

## EXECUTIVE SUMMARY

### INTRODUCTION

The Municipality of San Nicolas officially existed as a municipality by virtue of Republic Act No. 1229 by President Ramon Magsaysay under House Bill No. 3407 dated June 1, 1995. It is a fifth class municipality and composed of 18 barangays. It has a land area of 2,149 hectares with 19,204 populations and a total agricultural areas of 18,107,123 of which 0.1332 is for special uses and 0.4210 for commercial use.

### ORGANIZATIONAL STRUCTURE

The Organizational Structure of the Municipal Government of San Nicolas, Batangas is as follows:

a. Key Officials

Municipal Mayor	Hon. William B. Enriquez
Municipal Vice-Mayor	Hon. Efipanio R. Sandoval
Members of Sangguniang Bayan	Hon. Gemetrio T. Umandap Hon. Leonardo A. Alvaira Hon. Bartolome M. Banaag Hon. Victor G. Sandoval Hon. Lucio D. Landicho Hon. Domingo M. Gahol Jr. Hon. Manuel M. Matienzo Hon. Regidor C. Caringal Hon. Leonilo A. Mayuga
Municipal Accountant	Ms. Elisa S. Enriquez
Municipal Treasurer	Ms. Erlinda P. Montenegro

b. Number of Personnel Complement

Elective Officials	11
Permanent	72
Co-terminus	<u>2</u>
Total	<u>85</u>

### FINANCIAL HIGHLIGHTS

For Calendar Year (CY) 2017, the Municipal Government of San Nicolas, generated a total income of P80,475,804.64 from local taxes, permits and licenses, service and business income and internal revenue allotment, excluding Subsidy from National Government and Government-Owned and/or Controlled Corporations totaling

₱753,187.23. The Municipality has an appropriation of ₱91,354,997.06 of which the amount of ₱73,495,909.96 was obligated during the year, thus leaving an unexpended balance of ₱17,859,087.10.

The total assets, liabilities, equity, income and expenses for CY 2016 compared with that of the preceding year are as follows:

	<u>CY 2017</u>	<u>CY 2016</u>	<u>Increase/(Decrease)</u>
Total Assets	₱ 123,629,984.46	₱ 86,343,757.86	₱ 37,286,226.60
Total Liabilities	33,708,130.81	19,693,280.23	14,014,850.58
Total Equity	89,921,853.65	66,650,477.63	23,271,376.02
Total Income	80,475,804.64	64,889,453.94	15,586,350.70
Total Expenses	59,837,059.44	52,423,104.60	7,413,954.84

For CY 2017, the Municipality received a Certificate of Recognition as passer of good Financial Housekeeping given by Department of Interior and Local Government, CALABARZON Region.

## **SCOPE OF AUDIT**

Financial and compliance audits were conducted on the accounts and operations of the Municipal Government of San Nicolas, Batangas for Calendar Year 2017. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance with laws, rules and regulations as well as adherence to prescribed policies in handling its finances and its operations in general.

## **AUDIT OPINION**

The Auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality of San Nicolas because of the following:

1. The correctness and existence of the Property, Plant and Equipment accounts amounting to ₱66,959,166.87 could not be ascertained due to the failure of the OIC-General Service Officer to submit the Report on the Physical Count of Property, Plant and Equipment (RCPPE) to the auditor within the prescribed period contrary to Section 122 paragraph 1 and 2 of PD 1445 and Section 124, Volume I of the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), thus, preventing the auditor to perform thorough audit to ascertain the correctness of PPE account in the financial statements as of the year-end.
2. Due to continuous disregard of the Municipal Accountant to set-up Real Property Tax (RPT) and Special Education Tax (SET) receivables contrary to Section 20 Volume 1 of the New Government Accounting System (NGAS) manual for Local Government Units (LGUs) resulted to understatement of

receivable and deferred income accounts and affecting the fair presentation of financial statements.

## **SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

For the exceptions cited above, the Audit Team recommended the following:

1. We again recommended that the Municipal Mayor require the OIC-Municipal General Service Officer prepare and submit the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) to the auditor within the prescribed period and reconcile the same with the accounting records to ascertain the correctness and existence of the reported balances in the financial statements.

We likewise recommended that the Municipal Mayor enforce the sanction of Section 122 paragraph 1 and 2 of PD 1445 in case of continuous failure of the General Services Officer to submit the require RPCPPE inspite repeated recommendations of the audit teams in the previous audit reports.

2. We recommended that the Municipal Mayor require the Municipal Accountant to set up Real Property Tax and Special Education Receivable accounts to reflect a fair presentation of the receivable and deferred income accounts in the financial statements.

In addition, the other significant observations and the corresponding recommendation are as follows:

1. The Municipality did not maintain special accounts for market and slaughter and water works system contrary to Section 105 of the New Government Accounting System (NGAS) for Local Government Units (LGUs) thus, the Municipality failed to monitor and provide adequate records of its assets, liabilities, equity and net result of its operations.

We recommended that the Municipality Mayor require the Municipal Accountant to maintain special accounts for public utilities and economic enterprise in accordance with the aforementioned manual.

2. Reconciliations of Statement of Net Cash Flows from Operating Activities and Statement of Comparison of Budget and Actual Amounts, as well as details of line items in Government Equity for CY 2017 were not disclosed in the Notes to Financial Statement contrary to COA Circular 2016-004, hence, casted doubts on the accuracy and reliability of the financial statements.

We recommended that the Municipal Mayor direct the Municipal Accountant and the Municipal Budget Officer to immediately submit the required reports and to

strictly adhere with the rules on disclosing information in the notes to financial statements.

3. Documentary requirements for the purchase of lot in the amount of ₱1,535,350.10 was not complied with as prescribed under COA Circular No. 2012-001 dated June 14, 2012 and Presidential Decree (PD) No. 1445, thus the legality and validity of transactions could not be ascertained.

We recommended the Municipal Mayor to require the Municipal Accountant and Municipal Assessor to comply with the documentary requirements to support the payment of lot as prescribed under P.D. 1445 and COA Circular 2012-001 to ascertain the claims of ownership.

4. The non-collection of delinquent Real Property Taxes in the amount of ₱788,767.65 deprived the Municipal Government of funds needed for the implementation of its programs /projects/activities.

We recommended that the Municipal Mayor to formulate plans and strategies to enhance collection of delinquent real property taxes. Also, the Municipal Treasurer to enforce more effective and powerful remedies so provided in collecting delinquent accounts such as administrative action thru levy on real property or by judicial action.

5. Travel expenses charged were above the allowed per diems provided under Section 5 of the Executive Order (EO) No. 298 as actual traveling expenses during official travel.

We recommended that the Municipal Officials and employees strictly comply Section 5 of Executive Order (EO) 298 in the claim for per diem and to submit the required supporting documents, to ensure the propriety and validity of the claim and avoid suspension and disallowance in audit.

6. The Local Disaster Risk Reduction and Management Officer (LDRRMO) failed to submit monthly report on Sources and Utilization of Local Disaster Risk Reduction and Management Fund (LDRRMF) for the year 2017 as required under Item 5.1.5 of COA Circular No. 2012-002 dated September 12, 2012. Further, we noted that gasoline expenses in the amount of ₱4,560.00 was charged to LDRRMF contrary to Section 1, Rule 18 of Republic Act (RA) No. 10121 dated May 27, 2010 and Item 5.0 of DBM-DILG Joint Memorandum Circular No. 2013-1 dated March 25, 2013.

We reiterated our recommendation that the LDRRMO prepare and submit the Report on Sources and Utilization of DRRMF on or before the 15th day after the end of each month through LDRRMC and Local Development Council (LDC) to the COA Auditor pursuant to COA Circular 2012-002.

We also recommended that the management stop using the LDRRMF for programs, projects and activities not in accordance with Republic Act No. 10121 and DBM-DILG Joint Memorandum Circular No. 2013-1

7. Submission of accounts were not rendered within the prescribed period, contrary to Section 7.2.1(a) of COA Circular No. 2009-006 dated September 15, 2009 which cause the delay in the verification and post audit of accounts.

We recommended that the Municipal Mayor require the Municipal Accountant to strictly comply the provision cited above on the submission of accounts for audit.

8. The account "Donations" was used in recording the acquisition and distribution of cattle, instead of account "Breeding Stocks" under Sustainable Livelihood Program and Animal Dispersal under Bottoms-Up Budgeting, resulting to understatement of assets account and overstatement of expense and vice-versa at year-end, hence affect the fair presentation of the financial statements.

We recommended that the Municipal Accountant prepare the necessary adjusting entries to record the biological asset by the Municipality and maintain corresponding subsidiary ledger by beneficiary to monitor the recording of the projects and for fair presentation of the financial statements.

We also recommended that the Municipal Action Team (MAT) and Municipal Agriculture Office (MAO) conduct monitoring and evaluation of the said breeding animals and request relief from accountability every time there is a loss or death of the animals.

9. The Municipality of San Nicolas was not provided the auditing unit with the office space and storeroom to store the vouchers and related documents for the preservation period of ten (10) years contrary to Section 20 and 26 of the P.D. No. 1445 or the Government Auditing Code of the Philippines, thus, would prevent the audit team and the Municipality full protection against possible loss, manipulation, deterioration and mishandling of the valued documents.

We recommended that the Municipal Mayor and the honorable members of the Sanggunian include among its top priorities the construction of a building for the safekeeping and accommodation of the increasing volume of documents generated by the various departments/offices of the Municipality, particularly those for submission to the audit team, with consideration on the preservation period of ten (10) years as mandated by law.

The above observations and recommendations were discussed with concerned Municipal officials and employees in an exit conference conducted on June 7, 2018. Their views and reactions were considered in the report, where appropriate. These are presented in Part II of this Report.

**STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS**

Out of the 21 audit recommendations contained in the Annual Audit Report of the Municipality for Calendar Year 2016, 8 were fully implemented, 1 was partially implemented and 12 were not implemented.