



Republic of the Philippines
COMMISSION ON AUDIT
Autonomous Region in Muslim Mindanao
Old Motor Pool, Isabela City, Basilan Province
erg_coa@yahoo.com

OFFICE OF THE SUPERVISING AUDITOR

May 28, 2011

Hon. RODERICK H. FURIGAY
Municipal Mayor
Municipality of Lamitan
Basilan Province

Dear Hon. Mayor Furigay,

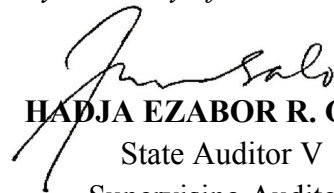
Pursuant to Section 43 of Presidential Decree No. 1445, otherwise known as the "Government Auditing Code of the Philippines", and in line with the Commission's continuing efforts to inform management on how fiscal responsibility has been discharged, we are pleased to transmit the report of our Auditor on the results of his audit on the accounts and operations of the Municipal Government of Lamitan for year then ended, December 31, 2010.

The audit findings together with the recommended courses of actions are discussed in detail in the attached report. We request that recommended remedial measures be immediately implemented and we all appreciate being informed of the actions taken hereon within one (1) month from receipt hereof.

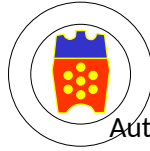
We acknowledge the cooperation extended to our Auditor by the Municipal Officials and employees.

Very truly yours,

By Authority of the Chairman,


HADJA EZABOR R. GALO
State Auditor V
Supervising Auditor

1. The President
Thru: The Regional Secretary
DILG, ARMM
ORC Compound, Cotabato City
2. The Chairperson
Quezon City
3. The Regional Director
BLGF
Region 1X, Zamboanga City
4. The Honorable Governor
Province of Basilan
5. The Presiding Officer and
Sanggunian Bayan (SB) Members
Thru: The secretary of SB
Municipality of Lamitan, Basilan
6. File: The Regional Director
COA ARMM
Copy Furnished
7. File: The Supervising Auditor
Audit Group-G
Province of Basilan
8. File: Audit Team Leader



Republic of the Philippines
COMMISSION ON AUDIT
Autonomous Region in Muslim Mindanao
OFFICE OF THE AUDIT TEAM LEADER
Old Motor Pool, Isabela City, Basilan Province

February 28, 2011

The Supervising Auditor
Audit Group-G
Old Motorpool Compound, Isabela City
Basilan Province

Madam;

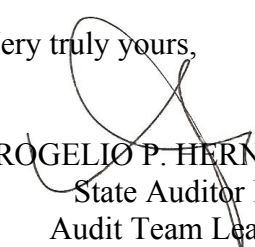
In compliance with Section 2, Article IX-D of the Philippine Constitution and pertinent sections of Presidential Decree No. 1445, we conducted a Financial and Compliance Audit on the accounts and operations of the Municipal Government of Lamitan, Basilan for the year ended December 31, 2010.

The Audit was conducted to ascertain the propriety of financial transactions and compliance of the agency 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.

Our report consists of four parts: Part I– Audited Financial Statements, Part II– Detailed Findings and Recommendations, Part III– Status of Implementation of Prior Year’s Recommendations, and Part IV- Annexes, which were all discussed with concerned management officials and staff.

Our audit was conducted in accordance with generally accepted state auditing standards and we believe that it provides reasonable basis for the results of audit.

Very truly yours,


ROGELIO P. HERNANDEZ
State Auditor III
Audit Team Leader

EXECUTIVE SUMMARY

INTRODUCTION

Lamitan was derived from the phrase Lami-Lamihan which means a blend of Merry Making and conference. The town was named by the first Spaniards from Isabela who explored this area. When the Spaniards arrived the Yakans were celebrating the native festival. The explorers inquired the name of the place, the Yakans thought they were inquiring about what the merry making was all about and explained it was the festival of Lami-Lamihan, the Spaniards misunderstood their answer, thereafter called the place LAMITAN.

Lamitan, was founded in 1886 by the legendary figure Pedro Javier Cuevas popularly known as Datu Halun. He was born in the town of Bacoar Cavite on June 9, 1846. During his reign he subjugated local Yakan Chieftains and consolidated their forces through his bravery and leadership.

In an effort to uplift the status of Lamitan municipality into a city, Mayor Roderick H. Furigay revived and worked out the shelved cityhood application of Lamitan. Through sheer determination and resolve, Mayor Roderick H. Furigay succeeded in this undertaking. On July 24, 2006 the thirteenth congress begun deliberating, the act known as RA. 9393 “An act converting the Municipality of Lamitan in the Province of Basilan into a component city to be known as the “City of Lamitan” passed the house of representative and senate on February 5, 2007 and February 6, 2007 respectively. On March 15, 2007 RA 9393, finally lapsed into law without the signature of the president in accordance with Article VI, Section 27 of the constitution, on June 18, 2007 a plebiscite as held and the YES vote won convincingly.

Highlights of Financial Operation

For the calendar year 2010, the Municipality of Lamitan, Province of Basilan, received a total Internal Revenue Allotment Fund of P 101,906,162.02 and generate a total other income of P 8,667,232.86, obligated the total amount of P 105,906,162.02. Total appropriation for the calendar year 2010 amounted to P 235,212,321.80. The amount was made to consider the estimated share in the Internal Revenue Allotment (IRA) for a City, which by operation of Law the amount was not realized because Lamitan remained operating as Municipality till the closing of the financial period.

Scope of Audit

The value for Money Audit focuses on the loans payable, whether funds were utilized in an efficient and economical manner, or whether the purpose of the loan was effectively implemented in lines with its objectives and purpose.

Auditor's Opinion on the Financial Statements

The Auditor believe as his opinion that the financial Statements of the Municipality of Lamitan do not present fairly its financial condition and position.

FINANCIAL AND COMPLIANCE AUDIT

- 1. The auditee's Cash Advance (CAs) during the year amounted to P4,302,305.56, equivalent to 39% of the Auditee's income during the year amounting to P 110,187,401.88. Bulk of CAs are for payments of all salaries and wages for Regular payrolls and allowances, casualls, contractual under Pakyaw Contract and some Petty Expenses, without establishing Petty Cash Accounts.**

During the year under audit, the auditee's cash advances amounted to P 4,302,305.56 and liquidations amounted to 4,249,473.48, thus unliquidated CAs as of December 31, 2010, increased/decreased as compared to PY balance in the amount of P 52,832.08.

Recommendations:

We recommend that the payment of salaries and wages shall be paid thru ATM. We also recommend that another AO be designated and bonded to handle payments for petty expenses

- 2. The accuracy and validity of the balance of the Property, Plant and Equipment and Inventory accounts totalling 140,118,090.87 was not ascertained due to the failure of the General Service Office (GSO) and concerned offices to submit Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and Inventory for 2010 on the prescribed period.**

Recommendation:

It is recommended that the local official concerned should submit the year end Physical Inventory Report of PPE within the prescribed period to give the team ample time to validate its correctness.

The inventory team promise that in the coming year the inventory report will be submitted within the prescribe period.

- 3 Purchase Orders, contracts and reports on the acceptance and deliveries of supplies and materials were not submitted to the Auditor within the prescribed period mandated under Paragraph A. COA**

circular No. 96-010 dated August 16, 1996, preventing the conduct of review of the contract and communicating to the management the defects, or non-compliance thereto.

It is recommended that the concerned agency officials to submit to the Auditor, within five (5) days from issuance, the copies of the purchase orders or contracts and acceptance and inspection report with the necessary data and information to avoid confusion and delay in the confirmation of deliveries.

- 4. Procurement processes in the auditee are in consistent with the requirements under RA 9184, thus regularity of expenses for procurements during the year are doubtful.**

We recommend that in order for the auditee to comply with the requirements of RA #9184, the BAC shall be required to submit quarterly report of activities related to procurements.

Gender Advocacy and Development (GAD)

- 5. The LGU appropriated a total amount of P1,896,000.00 for GAD related activities or 1.21% of the total estimated Internal Revenue Allocation of P230,000,000.00 instead of P11,500,000.00 or 5% of the total estimated IRA as mandated under the Joint Circular No 2004-001 dated April 5, 2004.**

We recommend that 5% of the total IRA be appropriated for Gender and Development (GAD) Fund, independent and separate from such other fund such as 20% DF, and expended in accordance with the programs

Status of Implementation of Prior Year's Audit Recommendations

Out of six (6) audit recommendations contained in the last year's Annual Audit Report only Two (2) were implemented the other three (3) were not yet implemented.

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Republic of the Philippines
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 OFFICE OF THE AUDIT TEAM LEADER
 Old Motor Pool, Isabela City, Basilan Province



AUDIT CERTIFICATE

Pursuant to Section 2, Article IX-D of the Philippine Constitution and pertinent provisions of PD 1445, we have audited the accompanying balance sheet of Municipal Government of Lamitan as of December 31, 2010, and the related agency's accounting and financial transactions for the period then ended. These financial statements are the responsibility of the auditee. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with laws and applicable generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement/s. Our audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, as well

as evaluating the overall financial statement presentation. The results of the audit were discussed with the management.

Results of audit include among others the following:

1. The accuracy and validity of the balance of the Property, Plant and Equipment and Inventory accounts totalling 140,118,090.87, was not ascertained due to the failure of the General Service Office (GSO) and concerned offices to submit Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and Inventory for 2010 on the prescribed period.
2. Purchase Orders, contracts and reports on the acceptance and deliveries of supplies and materials were not submitted to the Auditor within the prescribed period mandated under Paragraph A. COA circular No. 96-010 dated August 16, 1996, preventing the conduct of review of the contract and communicating to the management the defects, or non-compliance thereto, and presenting its effect on the FS. Contrary to the provision of laws, rules and regulations, the LGU did not submit and furnished on time the necessary documents, POs, Notice of Deliveries, thus timely audit and verification was not conducted. The submission of DVs and its supporting documents are also delayed, to the extent that necessary audit verification was prevented to happened, thereby making the Asset and expense accounts possibly misstated.

In our opinion, due to effect of the above-enumerated deficiency, we believe that financial Statements of the Municipality of Lamitan do not present fairly its financial condition and position.

COMMISSION ON AUDIT

By:

ROGELIO P. HERNANDEZ
State Auditor III
Audit Team Leader

February 28, 2011

Municipal Government of Lamitan

NOTES TO FINANCIAL STATEMENT

Note 1. General/Agency Profile

The financial statements pertain to the Municipal Government of Lamitan for the period ending December 31, 2010. Lamitan became a part of Zamboanga City in 1937. On July 1, 1948, Basilan became a chartered city by virtue of R.A. 288 sponsored by then Congressman Juan S. Alano. On December 27, 1973, His Excellency President Ferdinand E. Marcos issued P.D. No. 356 creating a Basilan Province out of Basilan City with three municipalities namely, Lamitan, Isabela and Maluso. On June 18, 2007, Lamitan was officially recognized as a component city, the second in the province by virtue of the Republic Act 9393 enacted by Congress and ratified by both chambers sponsored by then Deputy Speaker for Mindanao Hon. Gerry A. Salapuddin.

For Calendar Year 2010, funding allocation is geared towards the priority thrust of the Municipal Government of Lamitan as follows:

1. Aimed towards the betterment of the city through the implementation of programs, projects and activities centered on the socio-economic problem and needs of the constituents.
2. The City shall continue to fund the construction/rehabilitation and improvement of roads and bridges and other infrastructure projects including those on agriculture related development programs.
3. The utilization of the 20% development fund shall be geared towards human and ecological security, social reform agenda, social economic and infrastructure development programs and other socio-economic related programs and projects.

Note 2. Basis of Financial Statement Presentation

1. The City Government of Lamitan maintains separate books of accounts for the following funds: General Fund, Special Education Fund and Trust Fund. Separate financial statements are prepared for each fund.
2. The financial statements have been prepared in accordance with the generally accepted state accounting principles and standards following the Manual of the New Government Accounting System for Local Government Units per

COA Circular No. 2002-003 but implemented starting January 1, 2003

All accounts were revised pursuant to the Revised Chart of Accounts prescribed under COA Circular No. 2003-001 dated June 17, 2003 made effective January 1, 2003, COA Circular No. 2004-008 dated September 20, 2004, COA Accounting Circular No. 2006-001 dated November 9, 2006 and further revised and updated by Accounting Circular Letter No. 2007-002 dated January 19, 2007.

Note 3. Summary of Significant Accounting Policies

1. The agency uses the accrual basis of accounting for recording the share from the Internal Revenue collections in the books of account.
2. For real property taxes, the agency uses the modified accrual basis wherein at the beginning of the year, real property tax receivable and Special Education Tax receivable were established. This is in view of the need to record in the books not mere income estimates from real property taxes but actual receivables from said taxes. However, to avoid appropriating uncollected revenues which might result to overdraft, the same shall be credited to Deferred Real Property Taxes Income/Deferred Special Education Tax Income. Real Property Tax Income/Special Education Tax Income shall be recognized upon receipt of collection.
3. All expenses are recognized when incurred and reported in the financial statements in the period to which they relate.
4. Property, plant and equipment are carried at cost less accumulated depreciation. The straight line method of depreciation is used for computing depreciation, booked up every month. No depreciation is computed for Public Infrastructures or projects under construction. Depreciation is computed on the month following the purchase date; 10% salvage value is allowed each asset. COA Circular No. 2004-005 dated August 9, 2004 amending the useful life of some asset accounts was followed.

Note 4. Correction of Fundamental Errors

Fundamental errors of prior years are corrected by using the Prior Years Adjustment Account. Errors affecting current year's operation are charged to the current year's account.

Note 5. Cash

	Dec. 31, 2009	Dec. 31, 2010
Payroll Fund	49,460.00	49,460.00
Cash in Bank – LCCA	1, 365,132.37	704,530.61
Cash in Bank- LCSA	2, 042,652.96	2,037,842.24
Total	3,457,245.33	2,791,832.85

The net cash balance of P 2,791,832.85 pertains to the General Fund, Special Education Fund and Trust Fund after bank reconciliation statements have been prepared and completed.

6 Accounts Receivable

	Dec. 31, 2009	Dec. 31, 2010
Accounts Receivable	376,464.91	169,003.03
RPT Rec.	1,809,861.04	1,030,601.37
Special Educ. Tax Rec.	5,262,586.94	3,983,327.31
Due from NGAs	3,816,020.29	0.00
Due from LGU's	654,940.17	576,035.52
Due from Other Funds	261,875.30	
Advances to Officers	1,975,187.74	1,734,078.60
Other Receivables	0.50	1,030,899.00
Total	14,156,936.89	8,523,944.83

Note 7 Property, Plant and Equipment

	Dec. 31, 2009	Addition/ (Reduction)	Dec. 31, 2010
Land	23,414,250.00	0.00	23,414,250.00
Land Improvements	6,084,339.25	0.00	6,084,339.25
Office Buildings	31,878,657.61	0.0	31,878,657.61
Other Structures	55,407,159.38	0.00	55,407,159.38
Office Equipment	2,502,583.88	0.00	2,502,583.88
Furniture and Fixture	4,949,241.88	0.00	4,949,241.88
IT Equipt. & Software	3,516,873.90	0.00	3,562,573.90
Machineries	1,935,119.00	0.00	1,935,119.00
Library Books	35,000.00	0.00	35,000.00
Comm Equipt	0.00	0.00	0.00
Const. & Heavy Equipt	44,039,429.01	0.00	44,039,429.01
Firefighting Equipt.	0.00	0.00	0.00

Military & Pol, Equipt.	356,511.53	0.00	356,511.53
Sports Equipment	0.00	0.00	0.00
Tech. & Scientific Eqt.	400,000.00	0.00	400,000.00
Other Mach. & Equipt.	341,550.00	0.00	341,550.00
Motor Vehicles	10,356,083.00	0.00	10,356,083.00
Watercrafts	1,615,233.00	0.00	1,615,233.00
Other Transp. Equipt.	200,000.00	0.00	200,000.00
Other Prop. Plant & Equipment	1,056,000.00	0.00	1,056,000.00
Roads, Hi-Way & Bridges	89,037,287.62	0.00	89,037,287.62
Parks, Plaza, & Monu.	3,845,145.00	0.00	3,845,145.00
Artesian Wells & Res.	1,179,750.00	0.00	1,179,750.00
Irrigation, Canals & Lat.	1,549,070.00	0.00	1,549,070.00
Other Public Infra.	16,805,457.17		16,805,457.17
CIP-Agency Assets	0.00	0.00	0.00
CIP-Roads, Hi-ways & Bridges	26,323,341.21	9,328,808.71	16,994,532.50
CIP-Waterways, Aque-Ducts, Sea Walls	20,641,570.00	1,899,850.00	22,541,420.00
CIP-Parks, Plazas & Monuments	912,664.00	0.0	912,664.00
CIP-Irrig. Can, & Lat.	22,218,500.35	12,435,610.83	9,782,889.52
CIP- Other Public Infra	9,935,554.60	5,796,166.45	4,139,388.15
Other Assets	423,400.00	0.00	423,400.00
Total	380,959,771.39	29,460,435.99	331,930,485.40
Less: Total Accumulated Depreciation	52,168,496.68	5,937,691.74	34,691,938.42
Net PPE	328,791,214.71	23,522,744.25	297,238,546.98

The validity and existence of these fixed assets remain doubtful as the Reports of Physical Inventory, which is still on-going by the Committee on Inventory and Appraisal, has not been submitted to the Office of the City Accountant for reconciliation with ledger balances.

Note 8. Current Liabilities

	Dec. 31, 2009		Dec. 31, 2010
Accounts Payable	1,962,233.53	809,818.04	2,772,051.57
Due to Officers & Emp	3,211,066.39	-158,870.22	2,457,871.77
Due to BIR	493,255.21	162,311.95	655,567.16
Due to GSIS	3,386,027.42	-2,761,655.26	624,372.16
Due to Pag-ibig	454,095.62	-253,332.99	200,762.63
Due to PHILHEALTH	195,110.02	-136,585.02	58,525.00
Due to Other NGAs	3,175,923.45	-854,566.61	2,321,356.84
Due to GOCCs	33,663.97	0.00	0.00
Due to Other LGUs	4,244,861.19	-432,504.35	3,812,159.58
Due to Other Funds	2,382,533.79	-404,992.06	1,977,541.73
Guaranty Deposits	0.00	0.00	0
Deferred Real Property Tax Income	1,809,861.04	-779,259.67	1,030,601.37
Deferred Special Educ. Tax Income	5,262,586.94	-1,279,259.63	3,983,327.31
Other Deferred Credits	0.00	104,324.40	104,324.40
Other Payables	642,633.84	0.00	642,633.84
Bail Bonds payable		546,000.00	546,000.00
Total	27,253,852.41 =====	5,438,571.42	21,137,095.36 =====

Note 9 Long-Term Liabilities

	Dec. 31, 2009		Dec. 31, 2010
Loans Payables-Domestic	36,128,451.94	-5,470,617.29	31,197,834.65

PART II

DETAILED FINDINGS AND RECOMMENDATIONS

DETAILED FINDINGS AND RECOMMENDATIONS

FINANCIAL AND COMPLIANCE AUDIT

1. **The auditee's Cash Advance (CAs) during the year amounted to P 4,302,305.56, equivalent to 39% of the Auditee's income during the year amounting to P 110,187,401.88. Bulk of CAs are for payments of all salaries and wages for Regular payrolls and allowances, casuals, contractual under Pakyaw Contract and some Petty Expenses, without establishing Petty Cash Accounts.**

During the year under audit, the auditee's cash advances amounted to P 4,302,305.56 and liquidations amounted to 4,249,473.48, thus unliquidated CAs as of December 31, 2010, increased/decreased as compared to PY balance in the amount of P 52,832.08.

Most of the liquidations are for payments in cash of all salaries and wages for Regular payrolls and allowances, casuals, laborers under Pakyaw Contract.

Total CAs during the year is equivalent to 34.28 % of the total income of P 45,765,142.47. The allowable percentage of Personal Services (PS) for 5th class Municipality is 55%.

The Total Cash Advance of P 15,688,758.91 is 34.28% of the Auditee's total income. The liquidations are mostly for payrolls for salaries and wages.

COA Circular No. 97-002 provides that all payments for disbursement shall be directly paid to the payee/suppliers thru check.

As provided under COA Circular 97-002, February 10, 1997, it is declared principle as a restatement with amendments of the rules and regulations on the granting, utilization and liquidation of cash advances provided for under COA Circular No. 90-331 dated May 3, 1990, that ideally that cash should be handled under the general principles of the Imprest system, to wit:

1. Daily receipts on collections must be deposited intact with the proper bank.
2. All payments must be made by check.
3. Only payments in small amounts may be made through the petty cash fund. Replenishment of the petty cash fund shall be equal to the total amount of expenditures made there from.

As provided under Section 4.3.1, it is required that Cash Advance shall be sufficient for the recurring expenses of the agency for one month. The AO may request replenishment of the cash advance when the disbursements reach at least 75%, or as the need requires, by submitting a replenishment voucher with all supporting documents duly summarized in a report of disbursements.

Also provided under Section 4.3.2 the cash advance shall not be used for payment or regular expenses, such as rentals, subscriptions, light and water and the like. Payments out of the cash advance shall be allowed only for amounts not exceeding ₱15,000.00 for each transaction, except when a higher amount is allowed by law and/or specific authority by the Commission on Audit. Splitting of transactions to avoid exceeding the ceiling shall not be allowed.

Management Comments:

The management explain that these CAs include payments for petty expenses and they have to pay the salaries and wages in cash because the recipients are not residents of the city/municipality, therefore very far from the depository bank. Further, the cash advances are still minimal as compared to the allowable percentage for PS which is 55% of the appropriation. For security purpose, due to the risk for loss in transporting cash several times a month, thus we have to ensure techniques to protect the cash from robbery, which is prevailing in this area.

As to the Petty Cash account, we did not establish the account because we have 1 Accountable Officer (AO - Disbursing) who handles both payments for Salaries and Wages and Petty expenses. If however, the Auditor recommends that both accounts can be handled by 1 AO, we will establish Petty Cash Accounts.

The Accountable Officer available can both handle regular cash disbursements and Petty Cash Accounts.

Recommendations:

We recommend that the payment of salaries and wages shall be paid thru ATM. We also recommend that another AO be designated and bonded to handle payments for petty expenses.

- 2. The accuracy and validity of the balance of the Property, Plant and Equipment and Inventory accounts totalling 140,118,090.87 was not ascertained due to the failure of the General Service Office (GSO) and concerned offices to submit Report on the Physical Count of Property, Plant**

and Equipment (RPCPPE) and Inventory for 2010 on the prescribed period.

Section 124 of manual on the New Government System provides that the local chief executive shall require periodic physical inventory of supplies and property. Physical count of property, plant and equipment by type shall be made annually and reported on the Report on the Physical Count of Property, Plant and Equipment (RPCPPE). This shall be submitted to the Auditor concerned not later than January 31 of each year.

The year-end Trial Balance showed the following balances for inventory and fixed asset accounts- Inventory

Land	P	23,414,250.00
Land Improvement		4,901,052.29
Office Building		29,293,938.21
Other Structures		50,269,087.63
Office Equipment		1,295,301.11
Furniture and Fixtures		3,633,349.90
IT Equipment Software		2,004,279.93
Machineries		11,337,753.62
Communication Equipment		341,239.90
Construction and Heavy Equipment		4,403,942.90
Military and Police Equipment		35,651.14
Other Machineries and Equipment		236,214.37
Motor Vehicles		6,817,530.17
Watercrafts		1,219,762.56
Other Transportation Equipment		143,857.10
Other Property, Plant Equipment		770,880.00
Total		<u>140,118,090.87</u>

Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and Inventory for 2010 was not yet submitted by the General Services Officer in violation of the above cited regulation, which prevented the Auditor to verify the reliability of accounting and GSO records.

It is recommended that the local official concerned should submit the year end Physical Inventory Report of PPE within the prescribed period to give the team ample time to validate its correctness.

The inventory team promise that in the coming year the inventory report will be submitted within the prescribed period.

PROCUREMENT

- 3. Purchase Orders, contracts and reports on the acceptance and deliveries of supplies and materials were not submitted to the Auditor within the prescribed period mandated under Paragraph A. COA circular No. 96-010 dated August 16, 1996, preventing the conduct of review of the contract and communicating to the management the defects, or non-compliance thereto.**

It has been observed that purchase orders were submitted by the LGU to COA auditor a month or more after the transactions had been consummated and only as supporting documents to the disbursement vouchers do not indicate all necessary information pertaining to the purchase. Moreover, most agencies do not submit the copy of the purchase orders within the prescribed period, thereby causing undue delay in the post audit of transactions.

Moreover, most POs submitted by the agency do not contain the necessary information as to date and place of delivery, specifications, and other information. Several POs do not bear the signature of the dealer/contractor which is necessary in the event a civil or criminal liability occur.

Paragraph A of COA Circular No. 96-010 prescribes, that:

1. A copy of any letter or purchase order, irrespective of the amount, and all supporting documents thereto, shall be submitted to the unit or agency Auditor concerned within five(5) days from issuance. The Auditor concerned shall, within five (5) days following his receipt thereof, inform management in writing of any defect and/or deficiencies found in audit.
2. The agency official responsible for accepting deliveries of procured items shall, within twenty four (24) hours from such acceptance, notify the Auditor of the time and of the schedule deliveries. In case of partial delivery of any item in the P.O., the copy to be submitted shall indicate which items have been delivered, and which have not.
3. Copy of P.O. must be legible in all respects, and shall be submitted to the office of the COA Auditor of the agency concerned.

Contrary to the above provision, the LGU did not submit and furnished on time the necessary documents, POs, Notice of Deliveries, thus timely audit and verification was not conducted. The submission of DVs and its supporting documents are also delayed, to the extent that necessary audit verification was prevented to happened, thereby making the Asset and expense accounts possibly misstated.

Paragraph B of same Circular, also states that:

The existing forms of the purchase order or the other contract used by the agencies maybe continued, provided that it shall contain all following data or information:

- a) Purchase Order Number
- b) Date of Purchase Order

- c) Complete Name of supplier

- d) Complete address of supplier
- e) Information whether the supplier is a manufacturer or exclusive distributor, registered with SEC, DTI or both
- f) Telephone and fax number of supplier, if any
- g) Date of delivery
- h) Complete item Name
- i) Complete detailed item specification, including accessories i.e., narrative description, size/dimension/volume, model, use of item, color, capacity, horsepower, voltage, watts, gauge, kind of equipment where spare part is to be used whether replacement or original (for spare parts), part number of spare parts, type and classification of materials, brand new or second hand, etc.
- j) Price (individual unit price; if lot price any document showing the detailed breakdown of the cost should likewise be submitted)
- k) Unit of measure when it is not universally accepted indicate numbers or weight, or lineal measure, i.e., if stated as per “roll”, indicate the number of yards/meter per roll; if per “box”, state number/pcs. Contents; if per bag how many pounds or kilos
- l) Quantity or number of units
- m) Brand name. If no brand, state “none”
- n) Country of manufacture or origin of item; i.e., local (orRP), or it foreign origin, specify country.
- o) Terms; i.e., COD, n/3- days, etc.
- p) Mode of procurement; i.e, public bidding, canvass, negotiated sale, and such other authorized modes. If “repeat order” indicate previous Purchase Order and date which was used as basis.
- q) Taxes paid by agency; i.e, VAT etc. If taxes are paid by supplier, do not indicate.

The absence of complete data and information in the purchase orders

Recommendation:

It is recommended that the concerned agency officials to submit to the Auditor, within five (5) days from issuance, the copies of the purchase orders or contracts and acceptance and inspection report with the necessary data and information to avoid confusion and delay in the confirmation of deliveries.

4. Procurement processes in the auditee are inconsistent with the requirements under RA 9184, thus regularity of expenses for procurements during the year are doubtful.

The required BAC does not actually function in the agency as required by law. The deficiency in the alleged procurements and the absence of documents evidencing the processes revealed disregard of processes in the

procurements. Documents relating to advertisements and/or post the

invitation to bid/request for expressions of interest; conduct pre-procurement and pre-bid conferences; the eligibility of prospective bidders; minutes of conducted the evaluation of bids; post-qualification proceedings; resolved motions for reconsideration; and records of Technical Working Group (TWG) are not available.

Mostly presented for audit review were Abstract of Bids, Notice of Awards/proceeds, PRs, POs & DRs. However, records showing processes prior to how these enumerated documents exist are not available.

RA 9184, Section 11 provides the requirement for each procuring entity to establish in its head office a single BAC to undertake the functions specified in Section 12 of this IRR in order to facilitate professionalization and harmonization of procedures and standards. In line with the standardization of procurement procedures and the thrust towards strengthening the procurement function to increase operational efficiency and effectiveness, Heads of Procuring Entities shall aim to consolidate or unify all procurement activities of the organization, whether locally-funded or foreign-assisted, and whether pertaining to goods, infrastructure projects, or consulting services.

Section 11.1.2 However, to expedite the procurement process for practical intents and purposes, the Head of the Procuring Entity may create separate BACs where the number and complexity of the items to be procured shall so warrant. The BACs may be organized either according to: (a) geographical location of PMO or end-user units of the procuring entity; or (b) nature of procurement. Similar committees for decentralized and lower level offices may also be formed when deemed necessary by the Head of the Procuring Entity.

Section 12 provides the functions and responsibility of the Bids and Awards Committee, as follows:

12.1. The BAC shall have the following functions: (a) advertise and/or post the invitation to bid/request for expressions of interest; (b) conduct pre-procurement and pre-bid conferences; (c) determine the eligibility of prospective bidders; (d) receive bids; (e) conduct the evaluation of bids; (f) undertake post-qualification proceedings; (g) resolve motions for reconsideration; (h) recommend award of contracts to the Head of the Procuring Entity or his duly authorized representative; (i) recommend the imposition of sanctions in accordance with Rule XXIII; (j) recommend to the Head of the Procuring Entity the use of Alternative Methods of Procurement as provided for in Rule XVI hereof; and (k) perform such other related functions as may be necessary, including the creation of a Technical Working Group (TWG) from a pool of technical, financial, and/or legal experts to assist in the procurement process, particularly in the eligibility screening, evaluation of bids, and post-qualification.

12.2. The BAC shall be responsible for ensuring that the procuring entity abides by the standards set forth by the Act and this IRR, and it shall prepare a procurement monitoring report in the form prescribed by the GPPB. The procurement monitoring report shall cover all procurement activities specified in the APP, whether ongoing and completed, from the holding of the pre-procurement conference to the issuance of notice of award and the approval of the contract, including the standard and actual time for each major procurement activity. The procurement monitoring report shall be approved and submitted by the Head of the Procuring Entity to the GPPB in printed and electronic format within fourteen (14) calendar days after the end of each semester.

Contrary to the above provisions, the BAC do not regularly function as required by law, thus the required bidding processes was presumed not complied in the auditee's alleged procurements and competitive bidding was avoided.

The auditee allegedly they have resorted to alternative bidding for reasons of Lack of Bidders, exclusive dealer, emergency needs of the agency, negotiated for most advantageous price, etc.

RA 9184 requires Competitive Bidding. It is provided that all procurement shall be done through competitive bidding, except as provided in Rule XVI of this IRR.

The agency always unreasonably resorted to alternative biddings, of which the favorite alternative is either negotiated or shopping, contrary to the requirements under RA 9184, as follows:

"RULE XVI – ALTERNATIVE METHODS OF PROCUREMENT

48.1. Subject to the prior approval of the Head of the Procuring Entity, and whenever justified by the conditions provided in this Act, the procuring entity may, in order to promote economy and efficiency, resort to any of the alternative methods of procurement provided in this Rule. In all instances, the procuring entity shall ensure that the most advantageous price for the Government is obtained.

48.2. In accordance with Section 10 of this IRR, as a general rule, the Procuring Entities shall adopt public bidding as the general mode of procurement and shall see to it that the procurement program allows sufficient lead time for such public bidding. Alternative methods shall be resorted to only in the highly exceptional cases provided for in this Rule.

48.3. The method of procurement to be used shall be as indicated in the approved APP. If the original mode of procurement recommended in the APP was public bidding but cannot be ultimately pursued, the BAC, through a resolution, shall justify and recommend the change in the mode of procurement to be approved by the Head

of the procuring entity.(n)

52. Section 52. Shopping

52.1. Shopping is a method of procurement of goods whereby the procuring entity simply requests for the submission of price quotations for readily available off-the-shelf goods or ordinary/regular equipment to be procured directly from suppliers of known qualifications. This method of procurement shall be employed in any of the following cases:

a) When there is an unforeseen contingency requiring immediate purchase: Provided, however, that the amount shall not exceed the thresholds prescribed in Annex "H" of this IRR.

b) Procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding the thresholds prescribed in Annex "H" of this IRR.

52.2. The phrase "ordinary or regular office supplies" shall be understood to include those supplies, commodities, or materials which, depending on the procuring entity's mandate and nature of operations, are necessary in the transaction of its official businesses, and consumed in the day-to-day operations of said procuring entity. However, office supplies shall not include services such as repair and maintenance of equipment and furniture, as well as trucking, hauling, janitorial, security, and related or analogous services.(a)

52.3. Under Section 52.1 (b) of this IRR, at least three (3) price quotations from bona fide suppliers shall be obtained.(a)

52.4. The thresholds prescribed in Annex "H" of this IRR shall be subject to a periodic review by the GPPB. For this purpose, the GPPB shall be authorized to increase or decrease the said amount in order to reflect changes in economic conditions and for other justifiable reasons.(a)

53. Section 53. Negotiated Procurement

Negotiated Procurement is a method of procurement of goods, infrastructure projects and consulting services, whereby the procuring entity directly negotiates a contract with a technically, legally and financially capable supplier, contractor or consultant in any of the following cases:

53.1. Two Failed Biddings. Where there has been failure of public bidding for the second time as provided in Section 35 of the Act and this IRR.

53.1.1. After conduct of the mandatory review of the terms, conditions, specifications, and cost estimates, as prescribed in Section 35 of this IRR, the BAC shall revise and agree on the minimum technical specifications, and if necessary, adjust the ABC, subject to the required approvals. However, the ABC cannot be increased by more

than twenty percent (20%) of the ABC for the last failed bidding.(n)

53.1.2. The BAC shall invite and engage in negotiations with a sufficient number of suppliers, contractors or consultants to ensure effective competition.(a)

53.1.2.1. In the case of infrastructure projects, bona fide contractors licensed with the CIAP whose eligibility documents are on file with the procuring entity concerned or the Department of Public Works and Highways (DPWH) Contractors' Registry, as the case may be, and who have been classified under the type of contract/project where the subject contract falls are eligible to be invited for negotiation. Other contractors not previously deemed eligible may also apply for eligibility.

53.1.2.2. All Procuring Entities shall maintain a registry of suppliers, contractors, and consultants as basis for drawing up the short list and/or selecting the suppliers, contractors, and consultants for negotiations.

53.1.3. Any requirements, guidelines, documents, clarifications, or other information relative to the negotiations that are communicated by the procuring entity to a supplier, contractor, or consultant shall be communicated on an equal basis to all other suppliers, contractors, or consultants engaging in negotiations with the procuring entity relative to the procurement.(n)

53.1.4. Following completion of the negotiations, the procuring entity shall request all suppliers, contractors, or consultants remaining in the proceedings to submit, on a specified date, a best and final offer with respect to all aspects of their proposals.(n)

53.1.5. The procuring entity shall select the successful offer on the basis of such best and final offers which should meet the procuring entity's minimum technical requirements and should not exceed the ABC.(n)

53.1.6. In all stages of the negotiations, observers shall be invited.(n) Other than doubtful proper use of alternatives, the required notices or invitation to COA representative and 2 other observers were disregarded.

“13.1. To enhance the transparency of the process, the BAC shall, in all stages of the procurement process, invite, in addition to the representative of the COA, at least two (2) observers, who shall not have the right to vote, to sit in its proceedings where:

13.5. Observers shall be allowed access to the following documents upon their request, subject to signing of a confidentiality agreement: (a) minutes of BAC meetings; (b) abstract of Bids; (c) post-qualification summary report; (d) APP and related PPMP; and (e) opened proposals.

The APP is not also available during the Audit, and even when available, seemingly not for proper management of procurements or funds but more on mere compliance, because it is not a consolidation of PPMP (prepared and indorsed by the Department heads), thus procurements are not in accordance w/ APP, therefore, Procurement are not alligned with the services needed by the constituents.

Section 7, IRR of RA 9184, mandatory requires the preparation of Annual Procurement Plan (APP). Section 7.2, thereof strictly requires as it provided that “No procurement shall be undertaken unless it is in accordance with the Approved APP of the procuring entity. X x x”

The above discussed observations in violation of standard procurement processes revealed that the alleged procurements for year 2010 seemingly are not the most beneficial for the constituents.

The management assures compliance in the coming year.

Recommendations:

We recommend that in order for the auditee to comply with the requirements of RA #9184, the BAC shall be required to submit quarterly report of activities related to procurements.

Audit of Gender and Development (GAD) Fund

- 5. The LGU appropriated a total amount of P1,896,000.00 for GAD related activities or 1.21% of the total estimated Internal Revenue Allocation of P230,000,000.00 instead of P11,500,000.00 or 5% of the total estimated IRA as mandated under the Joint Circular No 2004-001 dated April 5, 2004.**

In its implementation phase, the expenses were treated under the 20% Development Fund which is another violation of the above-cited regulation which prescribed the agency to allocate the fund under a separate allotment considering that GAD has different focus and activities.

We recommend that 5% of the total IRA be appropriated for Gender and Development (GAD) Fund, independent and separate from such other fund such as 20% DF, and expended in accordance with the programs

STATUS OF POST AUDIT

5. During the year the status of post audit as of December 31, 2010 are as follows:

Quarterly Issued	Beginning Balance	NS Issued	ND	NC	NS Settlement	Ending Balance as of December 31, 2010
03/31/2010	0.00	11,252,000.00				11,252,000.00
06/30/2010	11,252,000.00	29,308,300.00			0.00	40,560,300.00
09/30/2010	40,560,300.00	0.00			0.00	0.00
12/31/2010	40,560,300.00	459,892.00	30,000.00		38,296,992.68	2,723,199.32

PART III

**STATUS OF IMPLEMENTATION OF PRIOR YEAR'S
RECOMMENDATIONS**

PART IV

ANNEXES