EXECUTIVE SUMMARY

Introduction

The Municipality of Culion is the 2nd largest island in the Calamianes Group of Islands in the Northern tip of Palawan. It is approximately 200 nautical miles south west of Manila, with a total land area of 64,102 square hectares.

The Municipality was created in 1995, by virtue of Republic Act (RA) No. 7193. In year 2002, twelve (12) new barangays were created and two (2) barangays were transferred from the Municipality of Busuanga due to the enactment of RA No. 9032 on March 30, 2001 to help boost the economic and social development of the Municipality.

Culion is a 3rd class municipality in the province of Palawan and is politically subdivided into fourteen (14) barangays. The Municipality maintains three (3) funds, namely, the General Fund, Special Education Fund and Trust Fund.

Financial Highlights

For CY 2019, the Municipality realized a total income of ₱159,110,198.94 from internal revenue allotment, local taxes and other income.

The total assets, liabilities, government equity, income and expenses for CY 2019 compared with that of the preceding year are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2018</th>
<th>Increase (Decrease)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets</td>
<td>₱259,609,692.36</td>
<td>₱221,998,021.67</td>
<td>₱37,611,670.69</td>
<td>16.94%</td>
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<tr>
<td>Total Liabilities</td>
<td>89,055,318.00</td>
<td>73,000,586.87</td>
<td>16,054,731.13</td>
<td>21.99%</td>
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<tr>
<td>Total Equity</td>
<td>170,554,374.36</td>
<td>148,997,434.79</td>
<td>21,556,939.57</td>
<td>14.47%</td>
</tr>
<tr>
<td>Total Income</td>
<td>159,110,198.94</td>
<td>143,085,230.78</td>
<td>16,024,968.16</td>
<td>11.20%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>139,627,155.15</td>
<td>118,782,472.40</td>
<td>20,844,682.75</td>
<td>17.55%</td>
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Scope of Audit

The Audit Team conducted financial and compliance audits on the accounts, transactions and operations of the Municipality of Culion, Palawan for CY 2019. The audit consisted of review of operating procedures, inspection and evaluation of the Municipality’s programs and projects, interview with concerned municipal government officials, verification, confirmation, reconciliation and analysis of accounts on a test basis and such other procedures considered necessary under the circumstances.

The objectives of the audit are to (a) ascertain the level of assurance that may be placed on Management’s assertions in the financial statements; (b) evaluate the extent of compliance with laws and regulations as well as the propriety and validity of transactions;
recommend measures to improve the efficiency and effectiveness of the agency’s operations; and (d) determine the extent of implementation of prior years’ recommendations.

Audit Opinion on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of financial statements due to the following:

1. The accuracy of the reported cash account balance amounting to ₱85,864,452.35 as of December 31, 2019 was doubtful due to (a) non-reconciliation of cashbook balances with accounting records every end of the month; (b) preparation of a consolidated bank reconciliation statement and non-maintenance of subsidiary ledger (SLs) for the ten bank accounts under the TF; and (c) non-cancellation of stale checks totaling ₱117,740.75; and

2. The existence, completeness and valuation of Property, Plant and Equipment (PPE) account balances with net book value of ₱49,659,790.63, excluding Construction in Progress (CIP) amounting to ₱91,787,391.90, as of December 31, 2019 could not be ascertained due to the (a) non-inclusion of the unit value of each item of PPE, the balance per card and the type/classification of the PPE in the partial inventory report; (b) non-conduct of physical count/inventory of local roads reported in the books at ₱10,742,481.34; (c) non-maintenance of PPE Ledger Cards (PPELC), Real Property Ledger Cards (RPLC), Local Road Network Ledger Card (LRNLC) and Property Cards (PC) by the accounting and general services offices; (d) inclusion in the lapsing schedule of 13 “unaccounted/undetermined” PPE items with net book value of ₱38,945,986.12; and (e) seven infrastructure projects completed in CY 2019 with total contracts costs of ₱19,876,058.01 were not transferred to the appropriate PPE accounts as of year-end and variances totaling ₱4,533,655.70 were noted between the contracts costs of five completed projects and their recorded costs per lapsing schedule.

Significant Observations and Recommendations

For the first exception cited above, we recommended the following:

a. Municipal Treasurer (i) regularly reconcile the cashbooks with accounting records so that discrepancies or errors could be immediately identified and corrected, in compliance with Section 63 of the Local Treasury Operations Manual; (ii) immediately deposit his collections intact to avoid possible loss or misapplication of funds; and (iii) render a satisfactory written explanation on the accumulation of significant balance in the Cash, Local Treasury account.

b. Municipal Accountant reconstruct the SLs and prepare Bank Reconciliation Statements for each of the ten depository accounts under the Trust Fund; and

c. Municipal Accountant and the Municipal Treasurer strictly comply with Section 59
of the Manual on the New Government Accounting System (MNGAS) for LGUs, Volume I pertaining to the cancellation of stale checks and make the necessary adjustments in the books of accounts.

For the second exception cited, we recommended the following corrective measures:

a. Inventory Committee (i) complete the physical count of all PPE and ensure the report’s usability by including all the required information in the RPCPPE, as illustrated in the MNGAS for LGUs, Volume II, and thereafter reconcile the RPCPPE with the property and accounting records; and (ii) prepare the Report on the Physical Count of the Road Network System and submit a copy thereof to the Audit Team;

b. Municipal Accountant (i) maintain PPELC for each class of PPE, RPLC for each real property and LRLC for local road networks and ensure that all ledger cards contain complete details/description of the property to facilitate proper reconciliation with the RPCPPE; (ii) trace/locate the related documents for the 13 “unaccounted/undetermined” property items included in the lapsing schedules; (iii) transfer to the appropriate PPE accounts the costs of seven completed infrastructure projects and thereafter compute and recognize depreciation expense therefor; (iv) reconcile the variance between the contract costs of five completed infrastructure projects and their costs per lapsing schedule; and (iv) check and review related accounting records to ensure that all transactions pertaining to the construction, acquisition and disposal of PPE are properly reflected in the books of accounts; and

c. General Services Officer (i) maintain complete property cards with complete information; and (ii) maintain a local road inventory and road map and Local Road Network Property Card pursuant to COA Circular No. 2015-008 dated November 23, 2015.

For CY 2019, the following are the other significant observations and recommendations:

1. Cash advances totaling ₱8,011,808.66 remained unsettled and unliquidated as of December 31, 2018 contrary to Section 5.8 of COA Circular No. 97-002 dated February 10, 1997, thus affected the correctness of the reported receivable and the related expense account balances at year end.

We recommended that the LCE (i) through the Municipal Accountant, serve written notices to all concerned accountable officers requiring settlement of their outstanding cash advances and institute legal action against them, if warranted; and (ii) ensure that all concerned officers and employees strictly comply with the guidelines of COA Circular No. 97-002 on the granting, utilization and liquidation of cash advances to forestall accumulation of unliquidated balances.

2. Advances for salaries of regular and job order personnel were merely supported with a list of net payments per office instead of duly approved payrolls contrary to
COA Circular No. 2012-001 dated June 14, 2012. Moreover, significant refunds of advances for payroll amounting to as much as ₱1,076,093.13 were noted indicating that cash advances were drawn with no legal specific purpose contrary to Section 4.1.1 of COA Circular No. 97-002 dated February 10, 1997.

We recommended that the:

a. Municipal Accountant (i) thoroughly review all ensuing transactions concerning cash advances for payroll and payment of salaries, and henceforth ensure that advances for payroll are equal to the net amount of payroll for the period; and (ii) ensure the completeness of supporting documents as required under COA Circular No. 2012-001 before any grant of cash advance for payroll is processed; and

b. Municipal Treasurer submit a satisfactory written explanation why refund of cash advances in May 2019 was deposited only in July 2019.

3. The regular monitoring and analysis of dormant receivable accounts aggregating ₱123,026.05 was not performed by the Municipal Accountant as manifested by the non-submission to the Audit Team of the aging of dormant receivable accounts required under COA Circular No. 2016-005 dated December 19, 2016. Furthermore, allowance for impairment of receivables was not recognized in the books which affected the fair presentation of the receivable and equity accounts in the financial statements.

We recommended that the:

a. Local Chief Executive, in coordination with the Municipal Accountant and the Municipal Treasurer, exhaust all possible means for the collection of dormant receivables by sending demand letters to the debtors; and

b. Municipal Accountant (i) strictly comply with the provisions of COA Circular No. 2016-005 on the required analysis of dormant accounts by performing the regular and periodic verification, analysis and validation of the existence of the receivables and determine the concerned debtors, accountable officers for strict monitoring and disposition of said accounts; (ii) prepare the quarterly aging of dormant receivables, unliquidated cash advances and submit them to the Audit Team; (iii) provide allowance for impairment of dormant receivables as required under IPSAS 29 for the fair presentation of receivables and equity account in the financial statements.

4. Several deficiencies were noted in the hiring and payment of wages of job order (JO) personnel such as: (a) variance of ₱162,509.59 were noted between the expenditures for Other General Services amounting to ₱19,147,387.52 as of December 31, 2019 and the total annual appropriations of ₱18,984,877.93; (b) JO personnel performing regular office work and clerical or administrative functions contrary to Rule XI of Civil Service Commission (CSC) Memorandum Circular (MC) No. 40, s. 1998; (c) JO agreements merely specified the position titles without
the specific duties and the expected outputs, thus the necessity of hiring JO personnel, the corresponding accomplishments or work done and the capabilities and skills needed cannot be ascertained; (d) monthly payrolls of JOs were not supported by verified accomplishment report contrary to Section 1.2.1 of COA Circular No. 2012-001; (e) wage adjustment totaling ₱818,333.32 was granted to JO personnel without legal basis; (f) significant disparity among the daily wage rates ranging from ₱300.00 to ₱1,700.00/day; and (g) duplication of duties of regular LGU Department Heads were noted in the accomplishment reports of program managers.

We recommended that the:

a. Local Chief Executive (i) ensure that job orders only cover piece of work or intermittent job requiring special or technical skills of short duration not exceeding six months and that job order agreements/contract of service specifically state the duties and responsibilities of each contracting party including the expected outputs or work to be performed; (ii) provide a basis for the varying and increasing rates of the JO personnel including the grant of their wage adjustment, and henceforth, ensure that allowances or incentives granted are anchored on legal basis/specific authority of law; and (iii) ensure judiciousness in the hiring of job order personnel to ensure equity and eliminate any cause for demoralization and dissension among local employees. If after careful study, there is a pressing need to hire additional staff to perform administrative function, consider hiring casual/contractual employees to be charged against the personal services, subject to PS cap limitation;

b. Human Resource Management Officer study the present organizational structure of the Municipality taking into consideration the LGU’s service requirements and make sure that unnecessary and overlapping functions with those of the permanent employees are eliminated; and

c. Municipal Accountant (i) ensure that job order payrolls are supported by duly verified/accepted accomplishment reports and that obligated expenditures are covered by sufficient appropriations; and (ii) observe consistency in recording transactions in order to ensure faithful representation in the financial statements.

5. Deficiencies were noted in the procurement and implementation of eight infrastructure projects totaling ₱14,334,828.13 funded under the CY 2019 20% Development Fund (DF) such as: (a) payments were made despite incomplete supporting documents contrary to Item 9.1 of COA Circular No. 2012-001 dated June 14, 2012; (b) inadequate post-qualification manifested by the bidder’s submission of dubious statement of all ongoing government and private contracts notwithstanding Section 23.1 (a)(iv) of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act (RA) No. 9184; (c) non-imposition of liquidated damages for delayed completion of infrastructure projects totaling ₱6,436,861.90 contrary to Item 8.1 of Annex E of the Revised IRR of RA No. 9184; (d) non-inclusion in the Bid Data Sheets of the minimum work experience requirements for
key personnel to be assigned in the project and the minimum major equipment requirements for six projects; and (e) substitution with surety bonds to support the release of retention moneys totaling ₱643,686.19 for three projects despite delays in project completion in contravention with Section 6.2 of Annex “E” of the 2016 Revised IRR of RA No. 9184.

We recommended that the:

a. Municipal Accountant, Municipal Engineer and the BAC Secretariat: (i) immediately submit to the Audit Team the lacking documents which are necessary in the technical evaluation and validation of the projects; and (ii) henceforth, strictly comply with the provisions of COA Circular No. 2012-001, RA No. 9184 and its Revised IRR on the procurement and implementation of infrastructure projects;

b. BAC and the BAC-TWG: (i) undertake post-qualification proceedings in a meticulous manner in accordance with the Revised IRR of RA No. 9184; (ii) observe caution in evaluating the documents submitted by bidders during preliminary evaluation and post-qualification before recommending the award of contract; (iii) ensure that the bidding documents clearly and adequately define, among others, the (a) objectives, scope, and expected outputs and/or results of the proposed contract; (b) the eligibility requirements of Bidders; (c) the expected contract duration; and (d) the obligations, duties, and/or functions of the winning bidder and that data and provisions specific to each procurement and contract are included in the Bid Data Sheet in compliance to the 5th Edition of the PBDs;

c. Local Chief Executive (i) issue termination of contract to erring contractors who have negative slippage of ten percent (10%) or more in the completion of the work pursuant to Section III-A (2) of the Guidelines on Termination of Contracts; and (ii) cause the forfeiture of their performance security pursuant to Section 8.5 of the Revised IRR of RA No. 9184;

d. Municipal Accountant and the Municipal Engineer compute and impose liquidated damages to the contractors of the 4 infrastructure projects which were completed beyond contract expiry date pursuant to Section 8 of the Contract Implementation Guidelines for the Procurement of Infrastructure Projects; and

e. Municipal Accountant ensure that the rules embodied in Annex E of 2016 Revised IRR of RA No. 9184 applicable to retention money and its release are strictly followed.

6. The utilization of the 20% Development Fund (DF) was not maximized as to its developmental intent as contemplated in the Department of the Interior and Local Government (DILG)-Department of Budget and Management (DBM) Joint Memorandum Circular No. 2017-1 dated February 22, 2017 as only ₱11,042,228.54 or 36.44% was utilized out of the current year appropriations of
₱30,299,492.54, thus depriving its constituents of the early enjoyment of the intended benefits therefrom. In addition, the following deficiencies were noted in audit: (a) non-capital expenditures totaling ₱1,399,707.00 were charged against the 20% DF; (b) procurement of swine costing ₱1,050,000.00 was not done through public bidding; and (b) goods totaling ₱1,828,126.00 were paid despite documentary deficiencies contrary to the provisions of Item 9.0 of COA Circular No. 2012-001 dated June 14, 2012 and Section 4(6) of PP.D. No. 1445.

We recommended that the:

a. LCE, as the head of the agency (i) direct the MPDC and the ME to prioritize the implementation of all the development projects under the 20% DF to achieve effectively and efficiently the socio-economic development and environmental outcomes of the Municipality; (ii) ensure that the projects charged against the fund partake the nature of investment or capital expenditures pursuant to Section 2.3 of the DBM-DILG JMC 2017-1; and (iii) ensure that the PPAs to be funded under the 20% Development Fund are among the list of allowable projects specified in Section 3.0 of DBM-DILG JMC 2017-1 dated February 22, 2017;

b. LCE, thru the Municipal Accountant, BAC and BAC Secretariat, (i) cause the immediate submission of the lacking documents; and (ii) ensure strict compliance with the provisions of COA Circular No. 2012-001 dated June 14, 2012, R.A. No. 9184 and its Revised IRR;

c. BAC strictly abide by the standards set forth by the R.A. No. 9184, its Revised IRR and other relevant laws on government procurement; and

d. Municipal Accountant check and review the completeness and regularity of supporting documents before processing and certifying the Disbursement Vouchers.

7. Infractions were noted in the management and use of the Local Disaster Risk Reduction and Management Fund (LDRRMF) for CY 2019 such as: (a) ineligible expenditures totaling ₱508,174.80 were charged against the LDRRMF contrary to Republic Act (RA) No. 10121 thereby depleting the funds for DRRM activities; (b) relief goods totaling ₱1,547,549.00 were not recorded through the appropriate Inventory account and its distribution was not properly documented in violation of COA Circular No. 2015-009 dated December 1, 2015; and (c) information pertaining to DRRM not evident on the face of the financial statements were not disclosed in the Notes to Financial Statement notwithstanding COA Circular No. 2014-002 dated April 15, 2014.

We recommended that the:

a. Mayor, as the head of the agency, ensure that charging of ineligible expenditures against the LDRRMF is immediately stopped and limit the
charges only to disaster mitigation, prevention, preparedness, response, rehabilitation and recovery activities;

b. General Services Officer prepare and maintain an inventory list of all procured and donated items for disaster risk management activities using formats provided under Annexes P, P-1 and P-2 of COA Circular No. 2014-002 dated April 15, 2014;

c. Municipal Accountant (i) take up purchases of relief goods under the appropriate inventory account and ensure that expenses incurred are recognized only upon distribution of the relief goods to the intended beneficiaries duly supported with an RIS; (ii) diligently review the disbursements, as part of the Accounting Office’s internal audit function, to ensure that charges against the LDRRMF are valid and address disaster risk management activities; and (iii) strictly comply with the disclosure requirements provided in Item VII.2 of COA Circular No. 2014-002.

Status of Implementation of Prior Year’s Audit Recommendations

Of the fourteen (14) audit recommendations contained in the 2018 Annual Audit Report, six (6) were partially implemented and eight (8) were not implemented by the Management.