

EXECUTIVE SUMMARY

Introduction

The Municipality of Panukulan was created under Republic Act No. 2452 dated June 21, 1959. It is one of the island municipalities of the Province of Quezon situated along the Pacific Ocean. It has a total land area of 24,500 hectares and composed of 12 barangays. Presently, Panukulan is a 4th class municipality.

The Organizational Structure of the Municipality is as follows:

a. Key Officials

Hon. Amado P. Peñamora - Municipal Mayor
Hon. Alfred Rigor S. Mitra - Municipal Vice-Mayor

Members of the Sanggunian:

1. Hon. Janice U. Peñamante
2. Hon. Rebecca L. Salgo
3. Hon. Arlene M. Postor
4. Hon. Emman Q. Peñamante
5. Hon. Joe Abel L. Erracho
6. Hon. Noeme V. Peñamante
7. Hon. Aida G. Daet
8. Hon. Leonilo P. Nolledo
9. Hon. Dante S. Villamen

Other Key Officials

Bernadeth P. Virrey - Municipal Accountant
Gerlie N. Lamina - In-Charge of Office – Municipal Treasurer

b. No. of Personnel Complement

Elected	-	11
Permanent	-	57
Co-terminus	-	<u>1</u>
Total Personnel Complement		<u>69</u>

Financial Highlights

For Calendar Year (CY) 2016, the Municipality generated a total income of ₱71,062,010.84 from local taxes, permits and licenses, service and business income, internal revenue allotment and other income. The total appropriations for the year amounted to ₱76,085,180.53 of which the amount of ₱63,243,339.09 was expended.

The Municipality's comparative financial condition and results of operations for Calendar Years (CYs) 2016 and 2015 are summarized below and shown in detail in the attached audited financial statements:

	2016	2015	Increase/Decrease
Total Assets	P 139,864,947	P 92,487,733	P 47,377,214
Total Liabilities	59,255,824	34,257,727	24,998,097
Net Assets/Equity	80,609,123	58,230,006	22,379,117
Total Income	71,062,011	64,434,662	6,627,349
Total Expenses	53,092,026	49,246,179	3,845,847

Scope of Audit

Financial and compliance audit was conducted on the accounts and operations of the Municipality of Panukulan for CY 2016. The audit was conducted to ascertain the propriety of financial transactions and compliance of the Municipality with 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. The audit consisted of review of operating procedures, interview of concerned government officials and employees, verification, reconciliation and analysis of accounts and such other procedures considered necessary.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality of Panukulan, Quezon as of December 31, 2016 due to the following reasons:

- The valuation and existence of the recorded Property, Plant and Equipment (PPE) totaling P31,770,219.51 could not be ascertained due to failure of the Municipality to conduct physical inventory per type of property and incomplete property cards and subsidiary ledger cards, contrary to Sections 119, 120 and 124 of the Manual on the New Government Accounting System (MNGAS), Volume I;
- The existence, valuation and ownership of Land account valued at P6,402,741.81 is doubtful due to lack of subsidiary ledgers and Transfer Certificate of Title (TCT) duly issued by the Registry of Deeds, contrary to Section 148 of Commission on Audit (COA) Circular No. 92-386 and Section 10 of the MNGAS, Volume II, thereby exposing the same to third party claims and may result in the overstatement of the assets of the government; and
- The accuracy and reliability of the Due to GSIS, PAG-IBIG, PHILHEALTH and BIR accounts representing contributions withheld from its employees, suppliers and contractors amounting to P464,244.95, P104,501.96, P33,425.00 and P387,763.94, respectively, as of December 31, 2016 are doubtful due to

unreconciled/unremitted prior months contributions, thus depriving the member beneficiaries from the availment of the privileges and benefits due them.

For the exceptions cited above, the Audit Team recommended the Municipal Mayor to:

- Instruct the Inventory Committee to conduct the physical inventory and prepare and submit the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) per type of property. Moreover, require the Municipal Accountant and In-Charge of Office (ICO)-General Services Officer to prepare the corresponding ledger cards and property cards for all types of properties and reconcile the same to establish the correct PPE balances and to investigate and adjust any discrepancy that will be noted;
- Require the Municipal Assessor to look into TCT duly issued by the Registry of Deeds, if any and/or the supporting tax declaration of the various lots and cause the immediate titling of the lots in the name of the Municipality.;
- Require the Municipal Accountant to maintain Subsidiary Ledger for the Land account; and
- Instruct the Municipal Accountant and Treasurer to reconcile the accounts and remit whatever balance due to the agencies concerned to avoid incurrence of penalties and surcharges and enable the member beneficiaries of the Municipality to avail the benefits from the said offices.

Significant Audit Observations and Recommendations

The other significant audit observations and recommendations in the audit of the Municipality of Panukulan for the year 2016 are as follows:

1. Unexpended/Unutilized balance of Trust Funds received from the National Agencies totaling ₱280,994.00 were recorded under Due to LGUs account, while the Due to NGAs account totaling ₱896,574.81 included Priority Development Assistance Fund (PDAF) of ₱4,799.30, all of which had been outstanding in the books for more than four years and the purposes of the funds have been fulfilled were not remitted/deposited to the National Treasury, contrary to Section 29 (3), Article VI of the Constitution, Section 65 of Presidential Decree (PD) No. 1445 and the Supreme Court Decision under G.R. No. 208566 dated November 19, 2013.

We reiterated our recommendation that the Municipal Mayor require the Municipal Treasurer to deposit to the account of the National Treasury the amount of ₱1,177,568.81 representing unexpended/unutilized balances of trust funds and PDAF.

2. Checks totaling ₱14,844.00 remain outstanding as of December 31, 2016 due to the failure of the Municipal Treasurer to send written notices to payees of checks one

month before these issued checks become stale, contrary to the provisions of Section 59, Volume 1 of the MNGAS, thus these checks were already over six months from date of issue and considered as stale and will be dishonored if presented in the depository bank for encashment. Moreover, the Municipal Accountant failed to prepare the necessary adjusting entries on the accounts affected, contrary to Item 6, Section 61 of the same Manual, thus understating the cash balance and payable/liability accounts.

We recommended that the Municipal Mayor require the Municipal Treasurer to notify the payees or holder of checks issued one month prior to the date when issued checks will become stale so that concerned payees will be aware of the depository bank's action on these issued checks six months after the date of its issuance.

We also recommended to require the Municipal Accountant to adjust the books of the affected accounts whenever stale checks are discovered particularly during the preparation of Bank Reconciliation Statements.

3. The Municipal Disaster Risk Reduction and Management Officer (MDRRMO) failed to submit the monthly Report on Sources and Utilization of Disaster Risk Reduction and Management Fund (DRRMF), contrary to the provision of COA Circular No. 2012-002 dated September 12, 2012, thus prevented the Audit Team from conducting audit to determine if utilization of the fund was in accordance with the guidelines per COA Memorandum No. 2014-009 dated August 28, 2014

We reiterated our recommendation that the Municipal Mayor require the MDRRMO to submit to the Audit Team the Monthly Report on the Sources and Utilization of Disaster Risk Reduction and Management Fund on or before the 15th day after the end of each month through the LDRRMC and the LDC in compliance with Item 5.1.5 of COA Circular 2012-002.

4. Construction in Progress for various asset account totaling ₱6,014,120.61 could not be validated due to failure of the Municipal Engineer to submit the list of all on-going government projects/programs/activities (PPA) and those that are to be implemented during the year and its monthly monitoring report contrary to Sections 2.1, 3.1 and 3.2 of COA Circular No. 2013-004 dated January 30, 2013, thus whether or not the implementation of these infrastructure projects were within the project duration as planned and liquidated damages to be collected, if any, could not be ascertained.

We reiterated our recommendation that the Municipal Mayor require the Municipal Engineer to submit the list of all on-going government projects/programs/activities (PPA) and those that are to be implemented during the year. Likewise, submit the monthly monitoring report in compliance with the above-cited regulations.

5. The paid disbursement vouchers (DVs) for cash advances for payroll and the supporting documents of all paid DVs of the Municipality were not stamped "PAID" in violation of Section 1.Q of COA Circular No. 92-389 dated November 3, 1992

which may result to possible re-use of same documents for other claims of same nature.

We recommended that the Municipal Mayor instruct the Municipal Treasurer to strictly comply with the requirements stated under COA Circular No. 92-389 to prevent the possible re-use of those documents for other claims of same nature as part of a sound internal control system in the disbursement of funds.

6. Unnecessary penalty charges totaling ₱10,683.61 were incurred by the Municipality on the late payments of electricity due to non-monitoring of due dates, contrary to Section 2 (2), Article IX-D of the 1987 Constitution and Section 4.1 of COA Circular No. 2012-003, thus reducing/decreasing the funds which can be utilized for other necessary expenditures of the Municipality.

We recommended the Municipal Mayor to instruct the ICO – Municipal Treasurer to ensure that near maturing obligations are handled with utmost care to avoid the unnecessary penalties and to refund the amount of ₱10,683.61 for the penalty of late payments. Payment of electricity and other basic utilities shall be given priority and shall be made on or before its due date.

7. The Municipality failed to prepare and submit an Annual Procurement Plan for Common Supplies and Equipment (APP-CSE) for 2016 as required under DBM Circular Letter No. 2011-06 and 2011-06A, and in effect preventing the Procurement Service – Department of Budget and Management (PS-DBM) from accomplishing its mandated function of projecting inventory requirements and overall management of the government's central procurement of common-use supplies. Likewise, the Municipality failed to attach any proof of the approved mode of procurement for purchases totaling ₱1,799,093.52 (Annex A) as required under the Implementing Rules and Regulations (IRR) Part A of Republic Act (RA) No. 9184.

We recommended the Municipal Mayor to instruct the Municipal Budget Officer to prepare and submit APP-CSE to DBM as required under Circular Letter No. 2011-06 and 2011-06A, and to submit to the Audit Team copy of approved APP indicating the mode of procurement to be adopted on all its procurement consistent with the duly approved yearly budget.

We also recommended the Bids and Awards Committee (BAC) Chairman to provide the Audit Team copy of BAC resolutions/recommendations on the mode of procurement adopted in all the transactions listed in the Annex A for further verification of the Team.

8. Purchase of drugs and medicines totaling ₱50,850.00 were not included in the latest Philippine National Formulary (PNF) Manual, contrary to Executive Order No. 49, s. 1993 and Department of Health Administrative Order No. 2012-0023 or the Revised Implementing Guidelines for the Philippine National Formulary System (PNFS), thus may result to purchases of less efficacious, safe and cost-effective drugs and

medicines for health care need and hence disadvantageous to the government on standpoint of efficiency, safety and economy.

We recommended that the Municipal Health Officer submit to the Auditor the request for exemption with justification duly approved by the National Center for Pharmaceutical Access and Management (NCPAM) Program Director, if any, for the drugs and medicines not included in the latest PNF Manual as stated above, otherwise disallowed in audit.

Henceforth, we recommended that the Municipal Mayor instruct the Municipal Health Officer to procure only those drugs and medicines identified in the PNF Manual and issue certification that products being requisitioned and procured fall within and conform with the latest edition of the PNF Manual. Moreover, direct the Bids and Awards Committee and Municipal Accountant to ensure that all purchases of drugs and medicines are supported with the said certification by the requisitioning officer or by the duly authorized officer.

9. Disbursements and/or liquidations made by the Municipality on the funds received from various National Government Agencies totaling ₱12,500,000.00 were not supported with the copies of Memorandum of Agreement or Trust Agreement, contrary to Item 3.1.2 of COA Circular No. 2012-001, hence it could not be ascertained whether utilization thereof were in accordance with the intended purpose.

We recommended that Municipal Mayor to exert more effort in obtaining copies of the Memorandum of Agreement/Trust Agreement on all funds received from the National Government Agencies and furnish the same to the Audit Team, as provided for in Item 3.1.2 of COA Circular No. 2012-001.

Henceforth, require the Municipal Accountant to ensure that all disbursement and/or liquidations are supported with complete documentation.

10. The Municipality failed to submit its Gender and Development (GAD) Plan and Budget and GAD Accomplishment Report, contrary to Section 36 of R.A. No. 9710 and Sections 4.1, 4.4 and 4.8 of Joint Circular No. 2004-1 of the Department of Budget and Management (DBM), National Economic Development Authority (NEDA), and Philippine Commission on Women (PCW), thus it could not be ascertained whether or not the Municipality had conducted activities that actually addressed issues related to GAD, promoted gender-responsive governance, protected and fulfilled women's human rights, and promoted women's economic empowerment.

We recommended that the Municipal Mayor require the GAD focal point to regularly submit the Municipality's approved GAD Plan and Budget and GAD Accomplishment Report as prescribed and strictly adhere to the above cited regulations.

The above observations and recommendations contained in the Report were communicated to the Municipal Mayor and other key officials under various Audit Observation Memoranda and discussed in the exit conference conducted on May 8, 2017. Management's views and comments were considered in the report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the twelve prior year's audit recommendations embodied in the 2015 Annual Audit Report, three were fully implemented, two were partially implemented and the remaining seven were not implemented by the Municipality.