

## Executive Summary

### A. Introduction

The Municipality of San Felipe, Zambales was created on March 1, 1908. It is comprised of 11 barangays and has a land area of 11,159.59 hectares.

Through the leadership of Mayor Carolyn S. Fariñas, and the support of Vice Mayor Leo John M. Farrales, Sangguniang Bayan Members, and the different department heads, the Municipality continued to deliver public services and improved facilities to its constituents.

### B. Financial Highlights

The following data summarize the financial position, results of operation, and sources and application of funds of the Municipality of San Felipe, Zambales for calendar year 2017 with comparative figures for calendar year 2016:

	2017	2016	Increase/ (Decrease)
<i>Financial Condition</i>			
Assets	₱184,346,731.07	₱153,304,902.90	₱31,041,828.17
Liabilities	65,023,488.75	57,532,473.34	7,491,015.41
Government Equity	119,323,242.32	95,772,429.56	23,550,812.76
<i>Results of Operations</i>			
Income	93,101,787.21	82,471,743.84	10,630,043.37
Expenses	78,245,880.59	68,860,590.59	9,385,290.00
Surplus	14,855,906.62	13,611,153.25	1,244,753.37
<i>Sources and Applications of Funds</i>			
Appropriation	96,312,174.62	91,056,614.57	5,255,560.05
Allotment	96,312,174.62	91,056,614.57	5,255,560.05
Obligations	89,393,954.28	83,743,595.39	5,650,358.89
Balance	6,918,220.34	7,313,019.18	(394,798.84)

### C. Scope of Audit

The audit covered the accounts and operations of the Municipality of San Felipe for the year 2017 which were identified as thrusts/priority audit areas pursuant to the audit instructions laid down by the COA – Local Government Sector (LGS) as per Unnumbered Memorandum dated October 12, 2017. It included the examination of supporting documents of selected accounts and transactions on a sampling basis, application of audit techniques and procedures, such as analytical review of the financial statements, and other audit procedures considered necessary to attain the audit objectives.

The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertion on the financial statements; (b) recommend agency

improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations.

#### **D. Independent Auditor's Report**

We rendered a qualified opinion on the fairness of presentation of the financial statements of the Municipality of San Felipe, Zambales for the year ended December 31, 2017 because of the misstatements on the Assets and Equity accounts resulting from the (a) erroneous recording of the Disaster and Response Equipment, acquired out of LDRRMF for ₱2,825,000.00, to the Trust Liabilities – DRRM account instead of debiting the Property, Plant and Equipment account; (b) non – recognition of depreciation expenses on the above equipment for ₱21,187.50; (c) outright debit to Other Maintenance and Operating Expenses account of the acquisition of goods worth ₱240,800.00 intended for stockpile and relief distribution, in violation of the Perpetual Inventory System; and (d) absence of subsidiary records with respect to its Property, Plant and Equipment account totaling to ₱118,529,223.49.

We recommended that management formally instruct the Municipal Accountant to:

- Correct the previous journal entries to state the Disaster and Response Equipment and contra account – Accumulated Depreciation at its proper classification and presentation in the financial statements;
- Recognize the cost of depreciation on the Disaster and Response Equipment to correct the misstatement on the Equity account;
- Adopt the Perpetual Inventory System which requires the recording of relief/standby goods as Inventories pending actual distribution thereof; and
- Formally instruct the Municipal Accountant to maintain PPELC, RPLC, WOABSLC and SL to substantiate the PPE balances in the FS.

#### **E. Summary of Other Significant Audit Observations and Recommendations**

We commended management for giving prime importance to the welfare of children as manifested on the different programs protecting their rights and general well – being. The LCPC was provided with adequate funds to carry out the LGU's plans and programs for the year. However, we noted certain exceptions on the other areas of operation of the LGU as enumerated below:

1. The Municipality reprogrammed the unexpended balance of the 5% LDRRMF for CYs 2015 and 2016 in the amount of ₱3,808,749.17 due to insufficient resources to support the CY 2017 calamity – related expenditures on the basis of a mere request of the LCE without prior compliance to the conditions set forth under Item No. 6.5 of National Disaster Risk – Reduction Management Council –

Department of Budget and Management – Department of the Interior and Local Government (NDRRMC – DBM – DILG) Joint Memorandum Circular No. 2013 – 1 dated March 25, 2013; thus, the approval was improper. (*Observation No. 6*)

We recommended and management agreed to (a) exercise prudence in reprogramming unexpended balances of prior years' 5% LDRRMF taking into consideration all applicable laws, rules and regulations; and (b) settle the Notice of Suspension (NS) by submitting the documents stated therein.

2. The Municipality failed to provide proof of distribution of the goods purchased for stockpile and relief operation despite the written request of the Audit Team in violation of COA Memorandum No. 2014 – 009 (VI) (33) and (34) dated August 28, 2014; thus, the existence of the goods and actual occurrence of distribution to end – users were not ascertained. (*Observation No. 7*)

We recommended and management agreed to (a) see to it that all releases of goods from the stockpile for relief operations are (i) properly documented; (ii) immediately distributed to the intended beneficiaries based on the validated list of affected families; and (iii) during the existence of a state of calamity as declared by the proper government authority; and (b) settle the Notice of Suspension (NS) by submitting the documents stated therein.

3. The Municipality incurred illegal and irregular expenditures for the utilization of the 5% LDRRMF for the cost of printing of t – shirts worth ₱71,000.00 during a non – calamity related activity in violation of Section 21 of R.A. No. 10121, and NDRRMC – DBM – DILG Joint Memorandum Circular No. 2013 – 1 (5.0) dated March 25, 2013 and DILG Memorandum Circular No. 2012 – 73 (A) and (B) dated April 17, 2012; thus, disallowed in audit. (*Observation No. 8*)

We recommended and management agreed to (a) exert more conscientious effort in the utilization of the 5% LDRRMF by carefully examining expenditures that should be properly charged thereto considering that the Fund was created on the sole purpose of allowing the Municipality to address the possible adverse effects of calamities; and (b) settle the Notice of Disallowance (ND) by restituting the amount disallowed.

4. The Municipality continuously included in its Local Government Development Program Priority Projects non – capital expenditures and non – developmental projects which led to the improper utilization of the 20% Development Fund in the total amount of ₱1,905,428.75, despite of previous audit observation on its irregularity, in violation of Department of the Interior and Local Government – Department of Budget and Management (DILG – DBM) Joint Memorandum Circular (JMC) No. Nos. 2011 – 1 and 2017 – 1 dated April 13, 2011 and February 22, 2017, respectively; thus, disallowed in audit. (*Observation No. 9*)

We recommended that management (a) carefully plan the projects to be included under the Local Government Development Program Priority Projects for Funding which embodies the projects to be specifically funded by the 20% Development Fund and see to it that the items partake the nature of capital expenditures; (b) instruct the BAC and the Municipal Accountant to submit the absent documents to support the disbursement of municipal funds; (c) remind the Technical Working Group of the BAC to verify, validate, and ascertain all statements made and documents submitted by the bidder with the Lowest Calculated Bid during the post – qualification proceedings and strictly apply the non – discretionary criteria; (d) instruct the Municipal Accountant to carefully scrutinize and review all documents attached in any disbursement voucher and make sure that the same are complete prior to certifying the completeness of supporting documents; otherwise, the Audit Team will be forced to issue Notices of Suspension or Disallowance; and (e) settle Notice of Disallowance No. 2018 – 002 (17) dated February 7, 2018 by restituting the amount disallowed.

Our observations and recommendations were discussed with the concerned management officials and staffs during an exit conference. Their comments were incorporated in the report, where appropriate.

#### **F. Summary of Total Audit Suspensions, Disallowances and Charges**

The summary of the total audit suspensions, disallowances, and charges as of year – end is provided below; to wit:

	Beginning Balance (As of December 31, 2016)	This period (January 1 to December 31, 2017)	Settlement this period (January 1 to December 31, 2017)	Beginning Balance (As of December 31, 2017)
		NS/ ND/ NC	NSSDC	
Notice of Suspension	₱ 0.00	₱ 0.00	₱ 0.00	₱ 0.00
Notice of Disallowance	245,000.00	0.00	245,000.00	0.00
Notice of Charge	0.00	0.00	0.00	0.00
<b>Total</b>	<b>₱245,000.00</b>	<b>₱ 0.00</b>	<b>₱245,000.00</b>	<b>₱ 0.00</b>

#### **G. Status of Implementation of Prior Years' Unimplemented Audit Recommendations**

Out of the 36 unimplemented recommendations contained in the previous years' Annual Audit Reports (AARs), 16 or 44% were implemented, 5 or 14% were partially implemented and 15 or 42% were not implemented.