

EXECUTIVE SUMMARY

Introduction

The Municipality of San Sebastian is a 6th class municipality located in the second district of the Province of Samar. It was created by virtue of Republic Act No. 543, which was enacted on September 30, 1950. According to calendar year 2020 census, it has a population of 8,704 people. The Municipality of San Sebastian is politically subdivided into fourteen barangays.

Pursuant to Republic Act (RA) No. 7160, known as the Local Government Code of 1991, the Municipality, like other local government units, enjoys independence in managing, deciding and planning its own administrative, fiscal and development affairs in conformity with the national government's thrust for sustainable social and economic growth.

The Municipality is currently under the leadership of Honorable Ferdinand T. Gaviola with Honorable Vice Mayor Laleine N. Babon presiding over the Sangguniang Bayan (SB) composed of ten members that include eight regular members, one ABC representative, and a representative from the Sangguniang Kabataan Federation President.

Audit Methodology and Scope of Audit

An audit was conducted on the accounts and operations of the Municipality for CY 2022 in accordance with International Public Sector Standards on Auditing with emphasis on the audit thrusts for the Local Government Audit Sector on the audit of Financial Statements of the following accounts - Cash & Cash Equivalents, Property, Plant and Equipment, Loans Payable, Due to NGAs/LGUs/GOCCs, Due from NGOs/POs and Other LGUs; and Other Significant and Material accounts identified in the Materiality Thresholds.

To determine the extent of implementation of the programs and projects, compliance with the budget/allocation, procurement regulations, terms and conditions, we likewise conducted a performance and compliance audit on the following:

1. Fund Transfers from NGAs to LGU
 - 1.1. COVID-19 Vaccination Program
 - 1.2. Fund Transfers from National Government Agencies
 - 1.3. Fund Transfer to Non-Government Organizations/People's Organization (NGOs/POs and/ or Other LGUs)
 - 1.4. Local Government Support Fund (LGSF)
2. Utilization of 20% Development Fund
3. Audit of Revenues
4. Utilization of LDRRMF
5. Payment to Casuals, Job Orders and consultants
6. Enforcement of COA Disallowances and Charges

7. Compliance with tax laws
8. Remittance of mandatory GSIS, HDMF, PhilHealth contributions and remittance of loan amortizations
9. Compliance with PPAs on GAD

The audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management; verification, reconciliation and analysis of financial accounts; as well as evaluating the overall presentation of the financial statements. It also involved ocular inspection of infrastructure projects undertaken; interview with officials and employees concerned; and other audit procedures and techniques considered necessary under the circumstances.

Financial Highlights

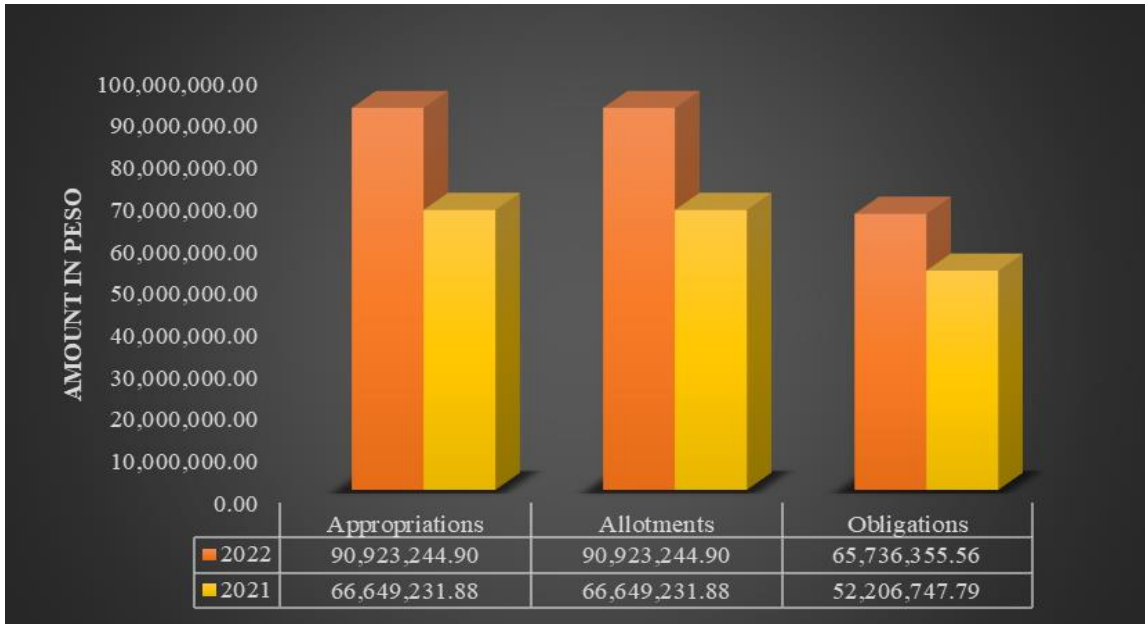
Comparative analysis of the Municipality’s total assets, liabilities, equity, income and expenses for CY 2022 and the immediately preceding year showed an increase in Assets, Equity, Income and Expenses and a decrease in Liabilities as seen in the graphical presentation in Figure 1. The increase in assets and equity account is attributed to the increase of the Share in the National Tax Allotment and the acquisition of the Property, Plant and Equipment for the completed projects under the Trust Fund which are transferred to the General Fund, while the decrease in liability is attributed to the loan payable being settled in full and the settlement of the Due to GSIS in arears.

Figure 1. Comparison of Five Major Financial Categories



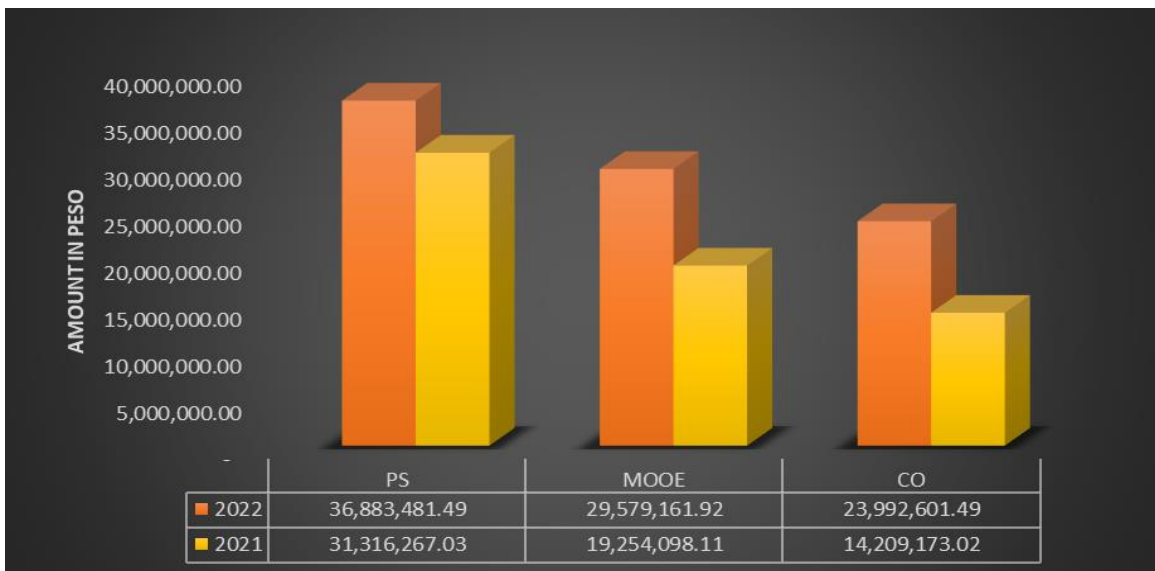
The following graph also depicts the changes in Appropriations, Allotments and Obligations during the year, demonstrating an increase in CY 2022 Appropriations, Allotments and Obligations as compared to CY 2021 data.

Figure 2. Comparison of Appropriations, Allotments and Obligations in CY 2021 and CY 2022



While the succeeding graphical presentations details the changes in the appropriations and obligations according to the classes of expenditures for CY 2021 and 2022, the graphical presentations are illustrated in Figures 3 and 4.

Figure 3. Comparison of Appropriations by Expense Class in CY 2021 and CY 2022



As can be gleaned in Figure 3, appropriations for the Personnel Services, Maintenance and Other Operating Expenses and for the Capital Outlay have increased dramatically due to the impact of the implementation of the Mandanas-Garcia ruling in CY 2022 that increased the share of the Local Government Units from the National Tax Allotment.

Figure 4. Comparison of Obligations by Expense Class in CY 2021 and CY 2022



There is only a slight increase in the Capital Outlay due to low utilization of the twenty percent Development Fund. The unutilized portion of the said fund will form part of the continuing appropriations in CY 2023 and it is expected that these development projects will be completed in CY 2023.

Significant Accomplishments

The significant PPAs accomplished by the Municipality in Calendar Year 2022 were reported and certified complete by the Management, to wit:

No.	Name of the Projects/Programs/Activities	Location	Amount
Infrastructure Projects			
1	Rehabilitation/Revitalization of Public Market (CY 2018 Continuing Appropriations)	Barangay Poblacion 03, San Sebastian, Samar	₱998,481.12
2	Construction of Multi-Purpose Building and Establishment of Motorcycle Terminal, Provision of Soil Erosion Protection Along Inobongan- Poblacion Junction and Rehabilitation of Landmark	Inobongan-Poblacion Junction	2,496,969.09

No.	Name of the Projects/Programs/Activities	Location	Amount
	(CY 2019 Continuing Appropriations)		
3	Rehabilitation and Improvement of Rural Health Unit Building (CY 2020 Continuing Appropriations)	Barangay Poblacion 03	999,610.30
4	Rehabilitation and Improvement of Road (CY 2020 Continuing Appropriations)	Camanhagay to Cabaywa Road	997,886.50
5	Rehabilitation and Improvement of Soil Erosion Protection (CY 2020 Continuing Appropriations)	Barangay Canduyocan	1,476,156.50
6	Rehabilitation and Improvement of Sea Wall (Current Appropriations)	Barangay Poblacion 02	2,989,967.66
7	Construction of Industrial Solar Street Lights	Barangay Canduyocan, Campiyak, Balogo, Inobongan, Dolores Hitaasan I and Hitaasan II	9,993,545.50
8	Improvement of Sports Center and Stage at Municipal Park	Barangay Poblacion 03	789,985.00

Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the combined financial statements of the Municipality of San Sebastian, Province of Samar for the year ended December 31, 2022 due to the exceptions as stated in the Independent Auditor's Report and as discussed in Part II of the report.

Summary of Significant Observations and Recommendations

In addition to the exceptions cited, the significant observations and corresponding recommendations were as follows:

1. **The consolidated balance of Cash- Local Treasury account totaling ₱1,996,264.60 as of year-end cannot be relied on due to the following: (a) various recording errors were committed; (b) unreported collections made in December 2022 amounting to ₱35,050.66 due to the delayed remittance to the Acting Municipal Treasurer; and (c) the adjusted amount of ₱2,076,136.38 was not supported with actual cash, thus, materially affecting the fair presentation of the affected accounts in the Statement of the Financial Position and may result in the misappropriation of collections.**

We recommended that the Local Chief Executive (LCE) require the Municipal Accountant and the Acting Municipal Treasurer to:

- a. Immediately investigate the variances between the balances per audit and per the general ledger and to draw necessary adjusting entries to correct the deficiencies;
- b. Conduct regular reconciliation of records to avoid future variances; and
- c. Determine the person/s responsible for the immediate deposit of the ₱2,073,136.38 without actual cash back up, set up the receivable account and subsequently issue the demand letter.

Moreover, the LCE should require all revenue collectors to turn over the full amount of their collections at the close of business day or at the most practical period to the Acting Municipal Treasurer and the latter be required to deposit intact all collections to the depository banks of the Municipality.

2. **The reliability of the year-end balances of the Real Property Tax (RPT) Receivable account and the Special Education Tax (SET) Receivables account amounting to ₱796,881.36 and ₱1,090,690.28, respectively, could not be ascertained due to: (a) the failure to set-up the RPT and SET Receivables based on the tax due and collectible for the year; (b) the non-recording of the discount payments made during the year; (c) erroneous treatment of penalties as collection of RPT and SET receivables; and (d) recording the advance payments of real property taxes as current year's income, thus affecting the fair presentation of the affected accounts in the financial statement.**

We recommended that the LCE require:

- a. the Municipal Assessor to submit up-to-date Assessment Roll to the Acting Municipal Treasurer and the former to immediately update the Real Property Tax Account Register/Taxpayer's index card;
- b. the Acting Municipal Treasurer to furnish the Municipal Accountant of a duly certified list showing the name of taxpayers and the amount due and collectible for the year as the basis for setting-up the RPT and SET Receivables; and
- c. the Municipal Accountant to ensure that (i) the correct basis is used to book up the RPT and SET Receivables at the beginning of the year, (ii) properly record the transactions pertaining to the collections of property taxes, and (iii) analyze the entries provided in order to rectify the noted variances of the affected accounts.

Moving forward, the Municipal Accountant should always follow the correct accounting entries in order to reflect the correct amounts of affected accounts in the financial statements.

3. **The accuracy, completeness and existence of the reported book value of Property, Plant and Equipment (PPE) accounts at year-end totaling ₱140,733,596.07 could not be ascertained due to: (a) improper recognition and recording of the PPE and affected accounts totaling ₱19,237,485.28; (b) unavailability of PPE related disbursement vouchers and non-maintenance of property records; (c) failure of the LGU to seize the opportunity to avail of the one-time cleansing of PPE account balances, thereby affecting the fair presentation of the PPE accounts in the financial statements.**

We recommended that the LCE to:

1. Require the Municipal Accountant to:
 - a. prepare JEV to re-classify the delivered/ completed assets to its proper PPE accounts;
 - b. prepare JEV to correct the misclassification of PPE to another account;
 - c. prepare the JEV to correct the erroneous recognition and non-recognition of PPE account;
 - d. ensure that depreciation is properly provided for each class of PPE as discussed in PAG3 of the IPSAS 17 and provide for the detailed schedule of depreciation;
 - e. submit all lacking vouchers and supporting documents; and
 - f. prepare and maintain property ledger cards and subsidiary ledgers of each PPE account.
 2. Require the General Service Officer to prepare and maintain property cards for all PPEs of the Municipality and effect regular reconciliation with the ledger cards of the Accounting Office.
 3. Create an Inventory Committee, members are temporarily relieved of all their regular duties to complete the physical inventory in three months or less and to prepare and submit the approved Physical Inventory Plan to the COA Audit Team at least ten calendar days before the scheduled start of inventory-taking activities and ensure full implementation of “One-time cleansing of PPE accounts” as provided for in COA Circular No. 2020-006.
4. **The accuracy, reliability and validity of the reported year-end balance of the Financial Liabilities account totaling ₱1,320,201.88 could not be ascertained due to: (a) inconsistent beginning balances per the General Ledger and the Schedule of Accounts Payable; (b) misclassification of various transactions totaling ₱374,005.68 and booked as Accounts Payable; (c) non-reconciliation of the transactions and the corresponding amount of obligations between the accounting and the budget records with a total difference of ₱291,167.28; and (d) absence of documents and schedules to substantiate the reported Due to Officers and Employees account amounting to ₱177,131.64, thereby**

affecting the fair presentation of the Accounts Payables and Due to Officers and Employees accounts.

We recommended that the LCE to direct the Municipal Accountant to:

- a. Ensure that the correct balance should be brought forward as beginning balance of the Financial Liability;
 - b. Make correspondence with the Municipal Budget Officer for the immediate conduct of reconciliations between their respective records and every end of the month thereafter;
 - c. Booked up the liability to its proper and correct liability accounts and prepare the necessary adjusting journal entries; and
 - d. Ensure that all acknowledged obligations should be substantiated with relevant records or schedules.
5. **The reported year-end balance of the Due to National Government Agencies (NGAs) Account amounting to ₱16,836,372.83 could not be relied on due to (a) erroneous debiting of the Due to NGAs account in the amount of ₱9,993,545.50 pertaining to the Local Government Support Fund- Financial Assistance to Local Government Units (LGSF- FA to LGUs) Fiscal Year (FY 2021 from the Department of Budget and Management (DBM) despite non-liquidation of the downloaded fund; and (b) existence of ₱552,366.33 unreconciled balance between the reported year-end balance and the supporting schedule, resulting to the understatement of the Due to NGAs account by ₱9,993,545.50 and affecting the fair presentation of the said liability account in the Statement of Financial Position as at December 31, 2022.**

We recommended that the LCE to direct the Municipal Accountant to:

- a. Reinstate its obligation by drawing a correcting journal entry, if such was still unliquidated as of this writing; and moving forward, to ensure that only upon liquidation that the Municipality's obligation to liquidate will be extinguished;
- b. Analyze the unreconciled balance and determine the national government agency that granted the fund transfer, and if necessary, draw a correcting journal entry; and
- c. Exert much effort in confirming the outstanding obligations from the NGA concerned and issue demand letter to the accountable officers.

6. **The Trust Liabilities- Disaster Risk Reduction and Management (DRRM) Fund Account was understated by ₱6,255,412.75 due to (a) the failure of the Municipal Accountant to record the bank balance of ₱617,867.01 maintained in the depository bank held in trust for LDRRM Fund; and (b) failure to determine and transfer the unspent portion of the CY's 2021 and 2022 LDRRM Fund totaling ₱5,637,545.74; and c) failure to maintain and update related subsidiary ledgers, thereby, affecting the fair presentation of the said account in the Statement of Financial Position as at December 31, 2022.**

We recommended that the LCE to direct:

- a. the Municipal Accountant and the Municipal Budget Officer to initiate the reconciliation of records covering the periods CY 2017 to CY 2022 and should arrive at the correct balance of the unspent portion of the DRRM Fund and moving forward, to implement regular reconciliation particularly at year end;
 - b. the Municipal Accountant to:
 - i. Draw an adjusting journal entry to record the correct balance to the Trust Liabilities- Disaster Risk Reduction and Management Fund account;
 - ii. Maintain and update the related subsidiary ledgers;
 - c. the Acting Municipal Treasurer to facilitate the actual transfer of the fund to its depository bank since the bank account was established for that purpose.
7. **Poor planning, delayed and low percentage of project implementation; unauthorized realignment of programs, projects and activities (PPAs); inclusion of unfunded PPAs in the Annual Investment Program (AIP); and the inaccurate quarterly reports on the utilization of the current and continuing appropriation of the 20% Development Fund (DF), deprived the constituents of the positive socio-economic and environmental development impact in the municipality.**

We recommended that the LCE to:

- a) To ensure that changes made in the projects to be charged against the 20% DF should be supported with the adjusted AIP and the Supplemental Budget approved by the local sanggunian and consistent to the CDP and the LDIP;
- b) To ensure that only those projects to be budgeted for the year shall be included in the current AIP;
- c) Fast track the implementation of the projects and ensure its completeness within the target period; and

- d) Submit accurate and correct report to oversight agencies for proper monitoring.
8. **Non-preparation of the monthly reports on the receipt and distribution/utilization/issuance of in-kind donations and maintenance of the Registry of Donated Relief Goods for DRRM; wastage due to expired vaccines and operational wastage; failure to properly account the donated Coronavirus Disease 2019 (COVID-19) vaccines and medical supplies; and non-disclosure of the donations in the Notes to Financial Statements, resulted to loss and failure to maximize government resources.**

We recommended that the LCE to ensure that Acknowledgment Receipt be issued for the receipt of In-Kind Donations and require the following:

- a. the Acting Municipal Treasurer, being the Property Officer, and the Municipal Health Officer to coordinate in the preparation of the monthly reports on the receipt and distribution/utilization/issuance of donated items and account for the unutilized items at year end, if any and prepare and maintain a Registry of Donated Relief Goods for DRRM.
 - b. the Municipal Accountant to make the necessary disclosure in the Notes to FS as to the quantity of received, issued and balance of all donation-in-kind received by the Municipality, with categorization as to food items, medicines and medical supplies, hygiene kits, and others.
9. **Regularity of the project implementation funded by the LGSF-FA to LGU FY 2021 amounting to ₱10,000,000.00 could not be ascertained due to (a) failure of the contractor to submit relevant documents prior to the perfection of the contract, (b) Notice of Post-Qualification, Notice of Award and Notice to Proceed not duly communicated and received by the contractor, (c) failure of the BAC to submit the perfected contract within the reglementary period, and (d) delayed submission of the paid disbursement vouchers and its supporting documents by the personnel concerned, hence, precluding timely evaluation and communication of relevant audit results.**

We recommended that the LCE to require:

- a. the BAC its strict compliance to the relevant provisions of the Revised IRR of RA 9184 and ensure that the contract be submitted within five days from perfection thereof;
- b. the Municipal Accountant that before signing the disbursement voucher certifying as to the completeness of supporting documents, ensure the actual existence of documents and immediately submit the paid disbursement vouchers and the complete supporting documents within 10 days after the end of the month; and

- c. the Acting Municipal Treasurer to ensure that payment to contractors through the issuance of check should be properly acknowledged by the contractor through the issuance of the official receipt that is well accomplished, and payment should be paid only to the supplier/contractor himself or to his legally authorized representative, not to any Municipal personnel or official.

10. **The efficiency on the collection of the Real Property Tax (RPT) for the year was only ₱237,526.04 or 32% of the ₱728,145.80 property tax due and collectible while the efficiency on RPT collection including those of prior years was only ₱382,827.84 or 39% out of the ₱976,825.01 as the final RPT Target for Fiscal Year 2022 set by the Office of the Provincial Treasurer, hence, not able to generate more income in order to finance for better services and facilities to its constituents.**

We recommended that the LCE direct the Acting Municipal Treasurer to immediately send collection letters to the delinquent property owners and provide a copy of their payments to this Office, and prepare the Notice of Delinquency in the Payment of the Real Property Tax and post the same at the main entrance of the municipal hall and in a publicly accessible and conspicuous place in each barangay of the local government unit concerned; and

We likewise recommended that the legislative officials, in consultation with the Acting Municipal Treasurer and other concerned officials to draw up plans to strategize and strengthen the collection drive beyond the required posting and sending of notices.

11. **The service requirements and financial capability of the Municipality was not considered in employing 161 Job Order (JO) workers for the first semester and 350 for the second semester constituting 335.00% and 729.00% of its 48 regular personnel, respectively, thus, the necessity, propriety and legality of hiring some JO workers were not established; as well as failure to maximize the scarce resources of the Municipality.**

We recommended that the LCE to direct the Municipal Human Resource Management Officer to:

- a. prepare the Organizational Structure and Staffing Pattern Plan in order to assess the required number of JO workers to be hired based on necessity and financial capability of the municipality;
- b. ensure that all vacant positions under Plantilla should be filled up;
- c. prepare a valid Job Order contract of service or Memorandum of Agreement (MOA) paid on a daily basis and period should not exceed 6 months; and

d. monitoring mechanism must be adopted in order to evaluate whether a JO worker is qualified for the renewal of contract.

12. **Various deficiencies were noted on the planning, implementation, and reporting of financial transactions pertaining to the utilization of the 5% LDRRMF totaling to ₱7,125,684.25, thus, affecting the efficiency, economy and effectiveness of the government operation.**

We recommended that the LCE to ensure that:

- a. the LDRRM Officer, LDRRM Council and the Local Development Council to properly prepare a comprehensive and integrated annual LDRRMFIP or the LDRRM Plan for the DRRM programs adopting the prescribed format;
- b. the LDRRMO be provided with additional staffs complying the minimum manpower requirement of the office;
- c. all disbursements charged to the LDRRMF should be supported with the LDRRMFIP or the LDRRM Plan to ensure consistency of expenditure;
- d. the Municipal Accountant to properly prepare the LDRRMF Utilization Report and make sure that the Monthly Report of Sources and Utilization be submitted to the audit team within the prescribed period;
- e. Municipal Budget Officer to maintain separate registries of RAAO for the QRF, Mitigation Fund and Capital Outlay; and
- f. Acting Municipal Treasurer and Municipal Accountant to transfer to the Special Trust Fund the unexpended balances of LDRRMF for CY 2022.

13. **Failure to exercise the Municipality's authority to update and revise the existing Municipal Revenue Code of 2005, resulted in the Municipality's reliance on the national tax allotment for their programs, projects and activities.**

We recommended that the LCE and the Sangguniang Bayan fast track the enactment and the subsequent implementation of the updated Municipal Revenue Code.

14. **The Municipality failed to submit the AAPSI for CY 2021 and prior years within the reglementary period and was able to submit only upon the issuance of a written demand made by the audit team, thus, portrays the Municipality's disregard of the existing law.**

We recommended that the LCE, being the head of the agency, spearhead the preparation and the submission of the AAPSI CY 2021 and prior years within 60 days from receipt of the Annual Audit Report.

15. **Local travels for CY 2022 totaling ₱368,045.25 were not supported with an approved Travel Order issued by the Provincial Governor or higher authorities, and such amount was over claimed by at least ₱44,755.00 as it exceeded the allowable daily travel expense, thus affecting the propriety and validity of the payment.**

We recommended that the LCE ensure that (a) an approved travel order be secured first from the Office of the Provincial Governor or higher authority before the actual date of travel; (b) the corresponding itinerary of travel shall also be approved by the latter; (c) stop the actual reimbursement of meals and apply only the Daily Travel Expenses (DTE) as required by the Executive Order (EO) No. 77; and (d) submit the lacking documents.

Summary of Audit Suspensions, Disallowances and Charges (SASDC)

The balances for the audit suspensions, disallowances and charges as at December 31, 2022 was ₱46,796,787.76; ₱15,576,094.89 and ₱00.00, respectively, or a total of ₱62,372,882.65 based on the Notice of Suspension (NS), Notice of Disallowance (ND), and Notice of Charge (NC) issued by this Commission. While any NS, ND and NC for CY 2022 post-audit of transactions are still to be issued.

Status of Implementation of Prior Years' Unimplemented Audit Recommendations

Of the 23 audit recommendations embodied in CY 2021 and prior year's Annual Audit Reports, 10 were implemented and 13 were not acted upon by management.