

EXECUTIVE SUMMARY

Introduction

The Municipality of San Nicolas was created 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 from the 3rd District of Batangas and located 125 kilometer south of Manila. It has a total land area of 2,664 hectares which was apportioned to eighteen barangays.

The organizational structure of the Municipality of San Nicolas is as follows:

a. Key Officials

Mayor	Lester D. De Sagun
Vice Mayor	Napoleon V. Arceo
Members of Sangguniang Bayan	Manuel M. Matienzo Victor G. Sandoval Christopher A. Barrion Leo A. Mortel Marivic M. Ondo Gemetrio T. Umandap Marie Kristine Joy M. Obligar Leonardo A. Alvaira Aquilino Luther S. Gahol Jr. (ABC President) Kelvin M. Mortel (SK Federation President)
Municipal Accountant	Elisa S. Enriquez
Municipal Treasurer	Erlinda P. Montenegro

b. No. of Personnel Complement:

Permanent	73
Elective Officials	12
Job Order	20
Co-Terminus	<u>02</u>
Total	<u>107</u>

Scope of Audit

Financial and compliance audits were conducted on the accounts and operations of the Municipal Government of San Nicolas for Calendar Year 2019. The audit was conducted to ascertain the adequacy and reliability of the books of accounts and financial reports, fairness of the presentation of the financial statements and the Municipality's compliance with applicable laws, rules and regulations, as well as adherence to prescribed policies in handling its finances and operations in general.

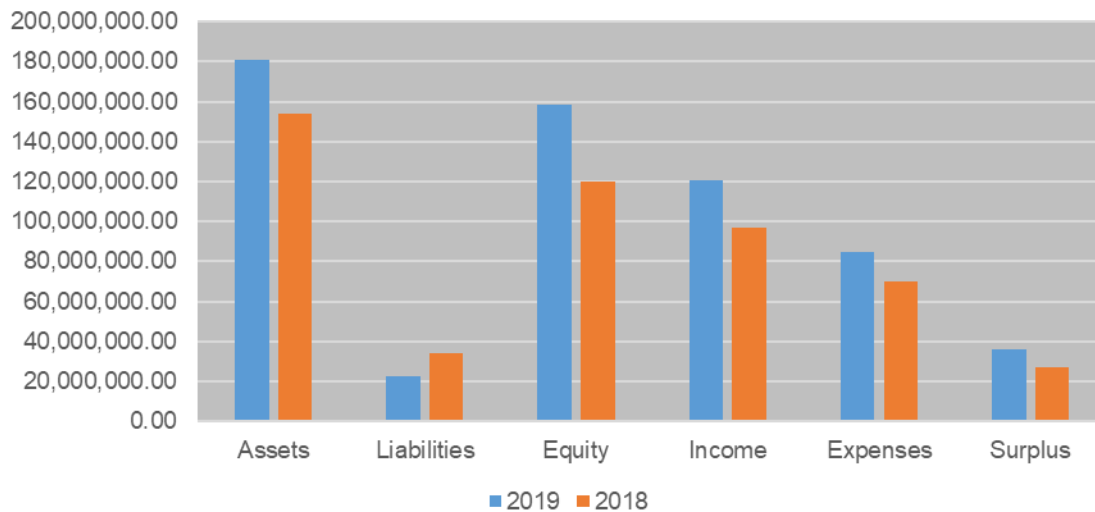
Financial Highlights (in Totals)

For the Calendar Year (CY) 2019, the Municipality of San Nicolas generated revenue of ₱93,817,577.24 sourced from local taxes, Internal Revenue Allotments (IRA), service, business and other sources of income. Total appropriations/allotments was ₱123,660,369.44 of which ₱88,545,279.97 or 71.60% was obligated during the year, thus, leaving an unexpended balance of ₱35,115,089.47 or 28.40%.

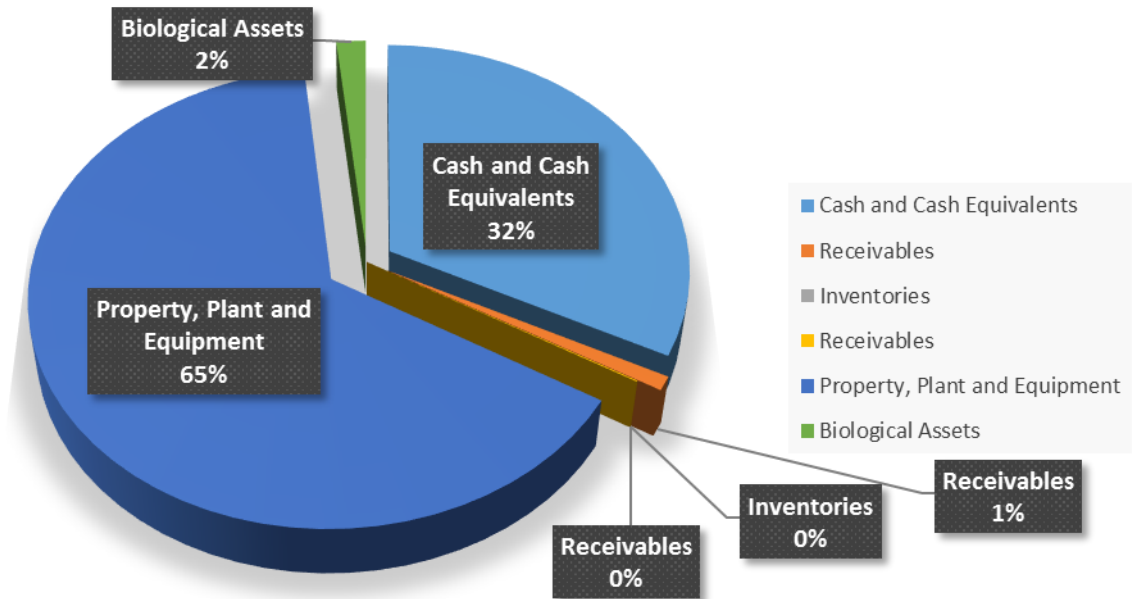
The total assets, liabilities, equity, revenue and expenses of the Municipality for CYs 2019 and 2018 are as follows:

	2019	2018	Increase/Decrease
Assets	181,111,267.36	154,043,620.81	27,067,646.55
Liabilities	22,921,179.68	34,106,531.03	(11,185,351.35)
Equity	158,190,087.68	119,937,089.78	38,252,997.90
Income	120,680,359.21	96,966,553.55	23,713,805.66
Expenses	84,824,314.25	69,957,257.42	14,867,056.83
Surplus (Deficit)	35,856,044.96	27,009,296.13	8,846,748.83

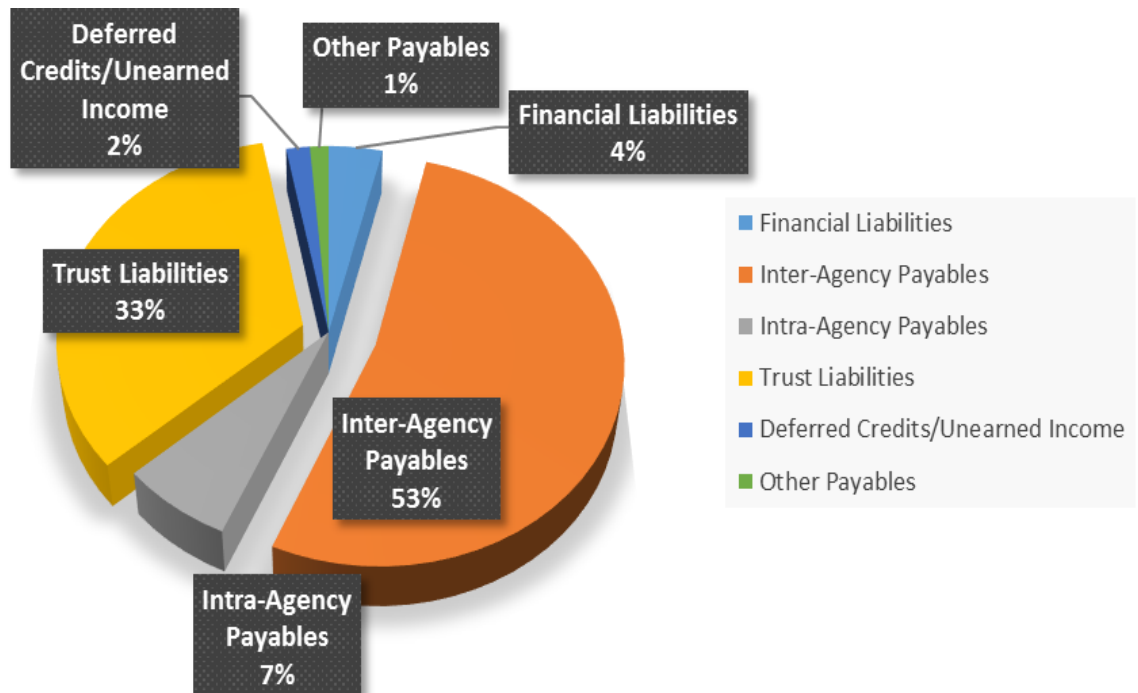
Highlights of Financial Position and Operation



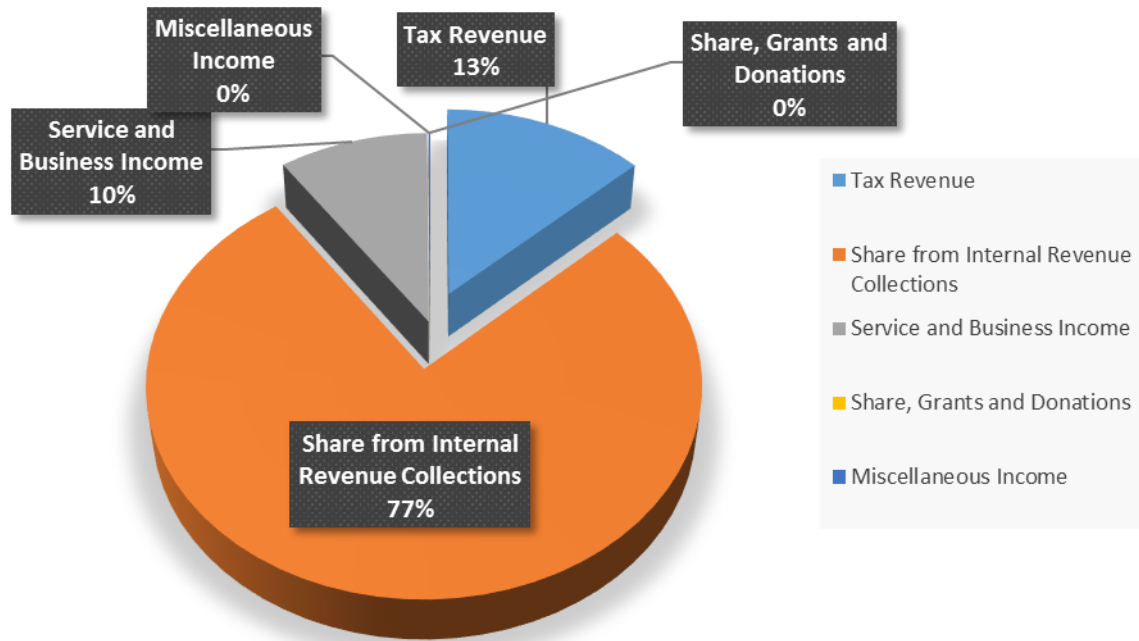
Assets of the Municipality comprised mainly of Property, Plants and Equipment with a percentage of 65% and Cash and Cash Equivalents with the percentage of 32% of the total assets.



While liabilities of the Municipality comprised mainly of Deferred Credits/Unearned Income with 2%, Financial Liabilities and Trust Liabilities with 37% of the total liabilities.



Most of the income earned by the Municipality is generated from the Share from National Taxes with 64% and Tax Revenues of 33% such as taxes on property, business, and local taxes.



Awards and Recognitions

The Municipality passed the Good Financial Housekeeping aspect of the 2014 and 2018 Seal of Good Local Governance. It also received a plaque of recognition for being the most-prompt in the complete and correct submission of the treasury reports as prescribed by the Bureau of Local Government Finance.

Independent Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of financial statements of the Municipality of San Nicolas, Batangas due to:

1. The existence, fairness and condition of the Property, Plant and Equipment with net book value of ₱117,371,035.61 at year end could not be fully ascertained due to the reported net discrepancy of ₱142,716,742.16 between the Report on the Physical Count of Property, Plant and Equipment and the amounts presented in the Financial Statements mainly due to the incomplete inventory taking made by the GSO and unreconciled difference for the PPE items counted, contrary to auditing standard rules and regulations.
2. Proper accounting and reporting guidelines on the Local Roads Asset Management System as prescribed under COA Circular No. 2015-008 dated November 23, 2015 were still not substantially complied with by the Municipality of San Nicolas casting doubts on the fair presentation in the financial statement of the Infrastructure Assets - Road Network account with net book value of ₱16,245,182.07 as of December 31, 2019.

3. Unreconciled difference of ₱679,765.72 between the records of the Municipal Accountant and the Municipal Treasurer casts doubts on the accuracy and reliability of the reported year-end balances of Real Property Tax (RPT) Receivable and Special Education Tax (SET) Receivable and their reciprocal liability accounts amounting to ₱69,198.61 and ₱69,198.59, respectively, affecting the fair presentation of the accounts on the financial statements.
4. The practice of directly charging the purchases of various supplies as outright expenses upon receipt from suppliers and distribution to requesting officials instead of recording first as inventory accounts totaling ₱2,686,221.57 resulted to non-recognition of the remaining Inventory as assets at year-end, contrary to auditing standard rules and regulations, causing misstatements of the Assets and Expenses accounts in the Financial Statements.
5. The reliability of ₱3,096,740.00 balance of Breeding stocks account could not be ascertained due to the absence of complete supporting document and inadequate monitoring by the Municipality on the status of these breeding animals, contrary to Section 111 of Presidential Decree (PD) No. 1445, Paragraph 27 of International Public Sector Accounting Standard (IPSAS) 1 and Paragraph 13 of IPSAS 27.

For the above cited deficiencies, we recommended that the Municipal Mayor:

1. instruct the:
 - a. Municipal GSO together with the Inventory Committee to conduct a complete physical count of the properties, reconcile the results thereof with accounting records and submit the same to the Audit Team to ascertain the existence, validity and correctness of the Property, Plant and Equipment as well as the reliability of balances presented in the financial statements; and
 - b. Municipal Accountant and Municipal GSO to evaluate the causes of the discrepancies to ascertain the fairness and reliability of the PPE balances in the financial statements.
2. require the:
 - a. Inventory Committee, in coordination with the Municipal Engineering Office, to: (i) conduct physical inventory of all existing local road networks in the City and prepare the corresponding Report on the Physical Count of Local Road Network to be reconciled with the accounting records; and (ii) furnish a copy of such report to the Audit Team for verification and audit;
 - b. General Services Officer to (i) periodically maintain a complete Report on Local Road Networks; (ii) prepare the Road Map and keep a complete Local Road Network Property Cards for all roads and their components; and (iii) furnish copies thereof of the concerned offices, particularly the Municipal Accountant, as basis for reconciliation with the accounting records;

- c. Municipal Accountant disclose the information for the said property in the Notes to Financial Statements in accordance with the prescribed format as provided under COA Circular No. 2015-008 dated November 25, 2015; and
 - d. Municipal Accountant, General Services Officer and the Municipal Engineer (i) be mindful of their mandated duties and responsibilities outlined in COA Circular No. 2015-008 to ensure that the components of Road Network System of the Municipality of San Nicolas are properly identified, valued and accounted for in the books and completely presented in the financial statements and (ii) prioritize the immediate identification of the local road networks for CY 2016 and below to reflect the complete balance of Road Network account in the financial statements; and ensure good working coordination among LGU offices to strictly follow and implement COA Circular No. 2015-008 dated November 23, 2015.
3. instruct the Municipal Accountant to –
- a. reconcile the difference between the balances of Real Property Tax (RPT) Receivable and Special Education Tax (SET) Receivable;
 - b. conduct a regular reconciliation of records with the Municipal Treasurer starting on the set-up of RPT and SET Receivables at the beginning of the period up to the consistent adjustment of these accounts upon collection;
 - c. maintain the necessary subsidiary ledgers for the RPT and SET Receivables in order to validate the balances of the accounts presented in the financial statements and to ensure accuracy and reliability of the balances reported monthly; and
 - d. review all entries reflected in the journals to ensure that all recorded adjustments are correct and complete to avoid the incurrence of deficiencies among records. Effect the necessary adjustment/s, if any.
4. direct the:
- a. Municipal Accountant to strictly observe the perpetual inventory method in the recording of inventory and issuance of supplies and materials as provided under the IPSAS 12 and discontinue the practice of treating the purchases of supplies and materials as outright expenses instead of inventories, except for Fuel, Oil and Lubricants Expenses and maintain the Subsidiary Ledger Cards (SLC) for each item of supplies; and
 - b. Municipal General Supply Officer to maintain Stock Cards (SC) and Property Cards for the various classes of supplies.
5. require the:
- a. Municipal Agriculturist and other concerned officials to properly monitor the LGU's dispersal program and submit the report on the dispersal of the breeding stocks indicating the name and complete address of the recipients, description, quantity, unit cost and total amount of the breeding animals received. Also, prepare and submit semi-annually the inventory and status of these breeding animals to the

Accounting Department for proper recognition in the books of any increase or decrease on the quantity and value of these assets.

- b. Municipal Treasurer and the Municipal Agriculturist to exert effort to enforce and collect the proceeds from the sale of those animals which were still owned by the Municipality.

Significant Audit Observations and Recommendations

In addition, the following are other significant findings and recommendations:

1. The Report on the Physical Count of Property, Plant and Equipment (RPCPPE) as of December 31, 2019 prepared and submitted by the Municipal General Services Officer (GSO) was not completely filled up and lacked vital information pertaining the actual result of the physical inventory count undertaken, contrary to Section 57, Chapter II of the Manual on the New Government Accounting System (NGAS) for Local Government Units (LGUs), Volume II.

We recommended that the Municipal Mayor instruct the Municipal GSO to:

- a. prepare the RPCPPE in conformity with the format and contents prescribed by Annex 49 Chapter II of the NGAS Manual for LGUs, Volume II and ensure that the same be submitted to the Auditor concerned on or before January 31 of each year; and
 - b. completely fill up and include the vital information on the RPCPPE pertaining the actual result of the physical inventory count undertaken for the reliable comparison of the report with the records of the Accounting Office.
2. Tax delinquencies reported by the Treasurer's Office as of December 31, 2019 showed an ending balance of ₱1,240,408.10, including penalties, with an increase of ₱688,209.56 from its previous amount of ₱552,198.54, contrary to Sections 254, 258 and 269 of Republic Act (R.A.) No. 7160, thereby showing weakness on enforcing collections and depriving the Municipality of additional funds which could have been used to implement more beneficial projects/programs for its constituents.

We recommended that the Municipal Mayor instruct the Municipal Treasurer:

- a. and other concerned officials to implement more effective, efficient and aggressive synergized tax campaign and develop additional strategies to improve tax revenue generation and to intensify collection of Real Property Taxes not only current but also the delinquent taxes in order to generate more income; and
 - b. to conduct verification on those outstanding balances to determine the accuracy of the receivables and its collectability.
3. The actual existence and condition of the remaining Inventory items at year-end was not fully ascertained due to the non-conduct of physical inventory count and non-preparation of Report of Physical Count of Inventory (RPCI) for reconciliation with the Accounting and General Services Office records.

We recommended that the Municipal Mayor require the Inventory Committee to conduct a complete physical inventory count of inventories and prepare the corresponding Report of Physical Count of Inventories to ascertain the actual existence of said assets and for the systematic reconciliation of records with the Accounting and GSO. Likewise, furnish the Auditor concerned not later than July 31 and January 31 of each year for proper evaluation thereof.

4. Unserviceable properties with gross amount of ₱6,533,184.83 were still undisposed within reasonable time, not in accordance with COA Circular No. 89-296 dated January 27, 1989, Sections 165 and 166 of COA Circular 92-386 dated October 20, 1992 and Section 79 of P.D. No. 1445, thereby causing their rapid deterioration and depriving the City of generating additional income from their scrap and may pose risk of possible asset misappropriation.

We recommended that the Municipal Mayor direct the:

- a. Chairman of the Committee on Disposal to initiate the immediate disposal of those properties in accordance with afore-cited provisions in order not to expose those properties to elements that cause further deterioration or loss of salvaged value and to generate additional income thereof;
 - b. GSO-Designate to: (i) organize, secure and ensure that the unserviceable PPEs are stored properly and in orderly manner as much as possible to facilitate the easy identification of the assets item per item and coordinate with the Municipal Accountant for the proper determination of their costs; and (ii) revise the IIRUP by presenting the unserviceable PPE items by class and not on a per department basis.
5. Special accounts in the General Fund were still not maintained for the economic enterprises and utilization of the 20% Development Fund by the Municipality contrary to Section 313 of Republic Act (RA) No. 7160 and Chapter 6 of the Manual on New Government Accounting System (NGAS), Volume I, thus operating performance and viability could not be ascertained and monitored.

We recommended that the Municipal Mayor instruct the Municipal Accountant to set-up and maintain Special accounts in the General Fund for the monitoring of operating performance and viability of the Municipality's economic enterprises and 20% Development Fund, and to serve as a decision making tool of the agency. Also, record all transactions pertaining to these economic enterprises to the corresponding subsidiary ledgers.

6. The Municipality's Ecological Solid Waste Management was not efficiently and effectively discharged due to its failure to fully implement/comply with the provisions of Republic Act 9003, Ecological Solid Waste Management Act of 2000, thus, may result in negative impact on the environment and health of its citizens.
 - a. Deficiencies on the composition of Municipal Solid Waste Management Board;
 - b. Ten-Year Solid Waste Management Plan not yet approved by the National Solid Waste Management Commission (NSWMC);
 - c. Materials Recovery Facility was not established in the Municipality;

- d. Disposal site not in accordance with R.A. 9003;
- e. Issues already identified by the Municipality as indicated in their 10-Year Plan still not fully addressed;

We recommended that the Municipal Mayor reorganize the composition of Municipal Solid Waste Management Board in accordance with Section 12 of RA 9003.

Also, we recommended that the Municipal Solid Waste Management Board to:

- a. modify the 10-Year Solid Waste Management Plan based on the evaluation of PSWMB-TWG, ensure its consistencies with the National Solid Waste Management Framework and properly coordinate with the Regional Office of the Environmental Management Bureau its submission and ensure that the same be approved by the National Solid Waste Management Commission within the year;
- b. assist all barangays in the establishment of an individual or common Materials Recovery Facility (MRF) and ensure that the Municipality's MRF is fully operational.

Moreover, we recommended that the Municipal Mayor, MSWMB and the designated MENRO strictly comply with the provisions of Republic Act 9003 and fully implement the said law within its jurisdiction. Likewise, address the issues already identified within the year for effective and efficient Ecological Solid Waste Management in the Municipality.

- 7. Savings from completed projects totaling ₱711,090.00 funded out of grants and aids from various national agencies were not yet returned to the source agency, contrary to COA Circular No. 94-013 dated December 13, 1994 and DOF-DBM-COA Permanent Committee Joint Circular No. 4-2012 dated September 11, 2012, thus depriving the source agency/national government of the use of the additional fund for other purposes and increasing the risk of fund misuse. Likewise, six (6) projects and programs with total cost of ₱10,632,130.00 were either partially completed and/or unimplemented as of year-end despite the availability of funds, depriving the beneficiaries of prompt local service delivery and the intended benefits that can be derived from such projects.

We recommended that the Municipal Mayor:

- instruct the Municipal Accountant and the Municipal Treasurer –
 - a. to submit detailed explanation/justification citing the reasons why the remaining balance of ₱711,090.00 was still carried in the books despite the completion of the purpose it was granted and why the six (6) PPAs with total cost of ₱10,632,130.00 were either partially completed and/or unimplemented as of year-end despite the availability of funds; and
 - b. to coordinate with the source agencies for the proper return of the said unutilized funds pursuant to Section 4.9 of COA Circular No. 94-013 and DOF-DBM-COA Permanent Committee Joint Circular No. 4-2012 to avoid possible fund misuse.

- in coordination with the responsible departments aim to reduce unnecessary delays in project implementation and strictly effect the necessary processes to expedite the completion of the not-yet started and on-going projects to allow the early enjoyment of benefits by the general public and the full utilization of the funds received from National Government Agencies (NGAs);
8. Pertinent provisions of Republic Act (RA) No. 10121, COA Circular No. 2012-002 and NDRRMC-DBM-DILG Joint Circular No. 2013-01 in the utilization, accounting and reporting of Local Disaster Risk Reduction and Management Fund (LDRRMF) were not strictly observed by the Municipality, thus depriving the constituents of the efficient, effective and responsive disaster risk reduction program.
 - a. Optimal utilization of the Local Disaster Risk Reduction and Management Fund (LDRRMF) during CY 2019 was not achieved due to laxity in the implementation of programs and projects, thus, may affect the readiness and capabilities of the Municipality to build the disaster resilience of communities, enhance disaster preparedness and response at all levels.
 - b. The Municipality's Local Disaster Risk Reduction and Management Fund Investment Plan (LDRRMFIP) did not indicate the list of activities and projects charged to the unexpended LDRRMF of previous years as required under Item 5.1.2 of COA Circular No. 2012-02 dated September 12, 2012, thus, monitoring of utilization of the previous years' LDRRMF could not be undertaken.

We recommended that the Municipal Mayor:

- a. direct the Municipal Disaster Risk Reduction and Management Officer (MDRRMO) to judiciously plan on how to maximize the utilization of the LDRRM Funds and to accelerate their implementation in order to achieve the goal/target of the Municipal regarding disaster relief, recovery, and risk reduction and management; and
 - b. require the MDRRMO to include in the LDRRMFIP the PPAs to be charged against the unexpended appropriation of previous years or those funds under the Trust Liability-DRRM and submit the list of PPAs funded or to be funded from the unexpended prior years DRRM Fund.
9. Failure to institute effective controls and monitoring of the payrolls resulted to eighteen (18) municipal employees receiving their net-take home pay less than the mandated minimum amount of ₱5,000.00 prescribed under Section 52 of Republic Act No. 11260, or the General Appropriations Act (GAA) for Fiscal Year 2019, thus defeating the purpose of the provision in ensuring that all government employees bring home a decent portion of their earnings after paying all their obligations and contributions.

We recommended that the Municipal Mayor require the Human Resource Management Officer and the Municipal Accountant to institute effective controls and monitoring of the payrolls particularly the deductions to ensure that net take home pay shall not be less than the minimum allowed amount of ₱5,000.00 as provided under the Annual GAA.

10. The Municipal Government of San Nicolas has not fully complied with the provisions of the Republic Act (R.A.) No. 9710 otherwise known as the Magna Carta of Women (MCW) and the guidelines on the localization of MCW under PCW-DILG-DBM-NEDA

Joint Memorandum Circular (JMC) No. 2013-01 and 2016-01, thus precluded the assessment of the development, utilization and gender-responsiveness of GAD and the effectiveness and efficiency of its gender mainstreaming efforts.

- a. GAD activities not mainstreamed through all the department/offices;
- b. CY 2019 GAD Plan and Budget (GPB) was not submitted on the required deadline thus not endorsed by the DILG Provincial Office;
- c. Non-implementation of various GAD activities

While we took cognizance of the relentless efforts of the Municipality to support gender equality and women empowerment, we recommended that the Municipal Mayor as the Chairperson of the Executive Committee and the Technical Working Group:

- a. Ensure the proper mainstreaming of GAD related activities in all offices/ departments of the Municipality;
 - b. Submit the GAD Plan and Budget to the Provincial Planning and Development Office (PPDO) to ensure the alignment of LGU GAD PPAs to the priorities of the province on or before the deadline required by the Joint Memorandum Circular;
 - c. Secure first the Certificate of Endorsement of the Annual Gender and Development (GAD) Plan and Budget (GPB) from the DILG Provincial Office before incorporating to the Municipality's Annual Budget to properly ascertain the relevance of the gender issues identified and gender-responsiveness of the PPAs indicated in the GPB;
 - d. Exert active efforts in accomplishing the targeted and planned Client-Focused and Organization-Focused PPAs. Endeavor not just to sustain its compliance with the minimum budget requirement on GAD programs, projects and activities as provided for by the law, but to increase identification of gender-responsive PPAs to be covered by the annual budget until such time that all major programs of the Municipality are attributed to GAD as envisioned under the PCW-NEDA-DBM Joint Circular;
 - e. Strictly monitor the implementation of GAD PPAs as required under the Joint Circular and conduct regular coordination with the implementing offices to ensure that programs are undertaken within the target period; and
 - f. Coordinate with the Municipal Human Resources Management Officer to require all personnel to undergo training on gender sensitivity, human rights and gender responsiveness especially those holding positions involving protection and defense of women against gender-based violence, counselling and trauma healing.
11. The essence of the institutional mechanism of the Local Council for the Protection of Children (LCPC) have not been fully optimized due to non-preparation of separate Local Development Plan for Children (LDPC) and Local Investment Plan for Children (LIPC) and failure to specifically allocate 1% of the Internal Revenue Allotment intended for the strengthening and implementation of the programs of the Council, contrary to Section 15 of Republic Act (R.A.) No. 9344 and DILG Memorandum Circular No. 2012-120 dated July 4, 2012, hence support for the realization of the purpose of the law was not established.

We recommended that the Local Chief Executive, as the chairperson of the Municipal Council for the Protection of Children (MCPC):

- a. instruct the Municipal Budget Officer to specifically allocate 1% share from IRA for LCPC as provided in DILG MC No. 2012-120 dated July 4, 2012 for the implementation LCPC;
- b. direct the members of the Council to prepare a separate Local Development Plan for Children (LDPC) and Local Investment Plan for Children (LIPC) and maximize the utilization of the allocated LCPC Fund to identified programs, projects and activities (PPAs) provided for in the afore-mentioned Circular to ensure full strengthening and implementation of the LCPC; and
- c. require the Municipal Social Welfare Officer, being the focal person, to ensure that the identified PPAs geared for promotion of rights and welfare of children are carried out effectively and efficiently and continuously monitor the implementation of children's programs and projects in the locality.

Due to the COVID 19 pandemic, the exit conference with the management officials and staff was not conducted. In lieu of this, management's comments were acknowledged through the letters received from the Local Chief Executive and different Department Heads.

Unsettled Suspensions, Disallowances and Charges

As at December 31, 2019, the total outstanding audit suspensions, disallowances and charges of the Municipal Government of San Nicolas based on the Notice of Suspensions (NS), Notice of Disallowances (ND), Notice of Charges (NC) and Notice of Settlement of Suspensions Disallowances and Charges (NSSDC) issued by this Commission totaled ₱35,037,980.00.

Status of Implementation of Prior Year's Recommendations

Of the 14 prior year's audit recommendations embodied in the CY 2018 Annual Audit Report, 5 were fully implemented, 5 were partially implemented, and the remaining 4 were not implemented by the Municipal Government of San Nicolas.