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 Leo John M. Farrales, and the support of Vice Mayor Mary Ann R. Quiba, 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 2020 with comparative figures for calendar year 2019:

	2020	**2019**	**Increase/ (Decrease)**
Financial Condition			
Assets	₱289,643,340.67	₱254,380,637.59	₱35,262,703.08
Liabilities	87,720,924.97	69,557,970.11	18,162,954.86
Government Equity	201,922,415.70	184,822,667.48	17,099,748.22
Results of Operations			
Income	119,813,912.76	109,453,674.22	10,360,238.54
Expenses	97,978,057.25	98,445,233.41	(467,176.16)
Surplus	21,835,855.51	11,008,440.81	10,827,414.70
Sources and Applications of Funds-General and Special Education Fund			
	Budget	Actual	Difference
Revenues/Receipt	125,811,112.00	119,813,912.76	5,997,199.24
Appropriations/ Expenditures	134,217,988.00	120,080,847.96	14,137,140.04
Surplus (Deficit)	(₱8,406,876.00)	(₱266,935.20)	(₱8,139,940.80)

C. Scope of Audit

The audit covered the accounts and operations of the Municipality of San Felipe for the year 2020 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 15, 2020. 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

A qualified opinion was rendered on the fairness of presentation of the financial statements of the Municipality of San Felipe, Zambales as of December 31, 2020 due to accounting errors and omissions such as (a) non-transfer of completed projects in the Trust Fund to the General Fund amounting to ₱10,924,037.68; (b) non-provision of depreciation of ₱3,054,588.56 on depreciable PPEs; and (b) improper recording of assets with a net amount of ₱4,015.40 as of December 31, 2020 which overstated the year-end balances of the Asset and Liability accounts by ₱3,050,573.16 and ₱10,924,037.68, respectively, and understated the Government Equity account by ₱7,873,464.52.

We recommended that the Municipal Accountant analyze and draw the appropriate journal entries to (a) reclassify the completed projects in the Trust Fund from the Construction in Progress accounts to appropriate asset accounts; and transfer the same to the General Fund; (b) locate pertinent records and closely monitor the Construction in Progress account thru the maintenance of subsidiary records and other accounting record; (c) provide depreciation expense amounting to ₱3,054,588.56 to various depreciable assets mentioned above; and (d) reclassify the improperly recorded PPEs for accurate and fair presentation of the PPE accounts in the financial statements.

E. Summary of Other Significant Audit Observations and Recommendations

The other significant observations and recommendations that need immediate action are as follows:

1. The existence and accuracy of the reported inventories aggregating to ₱678,727.80 as at year-end could not be established due to (a) non-maintenance of basic inventory records and reports; (b) recording of procured supplies and materials outright as Expenses; and (c) inappropriate recording of Welfare Goods and Medical Supplies to Other Maintenance and Operating Expenses amounting to ₱1,908,005.64 contrary to the pertinent provisions of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs), Volume 1, Commission on Audit (COA) Circular No. 2015-009 dated December 1, 2015 and International Public Sector Accounting Standard (IPSAS) No. 2. ***(Observation No. 1)***

We recommended that the Local Chief Executive instruct the:

a. Municipal Accountant to (i) maintain SLCs for each commodity/stock; (ii) record all procurement of inventory supplies in the books of accounts using the Perpetual Inventory System; (iii) draw the necessary journal entries to recognize the

expenditures based on the SSMI; and (iv) be more vigilant to ensure that issued supplies and materials were recorded to appropriate expense accounts; and

b. Municipal Treasurer to (i) maintain stock cards for each item of inventory; (ii) regularly reconcile the stock cards with the SLCs of the Accounting Office; (iii) report the issuances of supplies thru the SSMI which shall be the basis of the Municipal Accountant in recording to appropriate Expenses accounts; and (iv) conduct physical count of stocks of all supplies and materials and submit relative reports to the Office of the Auditor and other offices concerned on a semi-annual basis.

2. The Municipality duly received, properly recorded in the books and distributed to 2,340 beneficiaries the fund transfer for the 1st tranche of Emergency Subsidy Program (ESP) amounting to ₱15,210,000.00 and had substantially complied with the deadlines of submission of liquidation reports to the Source Agency. However, the Office of the Municipal Social Welfare and Development (MSWD) failed to fully comply with the pertinent provisions of the Department of Social Welfare and Development (DSWD) Memorandum Circular (MC) No. 2020-09 in the implementation of ESP as manifested by (a) absence of adequate documentations; (b) inconsistencies of information indicated in the payrolls, IDs, pictures, SAC forms and master list of beneficiaries; and (c) unfavorable results of confirmation, thus, hindered the Audit Team from conducting extensive evaluation of the eligibility of beneficiaries. ***(Observation No. 3)***

We recommended that the LCE instruct the:

a. Municipal Accountant, in coordination with the MSWDO, to (i) submit the accomplished SAC Forms, printed copy of properly labeled pictures of the beneficiaries during actual receipt of the assistance and valid IDs of SAP-ESP recipients in Barangay Maloma and Sto. Niño; and (ii) ensure that all disbursement vouchers are properly supported with complete documentation before making any payment; and

b. MSWDO to submit written explanation on the (i) inconsistencies observed in the submitted paid payrolls, photocopy of IDs, pictures during actual receipt of assistance, accomplished SAC forms and Master List of Beneficiaries; and (ii) deficiencies noted as a result of confirmation by the Audit Team such as non-payment of one beneficiary, inclusion of beneficiaries whose family member is also recipient of 4Ps and received similar financial assistance.

3. The Municipality granted COVID-19 Special Risk Allowance (SRA) to Municipal officials and employees beyond the maximum amount prescribed under Administrative Order (AO) No. 28 dated April 6, 2020 and DBM Budget Circular (BC) No. 2020-2 dated April 7, 2020 resulting to overpayment totaling to ₱33,813.38. Moreover, the absence of complete documentation casted doubt on the validity and legality of the claim contrary to Section 4(6) of PD No. 1445. ***(Observation No. 4)***

We recommended that the Local Chief Executive:

a. advise the Human Resource Management Office to submit, if any, the required order authorizing the employees to physically report for work during ECQ;

b. instruct the Municipal Accountant to submit the DTRs, Accomplishment Reports of the aforementioned employees and proof that the RHU personnel directly catered or in contact with COVID 19 patients, persons under investigation and persons under monitoring; and

c. require the employee to refund the excess amount claimed totaling to ₱33,813.38.

4. The Municipality has not fully complied with the rules and regulations on the planning, utilization and reporting of the Local Disaster Risk Reduction and Management Fund (LDRRMF) as demonstrated by (a) unimplemented PPAs under Disaster Prevention and Mitigation and Disaster Preparedness; (b) unplanned Local Disaster Risk Reduction Management Fund under Special Trust Fund (STF); (c) partial compliance with mandatory requirements and non-compliance with reporting requirements; and (d) weak internal control over relief goods during COVID-19 pandemic; thus, the desired goals and objectives of reducing disaster risk and enhancing disaster preparedness, prevention and mitigation capabilities may not be optimally achieved by the LGU contrary to RA No. 10121, COA Circular Nos. 2012-002 and 2014-002, GPPB Circular No. 01-2020 and P.D. No. 1445. ***(Observation No. 7)***

We recommended that the Local Chief Executive:

a. direct the LDRRM Officer to (i) strive for the timely and full implementation of LDRRM-related PPAs to achieve the goals and objective of the fund and the desired benefits; (ii) include in the LDRRMFIP the list of programs, projects and activities to be undertaken out of the unexpended LDRRMF of previous years; and (iii) furnish the Office of the Auditor with Report on Sources and Utilization of DRRMF in the required format through the LDRRMC and Local Development Council on or before the 15th day after the end of each month;

b. consider the hiring of additional staff for LDRRM Office to comply with the required three (3) technical staff responsible for administration and training; research and planning; and operations and warning;

c. instruct the Municipal Accountant and BAC to (i) submit the aforementioned required documents immediately to the Office of the Auditor for proper/further evaluation of the transactions pursuant to Sections 4(5) and 4(6) of PD No. 1445; (ii) perform a thorough review of all disbursement claims to ensure that these are properly supported with complete documentation and proper approval by authorized officials/representatives; and (iii) comply with the required posting requirements of GPPB Circular 2020-001 for information purposes; and

d. require the Property Officer to diligently prepare/maintain inventory records such as SCs and PCs, Monthly RSMI, RIS and Inventory List of all procured and donated items and coordinate with the Accounting Office for the periodic reconciliation of both inventory records.

Our observations and recommendations were discussed with the concerned management officials and staffs of the Municipality. 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, 2019)	**This Period (January 1 to December 31, 2020)**	**Settlement this Period (January 1 to December 31, 2020)**	**Ending Balance (As of December 31, 2020)**
		NS/ ND/ NC	**NSSDC**	
Notice of Suspension	₱2,673,660.71	₱8,206,740.13	₱ 0.00	₱10,880,400.84
Notice of Disallowance	43,953.13	0.00	43,953.13	0.00
Notice of Charge	0.00	0.00	0.00	0.00
Total	**₱2,717,613.84**	**₱8,206,740.13**	**₱43,953.13**	**₱10,880,400.84**

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

Out of the 58 unimplemented recommendations contained in the previous years' Annual Audit Reports (AARs), 19 or 32.76% were fully implemented, 28 or 48.28% were partially implemented and 11 or 18.96% were not implemented at all.