

EXECUTIVE SUMMARY

Introduction

The Municipality of Naic is a coastal town located at the western part of the Province of Cavite along the shorelines of Manila Bay. It is bounded on the north by Manila Bay and Municipality Tanza, on the east by Trece Martires City, on the south by the Municipalities of Indang and Maragondon and on the west by the Municipality of Ternate and Manila Bay. It is a first class municipality with a total land area of 8,600 hectares and is comprised of 30 barangays.

The Organizational Structure of the Municipality is as follows:

a. Key Officials

Municipal Mayor	-	Hon. Junio C. Dualan
Vice-Mayor	-	Hon. Rogelio H. Pangilinan

Members of the Sanggunian:

1. Hon. Rodrigo A. Castillo
2. Hon. Anita M. Carta
3. Hon. Maximo F. Dagasdas
4. Hon. Ruperto C. Dualan
5. Hon. Cesar Ryan G. Nazareno
6. Hon. Nikko V. Pagdanganan
7. Hon. Sofia M. Poblete
8. Hon. Ferdinand S. Wakay
9. ABC President Roger N. Camilo
10. SK President Ma. Patricia Joana B. Roxas

Municipal Accountant	-	Ms. Susan S. Martin
Municipal Treasurer	-	Ms. Edenlita V. Mojica
OIC-Municipal Budget Officer	-	Ms. Melissa E. Dumalag
Municipal General Services Officer	-	Ms. Annaliza G. Maranan
Municipal Planning and Development Coordinator	-	Mr. Joel D. Antonio
Municipal Assessor	-	Ms. Carolina C. Espineli

b. No. of Personnel Complement

Permanent	-	186
Casual/Job Order	-	243
Elective Officials	-	12
Co-terminous	-	<u>4</u>
		<u>445</u>

Audit Objectives

The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the Municipality to laws, rules and regulations as well as the economical, efficient and effective utilization of resources.

Scope of Audit

Financial and Compliance audits were conducted on the accounts and operations of the Municipality of Naic, Cavite for Calendar Year 2019. The audit was conducted to ascertain the fairness of the presentation of the financial statements and compliance of the municipality to laws, rules and regulations as well as the economical, efficient and effective utilization of resources.

Financial Highlights

Comparative Financial Position and Results of Operations for CY 2019 are as follows:

Financial Position

	2019	2018	Increase/ (Decrease)
Total Assets	P 1,080,869,323.18	P 927,093,286.88	P 153,776,036.30
Total Liabilities	189,488,612.91	153,726,367.58	35,762,245.33
Total Equity	891,380,710.27	773,366,919.30	118,013,790.97

Results of Operations

Total Income	355,750,229.70	320,084,802.67	35,665,427.03
Personal Services	109,461,348.96	87,785,706.19	21,675,642.77
Maintenance and Other Operating Expenses	105,373,914.99	85,826,624.42	19,547,290.57
Financial Expenses	1,267,103.99	1,602,766.60	(335,662.61)
Non-Cash Expenses	25,292,712.32	21,645,014.63	3,647,697.69
Transfer from/(to)	2,512,515.58	(11,114,179.80)	13,626,695.38
Other Non-Operating Income	0.00	85,033.64	(85,033.64)
Net Profit/ (Loss)	116,867,665.02	112,195,544.67	4,672,120.35

Audit Opinion on the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the Municipality due to the following observations:

1. The validity, reliability and accuracy of the Real Property Tax (RPT) Receivables and Special Education Tax (SET) Receivables and their reciprocal accounts Deferred Real Property Tax and Deferred Special Education Tax Income with balances of P25,858,900.53, P26,459,867.51, P25,858,900.53 and P26,457,455.01, respectively, as of December 31, 2019 could not be fully ascertained due to various errors such as a) inclusion of the fines and penalties of delinquent taxpayers in the recorded RPT and SET Receivables; b) double recording of the 2018 RPT and SET tax dues; and c) timing difference in recording collections/remittances of the RPT and SET from the Provincial

Treasurer's Office, contrary to Section 23 of Chapter 3, Volume I of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs) resulting in the overstatement of RPT Receivables, SET Receivables, Deferred RPT and Deferred SET by ₱14,849,119.49, ₱15,195,694.99, ₱14,849,119.49 and ₱15,193,282.49, respectively.

Moreover, the computation and recording of RPT and SET receivables set up at the beginning of Calendar Year (CY) 2019 was incorrect as it was not in accordance with Section 20, Chapter 3, Volume I of MNGAS for LGUs, which resulted in the overstatement of RPT Receivables, SET Receivables, Deferred RPT, and Deferred SET by ₱14,307,727.86, ₱13,795,903.45, ₱14,307,727.86 and ₱13,793,490.95, respectively.

2. The correctness and reliability of the book balance of the Property, Plant and Equipment (PPE) account totaling ₱675,054,343.65 as of December 31, 2019 could not be established due to i) inability of the Municipality to complete the physical count of PPE, ii) net discrepancies of ₱1,570,597.19 between the PPE Ledger Cards (PPELC) and Property Cards maintained by the General Services Office (GSO) and iii) differences between the book balances of several PPE accounts and lapsing schedules, contrary to Sections 114, 120 and 124 of the Manual on the New Government Accounting System (MNGAS) for Local Government Units (LGUs).
3. The accuracy, reliability, existence and validity of the reported inventory account balance in the financial statements as of December 31, 2019 amounting to ₱3,880,252.31 could not be fully ascertained due to the absence of inventory reports; inability of the management to conduct physical count of inventories; and non-maintenance of supply stock cards and supply ledger cards contrary to Sections 114 and 124 of Manual on NGAS, Volume I for LGUs.

Significant Audit Observations and Recommendations

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

1. the Municipal Accountant to ensure that the computation and recording of the Real Property Tax and Special Education Tax Receivables set up and the proper recognition of fines and penalties on property taxes are in accordance with the provisions of Sections 20 and 23, Chapter 3, Volume I of the Manual on the New Government Accounting System for Local Government Units and Sections 233 and 235 of Republic Act (RA) 7160;
2. the Municipal Accountant to rectify and reconstruct the incorrect entries made in CY 2019 on the set up of Real Property Taxes (RPT) and Special Education Taxes (SET) as guided by the correcting entries recommended by the Audit Team provided in Appendix 7;
3. the Municipal Accountant to coordinate with the Municipal Treasurer in the preparation of the necessary adjusting journal entries to exclude/remove the fines and penalties previously recorded as RPT and SET receivables and to identify the unrecorded collections from the PTO to arrive at the reconciled balances of the RPT and SET receivables;

4. the Municipal Accountant and the Municipal Treasurer to coordinate with the Provincial Treasurer's Office (PTO) in securing the subsidiary ledger of all the Land Tax Dues collected from previous years up to the current year to update and record the RPT and SET collected in the books of the Municipality;
5. the Municipal Accountant and the Municipal Treasurer to immediately coordinate with the PTO whenever the remittances of the latter vary with the records of the Municipality, in order that timely adjustments or corrections of affected could be effected;
6. the Municipal Accountant to reconcile the reported balances in the Statement of Financial Position with the balances recorded in lapsing schedules;
7. the General Services Officer and the Inventory Committee to conduct complete physical inventory of all PPE of the Municipality;
8. the Municipal Accountant and General Services Officer to continue exerting efforts to reconcile the variances in their records;
9. all Inventory Custodians to prepare and submit monthly report of inventories to the Accounting Office for proper recording of expenses and balances;
10. all Inventory Custodians and the Accounting Department to maintain supply stock cards and supply ledger cards, respectively, to account the receipt and disposition of inventory items and to facilitate reconciliation of both records; and
11. the conduct of physical count of all inventory accounts and submit to the Audit Team the Report of Physical Count of Inventories (RPCI) to establish accuracy, validity and existence of the recorded Inventories.

The other significant observations and recommendations in the audit of the Municipality for the year 2019 are as follows:

1. The balances of the Due to LGUs account pertaining to Real Property Tax (RPT) and Special Education Tax (SET) amounting to ₱1,810,679.02 and ₱2,595,990.84, respectively, in the books of the Municipality as of year-end did not reconcile with the balance of the reciprocal account Due from LGUs - Municipality of Naic totalling ₱1,810,678.89 and ₱2,355,991.28, respectively, in the books of the Province, thus, casting doubt on the reliability of the Due from and to LGUs accounts.

We recommended that the Municipal Mayor instruct the Municipal Accountant to coordinate with the Provincial Accountant to verify the discrepancy in the Due from LGU account of the Municipality with the corresponding reciprocal account in the books of the Province and thereafter, make the necessary adjustments.

Likewise, it is recommended that the Municipal Accountant request the Provincial Accountant to furnish her with copies of the Journal Entry Vouchers showing the amount collected by the Province in favor of the Municipality to serve as basis in recording the Due from LGU in the books of the Municipality as provided under Section 20 of the Manual on NGAS for LGUs, Volume I.

2. The Local Disaster Risk Reduction Management Fund Investment Plan (LDRRMFIP) for Calendar Year (CY) 2019 did not include the unexpended balances for the last five years, thereby limiting the available funds or resources that could have helped the Municipality in disaster risk reduction and management, contrary to Sections 4.4 and 5.1.2 of COA Circular No. 2012-002 dated September 12, 2012.

We recommended that the Municipal Mayor instruct the Local Disaster Risk Reduction Management Council (LDRRMC) to facilitate the preparation of a complete Local Disaster Risk Reduction Management Fund Investment Plan (LDRRMFIP) covering current year LDRRMF and unexpended balances from the previous years to utilize and deliver more benefits to its constituents.

3. The Municipality was not able to strictly enforce various provisions of the contract of lease on public market stalls and unable to book uncollected market rental income amounting to ₱1,219,100.00 as of December 31, 2019 contrary to Section 112 of Presidential Decree No. 1445 and Section 7 of the Philippine Public Sector Accounting Standards (PPSAS) No. 1, Volume I resulting in the understatement of Accounts Receivable, Rental Income and Government Equity accounts by ₱1,219,100.00 ₱780,600.00 and ₱438,500.00, respectively, as presented in the financial statements.

Moreover, special accounts were not maintained in the general fund to record the operations of the public market, slaughterhouse and Naic grand terminal, contrary to the provisions of Section 313 of Republic Act No. 7160 and Section 1.3.1 of the Manual on Setting up and Operation of Local Economic Enterprise.

We recommended that the Municipal Mayor instruct:

- a. the Market Supervisor and Grand Terminal Supervisor to strictly enforce the provisions of the contract of lease of market stalls and the pertinent revenue code of the Municipality, especially on payments of rentals and the revocation of contracts and eviction of delinquent stallholders;
- b. the Market and Grand Terminal Supervisors or Municipal Treasurer to submit the Schedule of Stallholders with delinquent accounts to the Municipal Accountant;
- c. the Municipal Accountant to pass the necessary Journal Entry Voucher based on the submitted schedule of delinquent accounts in compliance with Section 112 of Presidential Decree No. 1445 and Section 7 of the Philippine Public Sector Accounting Standards (PPSAS) No. 1, Volume I;
- d. the Market and Grand Terminal Supervisors and Municipal Treasurer to consistently send demand/collection letters to delinquent Stallholders, and to recommend to proper Municipal authorities the termination of contracts of those who continuously refuse to comply with the demand for payments;
- e. the Market and Grand terminal Supervisors together with their 11 market collectors to apply for bond in compliance with the Treasury Circular No. 2009-002; and
- f. the Municipal Accountant to maintain special accounts in the general fund for the operation of public market in compliance with Section 313 of Republic Act No. 7160

and Section 1.3.1 of the Manual on Setting up and Operation of Local Economic Enterprise.

4. The General Services Officer and Inventory Custodians of the Municipality of Naic were not bonded as of December 31, 2019, contrary to the provisions of Section 101 of PD 1445 and Sec. 4.2 of Treasury Circular No. 02-2009, thereby limiting the Municipality's options to recover losses in the event of theft, mishandling or misappropriation of goods or properties.

We recommended that the Municipal Mayor require the immediate bonding of the General Services Officer and all Inventory Custodians in compliance with the provisions of Section 101 of PD 1445 and Sec. 4.2 of Treasury Circular No. 02-2009 dated August 6, 2009.

5. Unserviceable properties amounting to ₱4,123,800.00 had not been disposed as of December 31, 2019, contrary to the Section 379 of Republic Act (R.A.) No. 7160 Book II, Title Six thus, exposing the property to further deterioration and reduction of economic value.

We recommended that the Municipal Mayor create a disposal team to facilitate the immediate disposal of the unserviceable properties, including the determination of the appropriate mode of disposal, to prevent further deterioration and reduction of the properties' economic value.

6. The non-cancellation/adjustment of stale checks totalling ₱59,806.00 in the books of accounts resulted in the understatement of the Cash in Bank and Accounts Payable accounts by the same amounts, contrary to Sections 59 and 61(6) of the Manual on the New Government Accounting System (MNGAS), Volume I.

We recommended that the Municipal Mayor:

- a. require the Municipal Accountant to prepare the necessary adjusting journal entries to effect the cancellation of the stale checks and restoration of the accounts payable in accordance with the pro-forma entries prescribed under Section 61(6) of the MNGAS, Volume I; and
 - b. instruct the Municipal Treasurer to send written notices to the payees of the existence of their checks at least one month prior to the date when the checks issued become stale as provided by Section 59 of the MNGAS, Volume I.
7. The amount appropriated for Gender and Development (GAD) programs, projects and activities in Calendar Year (CY) 2019 amounting to ₱20,841,000.00 or equivalent to 5.95 per cent of the total Local Government Unit (LGU) budget was not fully utilized leaving an unexpected balance of ₱6,927,951.52, contrary to paragraph 1, Section 4.C.1 and paragraph 1, Section 4.C.3 of Joint Memorandum Circular (JMC) No. 2013-01 of Philippine Commission on Women (PCW), Department of the Interior and Local Government (DILG), Department of Budget and Management (DBM) and National Economic and Development Authority (NEDA), thus the Municipality was not able to fully contribute to the promotion of women empowerment and gender equality.

We recommended that the Municipal Mayor to instruct the GAD Focal Person, TWG and other concerned officials to thoroughly study and resolve the issues and challenges and consider all risks and other factors that may hinder the full implementation of all programs, projects and activities prior to their inclusion in the GAD Plan and Budget to ensure that they are implemented as planned.

8. Municipal officials and employees did not comply with existing laws, rules and regulations on the grant and liquidation of cash advances enunciated in Presidential Decree (P.D.) 1445 and COA Circular No. 97 – 002 dated February 10, 1997, such that additional cash advances were granted to Accountable Officers despite non-liquidation of prior cash advances and cash advances granted in year 2019 amounting to ₱3,727,303.16 were liquidated beyond the prescribed period, with delays ranging from four to 121 days, thereby showing ineffective control over cash advances and exposing the fund to possible loss or misuse.

We recommended that the Municipal Mayor:

- a. direct the Municipal Accountant to refrain from granting additional cash advances to any official or employee without liquidating first his/her prior cash advance and to designate another employee as Special Disbursing Officer if it is necessary to make additional cash advances for special activities/projects.
- b. direct concerned officials and employees to ensure that all cash advances granted to them are liquidated within the prescribed period. Further, we recommended that he requires the Municipal Accountant to regularly send demand letters to officers and employees who would fail to liquidate their advances on due dates with a warning that their salaries would be withheld should they still fail to liquidate after demand.

Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2019, the Municipality has unsettled disallowances totaling ₱5,269,726.97, as presented below:

Nature	Amount	Status as of December 31, 2019
Non-completion of work	₱ 450,972.45	Under appeal with the Regional Office
Liquidated damages for delayed work accomplishment	4,818,754.52	Under appeal with the Regional Office
	₱ 5,269,726.97	

Status of Implementation of Prior Year's Audit Recommendations

Of the 17 audit recommendations embodied in the 2018 Annual Audit Report, 12 were fully implemented and five were partially implemented by the Municipality.