

EXECUTIVE SUMMARY

A. INTRODUCTION

The Philippine State College of Aeronautics (PhilSCA) was established in 1967 as a community college, the Basa Air Base Community College, in Floridablanca, Pampanga. The College was operated under AFP Regulations s. 168-342 issued by the Armed Forces of the Philippines and approved by the Department of National Defense on April 1, 1968 to cater to the educational needs of the military personnel, civilian employees and their dependents. In 1977, then President Ferdinand Marcos signed PD No. 1078 converting Basa Air Base Community College into a full-pledged College and was renamed Philippine Air Force College of Aeronautics (PAFCA). On June 3, 1992, RA No. 7605 was approved by then President Corazon C. Aquino, converting PAFCA into a state college, the Philippine State College of Aeronautics. The PhilSCA has four campuses located in Mactan, Cebu; Floridablanca, Pampanga; Lipa City; and the main campus in Villamor Air Base (VAB), Pasay City.

The College aims to provide professional and advance technical and technological instructions and trainings in the fields of aeronautical sciences and in the general area of science and technology for the Philippine Air Force and the airline industries. It also aims to promote research, extension, higher education, advance studies and progressive leadership in its field of specialization.

The administration and management of PhilSCA is vested in the Board of Trustees as the governing body of the College under Sections 5 and 11 of RA No. 7605 to wit:

Name	Position/ Designation	Mother Unit/Agency
Hon. Maria Cynthia Rose B. Bautista	Chairman	CHED
Dr. Bernard R. Ramirez	Vice Chairman	PhilSCA
Sen. Edgardo Angara	Member	Senate
Sen. Pia S. Cayetano	Member	Senate
Cong. Juan Edgardo M. Angara	Member	House of Representative
Cong. Roman T. Romulo	Member	House of Representative
Lt.Gen Lauro Catalino G. Dela Cruz	Member	Philippine Air Force
Mr. Arsenio Balisacan	Member	NEDA
Dir. Gen. William K. Hotchkiss III	Member	CAAP
Mr. Noel E. Lagui	Faculty Trustee	PhilSCA
Mr. Dwight Kit M. Almonidovar	Student Trustee	PhilSCA
Maj. Gen. Rolando F. Capacia	Alumni Trustee	PhilSCA
Dr. Rolando P. Villanueva	Private Sector Rep.	Private Citizen
Mr. Vicente C. Rivera, Jr.	Private Sector Rep.	Private Citizen

As of December 31, 2013, there are 463 personnel from Villamor Air Base and other campuses consisting of 132 permanent; 65 part-timers; 6 temporary; 260 Job Order. Out of the 463 workforce, 283 belong to the academe and 180 are administrative support staff.

B. FINANCIAL HIGHLIGHTS

PhilSCA has an appropriation of ₱70,849,000.00 under the General Appropriations Act of CY 2013, including the continuing appropriation of ₱5,000.00 for MOOE. Total allotments released by the Department of Budget and Management amounted to ₱78,092,551.00, of which, ₱75,519,671.19 was obligated, thereby, leaving a balance of ₱2,572,879.81.

Source of Funds	Appropriations	Allotment	Obligation Incurred	Unobligated Balance
A. Current Year Budget				
1. Agency Specific Budget				
PS	₱50,696,000.00	₱ 50,696,000.00	₱ 50,696,000.00	₱ -
MOOE	16,598,000.00	16,598,000.00	12,402,130.21	4,195,869.79
CO	3,550,000.00	3,550,000.00	3,550,000.00	-
Sub - Total	70,844,000.00	70,844,000.00	66,648,130.21	4,195,869.79
2. Special Purpose Funds				
2.1. Miscellaneous Personnel Benefits Fund				
PS		2,438,890.00	4,026,868.38	(1,587,978.38)
2.2. Pension and Gratuity Fund/Retirement Benefit Fund				
PS		22,663.00	22,662.49	0.51
Sub - Total		2,461,553.00	4,049,530.87	(1,587,977.87)
3. Automatic Appropriations				
Retirement and Life Insurance Premium				
PS		4,781,998.00	4,822,010.11	(40,012.11)
Sub - Total		4,781,998.00	4,822,010.11	(40,012.11)
B. Prior Years' Budget/Continuing Appropriations				
MOOE	5,000.00	5,000.00		5,000.00
Sub - Total	5,000.00	5,000.00		5,000.00
Grand Total	₱70,849,000.00	₱ 78,092,551.00	₱ 75,519,671.19	₱2,572,879.81

In addition, PhilSCA received from the Commission on Higher Education (CHED) the amount of ₱3,227,550.00 on December 12, 2012 to implement the Disbursement Acceleration Program (DAP)-Modernizing Facilities for Developing Universities. The said amount was entirely disbursed on December 17, 2012 with the check released on January 10, 2013 to the Procurement Services-DBM as advance payment for the purchase of 80 units of desktop computers.

Also, PhilSCA has a total allotment of ₱157,277,923.20 from the approved budget on income utilization under the Special Trust Fund (STF), of which ₱118,126,605.82 was obligated and the difference of ₱39,151,317.38 remained unobligated as of December 31, 2013, details below:

Source of Funds	Allotment	Obligations Incurred	Unobligated Balance
Special Trust Fund			
Personal Services	₱ 16,806,501.34	₱ 13,525,252.91	₱ 3,281,248.43
Maintenance and Other Operating Expenses	118,285,797.44	102,677,095.41	15,608,702.03
Capital Outlay	22,185,624.42	1,924,257.50	20,261,366.92
Grand Total	₱ 157,277,923.20	₱ 118,126,605.82	₱ 39,151,317.38

PhilSCA's financial condition as well as sources and application of funds for CY 2013 with comparative figures for CY 2012 are shown below:

Particulars	CY 2013	CY 2012	Increase/ (Decrease)
A.1 Financial Condition			
Assets	₱394,012,603.72	₱ 241,514,955.45	₱152,497,648.27
Liabilities	10,305,391.28	5,647,882.08	4,657,509.20
Government Equity	₱383,707,212.44	₱ 235,867,073.37	₱147,840,139.07
B 1. Sources of Funds			
Subsidy from National Government	₱ 71,008,474.97	₱ 70,103,900.70	₱ 904,574.27
Other Income	125,604,817.34	118,514,919.14	7,089,898.20
Total Income	₱196,613,292.31	₱ 188,618,819.84	₱ 7,994,472.47
B 2. Application of Funds			
Personal Services	₱ 72,527,884.04	₱ 74,002,038.66	₱ (1,474,154.62)
MOOE	113,360,464.76	94,413,355.36	18,947,109.40
Total Expenses	₱ 185,888,348.80	₱ 168,415,394.02	₱ 17,472,954.78
Excess of Income over Expenses	₱ 10,724,943.51	₱ 20,203,425.82	₱ (9,478,482.31)

C. OPERATIONAL HIGHLIGHTS

During the SYs 2012-2013 and 2013-2014, a total of 27,422 students were enrolled at PhilSCA VAB and in its three (3) other campuses, 147 in graduate and 27,422 in undergraduate studies.

In SY 2012-2013, there were 1,958 students graduated from the College, which included 11 students from the graduate studies.

The reported plans/targets vis-à-vis its accomplishments for CY 2013 are as follows:

Program/Projects/Activities	Target	Accomplishment	% of Accomplishment
Higher Education Services			
Total number of graduates in mandated and priority programs	Institute of Engineering Technology (InET) – 577/612 Institute of Liberal Arts & Sciences (ILAS) – 57/69 Grand Total: 792/842	Institute of Engineering Technology (InET) – 577/612 Institute of Liberal Arts & Sciences (ILAS) – 57/69 Grand Total: 792/842	100 %
Average percentage passing in licensure exams by SUC graduates/national average % passing in board programs covered by SUC	Aero Board Exam 60% (15/25) (No. of takers – 25; Target passers – 15) LET 27.78% (10/36) (No. of takers – 36; Target passers – 10) Grand Total: 137.98% (40.98%/29.70%)	Aero Board Exam 50% (25/50) (No. of takers – 50; Actual passers – 25) LET 33.61% (41/122) (No. of takers – 122; Actual passers – 41) Grand Total: 129.19% (38.37%/29.70%)	93.63 %

Program/Projects/Activities	Target	Accomplishment	% of Accomplishment
Percentage of Graduates who finished their academic program according to the prescribed timeframe	Institute of Engineering Technology (InET)– 577/612 Institute of Computer Studies (ICS) – 158/161 Institute of Liberal Arts & Sciences (ILAS) – 57/69 Grand Total: 94.06% (792/842)	Institute of Engineering Technology (InET) – 577/612 Institute of Computer Studies (ICS) – 158/161 Institute of Liberal Arts & Sciences (ILAS) – 57/69 Grand Total: 94.06% (792/842)	100%
Support to Operation			
Percentage of students and personnel who rate non-academic related services (e.g. library services, medical/dental services, guidance services, ICT services, etc.) as good or better	Library – 52,822 Medical/Dental – 22,457 Guidance – 4,500 Admission – 5,009 OSA – 26,069 Grand Total: 80% - 110,857 (Annual Visitors)	Library – 52,844 Medical/Dental – 27,583 Guidance – 8,233 Admission – 7,040 OSA – 27,099 Grand Total: 80% - 122,799(Annual Visitors)	100%
Percentage of faculty and personnel enabled to pursue studies/training	100% (139/139)	91.37% (127/139)	91.37%

Program/Projects/Activities	Target	Accomplishment	% of Accomplishment
General Administration and Support Services (GASS)			
Percentage of actual utilization of budget inclusive of income to total operating budget	95% (₱19,140,600.00/ ₱20,148,000.00)	94.82% (₱15,126,030.98/ ₱15,952,130.21)	99.81%
Percentage of financial statements and reports/documents submitted to COA, CHED, DBM and other agencies within mandated time	100% (12/12)	100% (12/12)	100%

D. SCOPE OF AUDIT

The audit covered the accounts and operations of PhilSCA and its campuses for the year ended December 31, 2013. The audit was conducted to: (a) verify the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementations of prior years' audit recommendations.

E. INDEPENDENT AUDITOR'S REPORT

The auditor rendered a qualified opinion on the fairness of the presentation of the financial statements of PhilSCA for the year ended December 31, 2013 due to exceptions as stated in the Independent Auditor's report and as discussed in Part II of this Annual Audit Report.

F. SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

The following are the significant observations with the corresponding recommendations:

1. The budget of the College for Special Trust Fund (STF) was based on estimates instead of actual income deposited with authorized government depository bank (AGDB) as required in COA Circular No. 2000-002 dated April 4, 2000 on the Use of Income of SUCs. Furthermore, a review of budget utilization disclosed: a) ₱7.40 million obligations in excess of allotments for MOOE; and b) ₱39.20

million unutilized allotments of which ₱19.9 million was intended to equip the school and students with new and upgraded equipment to improve the College's instruction and auxiliary services.

We recommended and Management agreed to

- **prepare the STF budget for the approval of the BOR/T based on income deposited with AGDB in accordance with the aforementioned COA Circular No. 2000-002 in order that the planned activities, particularly on infrastructure projects and procurement of equipment which are needed to better serve the students are implemented, and**
 - **refrain from incurring expenditures in excess or without the necessary allotments or funds for the purpose.**
2. The granting of Personnel Welfare & Benefits (PWB) to all its personnel including those employees under job orders, student assistants, and security guards amounting to ₱9.74 million on December 2013 charged from the STF was not properly documented and not in accordance with the Civil Service Commission (CSC) Resolution No. 010112 dated January 10, 2001, R.A. 8292, the Special Provisions Applicable to all SUCs of the GAA for CY 2013, and the Salary Standardization Law of 2009 (Joint Resolution No. 4 s. 2009 of the Senate and the House of the Representatives). The payment was effected notwithstanding the issuance of Audit Observation Memorandum No. 2013-001(2012) dated July 5, 2013 on the grant of PWB for CY 2012 of ₱8.94 million with a recommendation for the stoppage of giving additional benefits without appropriate legal basis or DBM authority.

We recommended that Management:

- **observe strictly the CSC Resolution on the granting of monetary awards under the PRAISE and submit complete supporting documentation for the payments made for CY 2012 and 2013 PWB:**
 - **supporting evidence showing the recipients suggestions, inventions, superior accomplishments and other personal efforts which contribute to the efficiency, economy, or other improvement in government operations, or for other extra-ordinary acts or services in the public interest;**
 - **Program on Awards and Incentives for Service Excellence (PRAISE) and its subsequent amendments approved by the Civil Service Regional Office;**
 - **copy of Annual Praise Report duly received by the Civil Service Commission; and**

- **Agency's Annual Work and Financial Plan and budget showing allocation of at least 5 percent of the HRD funds for PRAISE.**
 - **cease from giving out incentives/benefits from the STF without legal basis and appropriate supporting documents;**
 - **require all recipients to refund the PWB unless the regularity of the PhilSCA's PRAISE and entitlement of the recipients to the PRAISE monetary award can be proven; and**
 - **henceforth, use the STF only for disbursements that are authorized under RA 8292 and the GAA.**
3. The Disbursement Acceleration Program funds transferred from CHED in CY 2012 in the amount of ₱3.23 million was entirely disbursed by PhilSCA in the same year for the procurement of 80 computers and peripherals from the Procurement Services of DBM. However, the envisioned aim of the DAP to upgrade and modernize the facilities of PhilSCA to accelerate the delivery of instruction was not realized because the initial delivery of the 52 out of the 80 computers were made only on May 8, 2014; hence, the students of the Institute of Computer Studies (ICS) for school year 2013-2014 were deprived of the use of upgraded computers.

We recommended and Management agreed to:

- **make urgent representation with PS-DBM for the immediate delivery of the remaining computers, servers, printer and other items paid in advance; and**
 - **ensure the maximum utilization of the delivered computer equipment by the students of ICS for a more improved instructional services of PhilSCA.**
4. Due to the absence of development and building/structure plans, detailed construction cost per building/structure and other pertinent documents from the MEGAWORLD, the agency has not yet issue the Certificate of Acceptance as basis to book up the assets in the books of accounts resulting in unreliable balance of the Office Buildings and School Building accounts, both with zero balance as of December 31, 2013. Moreover, the absence of the Certificate of Acceptance has delayed the process for the transfer of title of the Campus site in the name of PhilSCA pursuant to the land swapping arrangement among PhilSCA, BCDA and MEGAWORLD covered by Memorandum of Agreement (MOA) dated June 10, 2010 which may affect their legal right of ownership.

We recommended and Management agreed to closely coordinate with the BCDA to obtain the development and building/structure plans, detailed construction cost per building/structure and other pertinent documents from the MEGAWORLD; and ascertain the structural soundness of the buildings and structures and identify defects, if any, for Megaworld to rectify in order to fast track the issuance of Certificate of Acceptance by the Management.

5. Management failed to strictly implement COA Circular No. 2012-004 dated November 28, 2012 resulting in a minimal reduction of 14 percent or P123,352.35 of the unliquidated cash advances of P865,450.78 as of December 31, 2011 of individuals no longer connected with PhilSCA, whose remaining cash advances of P742,098.43 are still recorded as Advances to Officers and Employees Account instead of Other Receivables account. Moreover, they have the practice of granting additional cash advances to accountable officers without requiring the liquidation of the previous ones thus exposing the funds to misuse.

We recommended that Management:

- **comply strictly with the procedures in COA Circular No. 2012-004 dated November 28, 2012, including the filing of appropriate charges against the defaulting accountable officers. For those cash advances which are deemed impossible to collect after exerting best efforts, request for the writing off pursuant to COA Circular No. 97-001 dated February 5, 1997;**
- **reclassify from Advances to Officers and Employees account to Other Receivables account those cash advances of accountable officers no longer connected with the PhilSCA; and**
- **refrain from granting additional cash advances for those with outstanding cash advances as well as extending cash advances for infrastructure project and ensure that all cash advances are liquidated within the required due dates, in accordance with COA Circular No 97-002.**

The above audit observations and recommendations were discussed with agency officials in an exit conference conducted on July 14, 2014 and their comments were considered in the report, where appropriate.

G. STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

The status of implementation of prior years' audit recommendations embodied in the 2013 AAR is shown below:

STATUS	NUMBER	PERCENTAGE
Fully Implemented	2	12.5%
Partially Implemented	10	62.5%
Not Implemented	4	25.0%
Total	16	100%

The details of the Status of Implementation of Prior Years' Audit Recommendations are presented in Part III of this report.