or P16,367,878.82 remained unutilized as at year-end due to the leniency in the implementation of PPAs, thereby depriving the community of the outcomes on socio-economic development and environmental management.

We recommended that the LCE shall ensure the optimal utilization of the 20% development fund in accordance with the updated guidelines to attain the desired outcomes for the benefit of the constituents of Caraga. Moreover, the personnel of the Office of Municipal Engineering shall recalibrate and reassess their performance of their mandated duties and responsibilities.

3. Of the available MDRRMF in the total amount of P25,709,628.15, a significant portion of 87% or P22,450,361.87 remained unutilized as at year-end due to the delay in the procurement process and lack of personnel to facilitate the implementation of DRRM PPAs, thereby compromising the disaster preparedness and response capabilities of the agency.

We recommended that the MDRRM council shall ensure optimal utilization of the available MDRRMF for disaster risk management activities and purchase of disaster rescue and response equipment to ensure readiness in mitigating the effect of any disaster. Also, management shall hire additional personnel to ensure proper functioning of the office in the implementation and monitoring of PPAs, thereby reducing disaster risks and life-threatening damages to the entire populace of Caraga.

4. The continued use of open dump as a final disposal facility beyond the three-year allowable period, due to the delayed construction of Sanitary Land Fill, contravenes RA No. 9003, thereby endangering the nearby constituents' health and the environment.

We recommended that the Mayor shall prioritize the construction of the sanitary landfill and discontinue the use of the open dump. Moreover, management shall strictly adhere to the provisions of the R.A. No. 9003. Moreover, consider the issuance of termination of contract and the blacklisting of contractor, without prejudice to other courses of action available to the agency.

5. The Office of the Sangguniang Bayan paid a sum of P4,208,120.00 for catering services relative to the conduct of several meetings, assemblies, trainings and other similar activities but resulted to the enactment of only eight (8) municipal ordinances which were not directly related to the conducted activities, thereby rendering the said expenditures unnecessary.

We recommended that members of the Sangguniang bayan and the support personnel shall economically use the scarce government funds. Also, the appropriation for Office of the Sangguniang Bayan and that of the Municipal Vice Mayor shall be confined only for regular maintenance and other operating expenses of the subject offices. Lastly, submit written justification to preclude issuance of notices of suspension/disallowance.

G. Summary of Total Suspensions, Disallowances and Charges as at Year-End

The reported audit suspensions, disallowances and charges of the Municipality of Caraga as at December 31, 2018 were as follows:

	Beginning Balance 12.31.2017	This Period		Ending Balance 12.31.2018
		January 1 to December 31, 2018		
		NS/ND/NC	NSSDC	
Notice of Suspension	17,053,530.87	0.00	3,258,166.90	13,795,363.97
Notice of Disallowance	34,148,221.53	0.00	0.00	34,148,221.53
Notice of Charge	0.00	0.00	0.00	0.00
Total	51,201,752.40	0.00	3,258,166.90	47,943,585.50

H. Status of Implementation of Prior Years' Audit Recommendations

Out of the 112 prior years' audit recommendations, eight (8) or 7% was implemented, sixty-one (61) or 54% were partially implemented, while the remaining forty-three (43) or 39% had remained unimplemented.