

EXECUTIVE SUMMARY

Introduction

Pagsanjan, a town in Laguna Province, was originally a barrio of Lumban. In 1668, eight Japanese and Chinese traders who were highly impressed by the strategic location of the barrio at the juncture of Balanac and Bumbungan rivers founded the town. They established a trading settlement and engaged in the betel nut industry. In due time, the barrio became the flourishing trading center of eastern Laguna and attracted native families from the surrounding communities of Cavinti, Pila and Sta. Cruz. On December, 12, 1678, then Governor General Juan Manuel dela Peña Bonifaz issued a gubernatorial decree elevating its status from a barrio to a town. In 1688, Pagsanjan replaced Bay as the capital of the province. It remained as such until 1858 during which time it bloomed as the cultural and commercial center of the province.

Through the years, local and foreign tourists have flocked to Pagsanjan to capture the sight of the renowned waterfalls and experience the thrill of shooting the rapids; and in every quest, the advocates that ferry the tourists to and from Pagsanjan Falls – the bangkeros themselves – become the champions of the patrons' extraordinary escapades. Today, there were 1,974 licensed and skilled boatmen.

Pagsanjan is known not only for its scenic tourists spots but also for its mouthwatering delicacies and dishes like bibingka, espasol, nata de calamansi (sweetened calamansi with nata) and dried tomatoes, the famous halo-halo of Aling Taleng's, sinigang na baka with langka, bami, garlic chicken, and lechon sa hurno (oven) of Calle Arko restaurant, to name a few.

Pagsanjan has a land area of 26.4 square kilometers. It is located 101 kilometers southeast of Manila. It is bounded on the north by the Municipality of Lumban; on the south by the Municipality of Cavinti; on the east by the Grand Canyon (Pagsanjan Falls); and on the west side by the Municipalities of Sta. Cruz and Magdalena.

Organizational Structure

The organizational structure of the Municipality is as follows:

a. Key officials

Municipal Mayor	Hon. Dr. Peter Casius M. Trinidad
Vice-Mayor	Hon. Girlie Javier Ejercito
Members of the Sanggunian:	
	Hon. Terryl G. Talabong
	Hon. Fred V. Capistrano
	Hon. Melvin B. Madriaga
	Hon. Rachelle A. Solitario
	Hon. Nathaniel C. Bernales II
	Hon. Roderick F. Nombre
	Hon. Erlando A. Subiaga
	Hon. Januario F. Garcia
	Hon. Antonio R. Aquino (ABC)

Municipal Accountant	Ms. Melanie P. Galema
Municipal Treasurer	Ms. Minerva L. Boongaling
Municipal Budget Officer	Mr. Carlito D. Priola

b. No. of Personnel Complement

Permanent	132
Elective Officials	12
Co-terminous	4
Job Orders	75
Total	<u>223</u>

Audit Objectives

Our objectives are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Scope of Audit

Financial and compliance audit was conducted on the accounts and operations of the Municipality of Pagsanjan for the year ended December 31, 2019. The audit was conducted to ascertain the propriety of financial transactions and compliance of the Municipality with prescribed laws, 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.

Financial Highlights

For the Calendar Year (CY) 2019, the Municipality's appropriations, allotments, obligations incurred and unexpended balances as compared with that of the preceding year are as follows:

	<u>CY 2019</u>	<u>CY 2018</u>	<u>Increase/ Decrease</u>
Appropriations			
Current	158,533,115.28	146,726,283.36	11,806,831.92
Continuing	19,222,105.27	25,772,884.18	(6,550,778.91)
Total Appropriations	177,755,220.55	172,499,167.54	5,256,053.01
Total Allotment	177,755,220.55	172,499,167.54	5,256,053.01
Total Obligations	151,653,031.28	154,730,173.46	(3,077,142.18)
Unexpended Balance	26,102,189.27	17,768,994.08	8,333,195.19

The Municipality's total assets, liabilities, government equity, income and expenses for CY 2019 compared with that of the preceding year are shown on the next page.

	2019	2018	Increase/ (Decrease)
Assets	P 239,373,838.03	P 260,123,413.46	P (20,749,575.43)
Liabilities	98,132,085.88	120,367,899.16	(22,235,813.28)
Equity	141,241,752.15	139,755,514.30	1,486,237.85

	2019	2018	Increase/ (Decrease)
Revenue	P <u>151,123,816.70</u>	P <u>138,267,448.08</u>	P <u>12,856,368.62</u>
Expenses			
Personal Services	73,494,143.18	58,119,917.86	15,374,225.32
Maintenance and Other			
Operating Expenses	56,970,516.93	55,713,797.40	1,256,719.53
Financial Expenses	2,902,044.55	1,355,588.49	1,546,456.06
Non-Cash Expenses	15,977,545.43	16,358,539.88	(380,994.45)
Transfer, Assistance and			
Subsidy To	<u>2,916,898.02</u>	<u>2,672,008.89</u>	<u>244,889.13</u>
Surplus/(Deficit)	P <u><u>(1,137,331.41)</u></u>	P <u><u>4,047,595.56</u></u>	P <u><u>(5,184,926.97)</u></u>

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 of Pagsanjan due to the following:

1. The reliability, existence, condition and valuation of the Property, Plant and Equipment (PPE) account reported at a carrying amount of ₱137,949,652.53 as of year-end could not be ascertained due to non-submission of complete and accurate inventory report and non-completion of reconciliation of both the property and accounting records, resulting to a difference of ₱27,813,154.82.
2. The year-end balance of the Cash in Bank-Local Currency Currency Account presented in the Statement of Financial Position at ₱73,248,002.47 was doubtful due to a negative difference of ₱15,687,862.40 between the Subsidiary Ledger and the Cashbook, thus affecting the fair presentation of the account in the financial statements.
3. The outstanding balance of the long-term loans of the Municipality totaling ₱29,762,345.98 were all classified as current liabilities, thus affected the fair presentation of the account in the financial statements.
4. Disaster Response and Rescue Equipment reported in the Statement of Financial Position at ₱1,273,929.85 was not supported with inventory list, thus casting doubt on its accuracy and existence.

Significant Audit Observations and Recommendations

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

- 1.a. Municipal General Services Officer (MGSO) and the Inventory Committee to conduct complete inventory taking of all property;
 - b. MGSO and the Municipal Accountant to conduct regular reconciliation of their records in order to further decrease the discrepancy and make the necessary adjustments, if warranted;
 - c. MGSO and the Municipal Accountant to prioritize the tracing and verification of the unidentified beginning balances of ₱6,815,407.41 in the inventory report;
 - d. MGSO and the Municipal Accountant to identify and reclassify property to its proper PPE account;
 - e. MGSO and the Municipal Accountant to reclassify those PPEs with a value of less than ₱10,000.00 and with a life expectancy of more than one year as Inventories and issue Inventory Custodian Slip upon issuance for control and monitoring purposes;
2. Municipal Accountant and the Municipal Treasurer to reconcile the balances between their records pertaining to Cash in Bank-Local Currency Current Account and immediately effect the necessary adjustments to reflect the correct account's balance;
 3. Municipal Accountant to classify the outstanding balance of the long-term loans payable by presenting the portion of loans due for settlement within twelve months as part of the current liabilities and the remaining amount which is due for settlement beyond one year as non-current liabilities in the Statement of Financial Position; and
 4. Municipal Disaster Risk Reduction and Management Office Property Officer to prepare the Inventory List of Procured/Donated Items for DRRM and submit the same to the Audit Team for monitoring, in compliance with Commission on Audit (COA) Circular No. 2014-02.

Other significant observations and recommendations are the following:

1. The collection of receivables totaling ₱76,247.22 aged from over 25 years was remote and yet no allowance for impairment loss was set-up, inconsistent with paragraphs 67 and 72 of International Public Sector Accounting Standards (IPSAS) No. 29, resulting in an overstatement of receivable and related accounts as of year-end.

We recommended that the Municipal Mayor direct the Municipal Accountant and other officials concerned to:

- a. complete the processing of requirements for the filing of request for authority to write-off for the receivables totaling ₱76,247.22 and submit to the Auditor for review and evaluation;

- b. set up Allowance for Impairment for recognition of possible losses from the receivables amounting to ₱76,247.22 and effect the adjustment in the amount of asset reflected in the Financial Statements for fair presentation; and
 - c. continue to exert effort for its collectability when circumstances would warrant.
2. The reciprocal accounts Due from Other Funds and Due to Other Funds showed a difference of ₱46,477.37 as of year-end, contrary to the Revised Chart of Accounts prescribed under COA Circular No. 2015-002, thus affecting the reliability of the accounts reported in the Financial Statements.

We recommended that the Municipal Mayor direct the Municipal Accountant to review all the accounting entries that affect both reciprocal accounts, determine the causes of discrepancy between their balances, and make the necessary adjustments to reconcile the balances of the reciprocal accounts to ensure reliability of the reflected balance in the Financial Statements.

3. The release of the barangays shares from the proceeds of the Real Property Tax Income (RPTI) for the second semester of CY 2018 and the first three quarters of CY 2019 totaling ₱2,134,480.85 were delayed by 27 to 147 days after the end of each quarter, contrary to Section 271(d) of Republic Act (RA) No. 7160, thus affecting the timely implementation of the plans and programs that will cater the needs of their constituents and exposing the funds to improper utilization.

We recommended that the Municipal Mayor instruct the Municipal Treasurer and the Municipal Accountant to release the barangays' shares from RPTI within five days after the end of each quarter as required under Section 271(d) of RA No. 7160.

4. Unserviceable property totaling ₱3,938,528.55 were not yet disposed of due to lack of time and manpower, contrary to Section 79 of Presidential Decree (PD) No. 1445, Sections 379-381 of RA No. 7160 and COA Circular No. 89-296, thus exposed the property to further deterioration and loss of economic value.

We recommended that the Municipal Mayor undertake the immediate disposal of unserviceable property pursuant to the specified provisions of PD No. 1445, RA No. 7160 and in accordance with the procedures cited in COA Circular No. 89-296.

5. Development projects totaling ₱17,438,896.25 or 81.39% of the total appropriation of ₱21,425,624.00 has been implemented by the Municipality as of December 31, 2019 showing maximum utilization of the fund in compliance with the Department of the Interior and Local Government (DILG) and Department of Budget Management (DBM) Joint Memorandum Circular (JMC) No. 2017-1, while the amount of ₱3,986,727.75 or 18.61% is still for implementation due to changes in plans and on-going nature of the projects. However, there were four projects budgeted in the continuing appropriation amounting to ₱4,100,000.00 which remained not implemented, contrary to the JMC, thus the 100% realization has yet to be attained affecting the full benefits to be derived therein by the constituents.

We recommended that the Municipal Mayor direct the Local Development Council to continue its commitment to maximize the implementation of the development projects under the 20% Development Fund and enjoin the immediate utilization and

implementation of the remaining unimplemented projects in order to fully achieve the 100% realization and completion of development projects.

6. Wages of job order personnel totaling ₱567,286.42 were charged to the 20% Development Fund (DF), contrary to Items 2.3 and 4.1 of the DILG-DBM JMC No. 2017-01, thus reducing the fund and may affect the implementation of other programs appropriated for development projects.

We recommended that the Municipal Mayor direct:

- a. the Municipal Planning and Development Coordinator and the Municipal Budget Officer to refrain from preparing programs or activities for the 20% DF which do not partake the nature of investment or capital expenditures; and
 - b. the Municipal Accountant to stop charging wages of job order personnel to the 20% DF.
7. The Municipality utilized 90.09% or ₱4,503,729.63 out of ₱4,999,299.20 current year appropriations for the Mitigation Fund in accordance with the JMC No. 2013-1 of the National Disaster Risk Reduction and Management Council (NDRRMC), Department of Budget Management (DBM), and Department of the Interior and Local Government (DILG) Joint Memorandum Circular (JMC) No. 2013-1 and DILG Memorandum Circular (MC) No. 2012-73, thus the objective of upgrading the Municipality's disaster resiliency level was fully met. However, an unobligated balance of ₱1,788,423.33 remained in the continuing appropriations of prior years which may be reprogrammed and utilized for other significant disaster programs, thus may also further enhance the disaster preparedness activities so that maximum benefits may be derived by the constituents.

We recommended that the Municipal Mayor direct the Municipal Disaster Risk Reduction and Management Officer (MDRRMO) to continue its commitment to maximize the implementation of the disaster risk reduction and management programs to upgrade the Municipality's disaster resiliency and preparedness.

We also enjoined the utilization of the ₱1,787,748.33 from prior years and ₱495,569.57 from CY 2019, subject to existing rules and regulations to further enhance the disaster preparedness activities so that maximum benefits may be derived by the constituents.

8. The required Monthly Report on Sources and Utilization of Disaster Risk Reduction and Management Fund for CY 2019 was not prepared and submitted to the COA Auditor within 15 days after the end of each month, contrary to Item 5.1.5 of COA Circular No. 2012-002, thus proper utilization of the fund could not be evaluated and the correct balance of the fund at any period of time could not be determined.

We recommended that the Municipal Mayor require both the MDRRMO and the Municipal Accountant to prepare the monthly Report on Sources and Utilization of Disaster Risk Reduction and Management Fund, and submit the same to the COA, duly certified by the Municipal Accountant, pursuant to the provisions of COA Circular No. 2012-002.

9. The Municipality's Gender and Development (GAD) Plan and Budget (GPB) and GAD Accomplishment Report (AR) for CY 2019 were not submitted to the Auditor within the period prescribed under Item V of COA Circular No. 2014-001, thus affecting the timely

evaluation of the effectiveness of GAD programs, projects and activities for the year. Moreover, Utilization Report for GAD Fund for CY 2019 was not submitted to the COA, hence the correctness and validity of the charges made to the fund could not be established.

We recommended that the Municipal Mayor direct the GAD Focal Person to:

- a. strictly adhere to Item V of COA Circular No. 2014-001 dated March 18, 2014 for the timely submission of the GAD Plan and Budget and GAD Accomplishment Report to the COA;
 - b. comply with the submission of the GPB and GAD AR to the Provincial Planning and Development Office and the DILG Provincial Office for their review, endorsement and consolidation as provided under PCW-DILG-DBM-NEDA JMC Nos. 2016-01 and 2013-01; and
 - c. submit immediately the Utilization Report for CY 2019 to the Office of the Auditor for evaluation of the expenses incurred.
10. The Ten Year Municipal Solid Waste Management Plan (2015-2024) was not reviewed and updated by the Municipal Solid Waste Management Board (MSWMB) every two years or as the need arises, contrary to Section 4 (g), Rule VI of the Implementing Rules and Regulations (IRR) of RA No. 9003.

We recommended that the Municipal Mayor direct the MSWMB and the Municipal Environment and Natural Resources Officer to review and update the Ten Year Solid Waste Management Plan of the Municipality every two years or as the need arises in compliance with Section 4 (g), Rule VI of the IRR of RA No. 9003.

11. The Municipal Solid Waste Management Board was not reorganized in CY 2019, contrary to Section 1, Rule VI of the IRR of RA No. 9003, thus affecting the monitoring and implementation of the solid waste management activities to the disadvantage of the constituents in the locality.

We recommended that the Municipal Mayor reorganize the MSWMB and conform with the membership requirements in accordance with the Rule VI of the IRR of RA No. 9003.

The above observations and recommendations were discussed with the concerned Municipal officials and staff in an exit conference held on August 20, 2020. Management's views and comments were incorporated in the report, where appropriate.

Status of Unsettled Suspensions, Disallowances and Charges

As of December 31, 2019, the Municipality has no unsettled suspensions, disallowances and charges.

Status of Implementation of Prior Year's Audit Recommendations

Out of the 10 audit recommendations contained in CY 2018 Annual Audit Report, six were fully implemented and four were partially implemented by the Municipality.