

EXECUTIVE SUMMARY

Introduction

The Municipality of General Nakar was created under Executive Order No. 246 on July 21, 1949. It is classified as first class municipality comprising of nineteen barangays. It is located in the north most area of the first congressional district of Quezon Province.

It envisions better quality of life for all its residents in progressive, self-reliant, integrated and resilient communities within the carrying capacity (sustainably managed) of environment achieved through the joint efforts of enlightened, responsive, empowered and responsible leaders and townspeople.

The Organizational Structure of the Municipality is as follows:

a. Key Officials

Hon. Eliseo R. Ruzol, Sr.	-	Municipal Mayor
Hon. Apolonio T. Ruzol	-	Municipal Vice-Mayor

Members of the Sanggunian:

1. Hon. Armenio A. Rillion
2. Hon. Nelson M. Sabiduria
3. Hon. Alexia L. Marquez
4. Hon. Bobby A. Portillo
5. Hon. Fabiam J. Villareal
6. Hon. Diego C. Suaverdez
7. Hon. Hernando L. Avellaneda, Jr.
8. Hon. Renato A. Astejada
9. Hon. Maximino S. Custombrado

Other Key Officials

Mr. Orlando P. Ungriano	-	Municipal Accountant
Ms. Lourdes C. Tena	-	Municipal Treasurer

b. No. of Personnel Complement

Elective Officials	-	11
Permanent Employees	-	142
Co-terminus	-	5
Job Order/Contractual	-	<u>494</u>
Total Personnel Complement		<u>652</u>

Financial Highlights

For Calendar Year (CY) 2016, the Municipality generated a total income of ₱246,618,065.93 from local taxes, permits and licenses, service and business income, internal revenue allotment and other income. The total appropriations for the year amounted to ₱231,794,835.05 of which the amount of ₱202,270,115.89 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	₱ 348,592,249	₱ 310,872,005	₱ 37,720,244
Total Liabilities	59,440,158	76,850,173	(17,410,015)
Total Equity	289,152,091	234,021,832	55,130,259
Total Income	246,618,066	221,939,038	24,679,028
Total Expenses	191,585,047	175,684,148	15,900,899

Scope of Audit

Financial and compliance audit was conducted on the accounts and operations of the Municipality of General Nakar 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 due to the following:

- The Property, Plant and Equipment (PPE) account in the Financial Statements totaling ₱195,558,742.52 (excluding Land, Buildings, Public Infrastructures and Construction in Progress) as of year-end is doubtful due to non-reconciliation of the Report on the Physical Count of Property, Plant and Equipment (RPCPPE) and records of the Accounting Office, thus showing a material variance of ₱31,394,932.66, contrary to Section 114 of the Manual on the New Government Accounting System (MNGAS), Volume I;
- The balance of Trust Liabilities-DRRMF account of ₱9,328,129.33 as of December 31, 2016 is understated by ₱5,599,143.86 due to the failure of the

Municipality to transfer the unexpended balance of LDRRMF to the special trust fund contrary to COA Circular No. 2012-002;

- Receivables of ₱5,338,375.49 remain uncollected for more than nine years of which the total amount of ₱1,550,007.50 was not supported with documentation and schedule of debtors, rendering the accounts of doubtful validity;
- 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 ₱449,762.52, ₱49,490.40, ₱(33,271.66) and ₱1,602,920.87 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;
- Advances to Special Disbursing Officer and Advances to Officers and Employees accounts amounting to ₱597,920.00 and ₱327,057.37, respectively, remain unliquidated at year-end, in violation of Item 6.2.2.7 of Commission on Audit (COA)-Department of Budget and Management (DBM)-Department of the Interior and Local Government (DILG)-Governance Commission for GOCCs (GCG)-Department of National Defense (DND) Joint Memorandum Circular No. 2015-01 and Item 5.8 of COA Circular No. 97-002, due to non-monitoring of cash advances granted to Special Disbursing Officer, Officers and Employees of the Municipality, resulting in the overstatement of the asset account and the understatement of related expenses equivalent to the amount of unreported disbursements;
- Unaccounted balance of ₱743,105.73 was included in the Accounts Payable account, contrary to Section 59 of Presidential Decree (P.D.) No. 1445, hence affecting the reliability of balance of the account of ₱12,472,675.99 as of December 31, 2016;
- Checks totaling ₱193,799.92 remain outstanding as of December 31, 2016 due to the failure of the Municipal Treasurer to send written notices to payees of checks one (1) month before these issued checks become stale, contrary to the provisions of Section 59, Volume I of the Manual on the New Government Accounting System (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; and
- The cashbook balances are not reconciled with the accounting records by a total amount of ₱59,579.15, contrary to Item 7 of Chapter II of the Revised Cash Examination Manual, thereby affecting the reliability of cashbook balances.

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

- require the Municipal Accountant and General Services Officer to prepare 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 Accountant to prepare the Journal Entry Voucher for the transfer of the unexpended balance of LDRRMF in the amount of ₱5,599,143.86 and the Municipal Treasurer to effect the transfer of the said amount from the General Fund to the Trust Fund;
- instruct the Municipal Treasurer to exert extra effort to collect from the identified debtors; and for receivables without identified debtors and without documentation and collectability of these receivables is nil, request from the Commission on Audit for the write-off of these receivables following the guidelines under COA Circular No. 2016-005 may be filed;
- 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;
- instruct the Accountable Officers to immediately liquidate their cash advances and the Municipal Accountant to ensure that all cash advances are monitored and properly liquidated at the end of the year in accordance with the above-cited regulations;
- require the Municipal Accountant to exert extra effort to locate the documents to support the unaccounted balance of ₱743,105.73 pursuant to the provisions of Section 59 of P.D. No. 1445;
- require the Municipal Treasurer to notify the payees or holder of checks issued one (1) 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.
- 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; and
- require the Municipal Treasurer to review and compare her cashbook entries with the accounting records and effect adjustments for the reconciling items, if any.

Significant Audit Observations and Recommendations

The following are the other significant audit observations and recommendations in the audit of the Municipality for CY 2016:

1. Unnecessary penalty charges totaling ₱68,188.49 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 that the Municipal Mayor instruct all concerned Department Heads involve in the processing of payments to ensure that near maturing obligations are handled with utmost care to avoid the unnecessary penalties; and to refund the amount of ₱68,188.49 for the penalties for late payments. Payment of electricity and other basic utilities shall be given priority and shall be made on or before its due date.

2. The Municipality failed to utilize ₱15,739,477.87 or 36.73% of its total appropriations of ₱42,850,000.00 for the 20% Development Fund in CY 2016 due to delayed implementation of projects, contrary to Section 5 of DILG-DBM Joint Memorandum Circular No. 2011-1, thus depriving the intended beneficiaries of the maximum benefits that could be derived from the development projects.

We recommended that the Municipal Mayor require the Municipal Planning and Development Council to maximize the utilization of the 20% Development Fund through proper planning so that all its programmed development projects could be implemented immediately and completed within the year to ensure that intended beneficiaries could avail of the maximum benefits that will be derived therefrom.

3. The Municipal Treasurer's Office sold community tax certificates (CTCs) to its deputized Barangay Treasurers totaling ₱5,700.00 at ₱100.00 per booklet during the year without legal basis.

We recommended that the Municipal Mayor order the Municipal Treasurer to stop the practice of selling CTCs to its deputized Barangay Treasurers and refund the amounts collected from Barangays representing the payments made for the costs of CTCs.

4. The reconciliation of actual amounts on comparable basis to the budget and actual amounts in the financial statements was not disclosed neither on the face of the Statement of Comparison of Budget and Actual Amounts (SCBAA) nor in the Notes to Financial Statements, contrary to paragraph 21 of the Philippine Public Sector Accounting Standards (PPSAS) 1 and paragraph 47 of PPSAS 24, resulting to non-transparency of financial reporting.

We recommended that the Municipal Mayor instruct the Municipal Accountant to submit and disclose the reconciliation either on the face of the Statement of Comparison of Budget and Actual Amounts (SCBAA) or in the Notes to Financial Statements in compliance with paragraph 21 of PPSAS 1 and paragraph 47 of PPSAS 24 to achieve transparency in financial reporting.

5. Out of the ₱1,666,958.87 common-use supplies and equipment purchased by the Municipality for the year 2016, only ₱442,434.84 or 26.54% were procured from the Department of Budget and Management-Procurement Service due to non-availability of some items and non-submission of Annual Procurement Plan for Common-Use Supplies and Equipment for CY 2016 to the DBM resulting to a very minimal compliance to Section 4 of the Administrative Order No. 17 and DBM Circular Letter No. 2013-14.

We recommend that the Municipal Mayor direct the:

- Bids and Awards Committee and the General Services Officer to procure commonly used supplies and equipment from the DBM-PS in conformity with the above cited Administrative Order and DBM Circular Letter No. 2013-14 to support the government's policy for transparency in government transactions and efficiency in procurement processes; and
- BAC to prepare and submit the APP-CSE to DBM pursuant to DBM Circular Letter No. 2011-16.

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 August 10, 2017. Management's views and comments were considered in the report, where appropriate.

Status of Implementation of Prior Year's Audit Recommendations

Of the 24 prior year's audit recommendations embodied in the CY 2015 Annual Audit Report, four were fully implemented, eleven were partially implemented and the remaining nine were not implemented by the Municipality.