

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 Presidential Decree 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, Republic Act No. 7605 was approved by then President Corazon C. Aquino, converting PAFCA into a state college, the Philippine State College of Aeronautics (PhilSCA). 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 Section Nos. 5 and 11 of RA No. 7605 to wit:

| Name | Position/ Designation | Mother Unit/Agency |
|---|----------------------------------|---------------------------|
| 1. Alex B. Brillantes, Jr. | Chairman | CHED |
| 1. Dr. Bernard R. Ramirez | Vice Chairman | PhilSCA |
| 2. Sen. Pia S. Cayetano | Member | Senate |
| 3. Cong. Roman T. Romulo | Member | House of Representatives |
| 4. Lt. Gen. William K. Hotchkiss III | Member | CAAP |
| 5. Lt. Gen. Lauro Catalino G. Dela Cruz | Member | Philippine Air Force |
| 6. Lt. Gen. Jeffrey F. Delgado | Member | Philippine Air Force |
| 7. Mr. Arsenio M. Balisacan | Member | NEDA |
| 8. Mr. Noel E. Lagui | Faculty Trustee | PhilSCA |
| 9. Mr. Dwight Kit M. Almonidovar | Student Trustee | PhilSCA |
| 10. Mr. Nieck Steven M. Macalino | Student Trustee | PhilSCA |

As of December 31, 2014, there are 506 personnel from Villamor Air Base and other campuses consisting of 131 regular, 60 part-timers, and 315 Contract of Service. Out of the 506 workforce, 311 belong to the academe and 195 are administrative support staff.

B. FINANCIAL HIGHLIGHTS

PhilSCA has an appropriation of ₱82,629,000.00 under the General Appropriations Act (GAA) of Fiscal Year (FY) 2014, including the supplemental and continuing appropriations for Capital Outlay in the amount of ₱6,769,000.00 and ₱3,550,000.00, respectively. Total allotments released by the Department of Budget and Management amounted to ₱90,080,370.00, of which, ₱87,427,676.05 was obligated, thereby, leaving a balance of ₱2,652,693.95.

| Source of Funds | Appropriations | Allotment | Obligation Incurred | Unobligated Balance |
|---|-----------------------|-----------------------|-----------------------|----------------------|
| A. Current Year Budget | | | | |
| 1. Agency Specific Budget | | | | |
| Personnel Services | ₱50,814,000.00 | ₱50,814,000.00 | ₱ 50,813,872.91 | ₱ 127.09 |
| Maintenance & Other Operating Expenses | 21,273,000.00 | 21,273,000.00 | 20,003,894.13 | 1,269,105.87 |
| Capital Outlay | 223,000.00 | 223,000.00 | 223,000.00 | 0.00 |
| Sub - Total | ₱72,310,000.00 | ₱72,310,000.00 | ₱71,040,767.04 | ₱1,269,232.96 |
| 2. Special Purpose Funds | | | | |
| 2.1. Miscellaneous Personnel Benefits Fund | | | | |
| Personnel Services | | 2,635,251.00 | 2,599,251.00 | 36,000.00 |
| 2.2. Pension and Gratuity Fund/Terminal Leave Benefits | | | | |
| Personnel Services | | 216,495.00 | 223,596.90 | (7,101.90) |
| Sub - Total | | ₱ 2,851,746.00 | ₱ 2,822,847.90 | ₱ 28,898.10 |
| 3. Automatic Appropriations | | | | |
| Retirement and Life Insurance Premium | | | | |
| Personnel Services | | 4,777,124.00 | 4,691,561.11 | 85,562.89 |
| Sub - Total | | ₱ 4,777,124.00 | ₱ 4,691,561.11 | ₱ 85,562.89 |
| 4. Supplemental Appropriations | | | | |
| Capital Outlay | 6,769,000.00 | 6,769,000.00 | 5,500,000.00 | 1,269,000.00 |
| Sub - Total | ₱ 6,769,000.00 | ₱ 6,769,000.00 | ₱ 5,500,000.00 | ₱1,269,000.00 |
| B. Prior Years' Budget/Continuing Appropriations | | | | |
| Capital Outlay | 3,550,000.00 | 3,372,500.00 | 3,372,500.00 | 0.00 |
| Sub - Total | 3,550,000.00 | 3,372,500.00 | 3,372,500.00 | 0.00 |
| | | | | |
| Grand Total | ₱82,629,000.00 | ₱90,080,370.00 | ₱87,427,676.05 | ₱2,652,693.95 |

Also, PhilSCA has a total allotment of ₱154,977,918.60 from the approved budget on income utilization under the Special Trust Fund (STF), of which ₱111,351,248.59 was obligated and the difference of ₱43,626,670.01 remained unobligated as of December 31, 2014, which are shown in next page.

| Source of Funds | Allotment | Obligations Incurred | Unobligated Balance |
|--|-------------------------|-------------------------|------------------------|
| Special Trust Fund | | | |
| Personnel Services | ₱ 11,315,000.00 | ₱ 11,313,374.66 | ₱ 1,625.34 |
| Maintenance and Other Operating Expenses | 117,958,216.60 | 96,469,852.43 | 21,488,364.17 |
| Capital Outlay | 25,704,702.00 | 3,568,021.50 | 22,136,680.50 |
| Grand Total | ₱ 154,977,918.60 | ₱ 111,351,248.59 | ₱ 43,626,670.01 |

PhilSCA's financial condition as well as sources and application of funds for CY 2014 are shown below:

| Particulars | Amount |
|--|------------------|
| A.1. Financial Position | |
| Assets | ₱ 453,295,813.67 |
| Liabilities | 9,763,366.57 |
| Government Equity | ₱ 443,532,447.10 |
| B.1 Sources of Funds | |
| Subsidy from National Government | ₱ 82,358,047.58 |
| Service and Business Income | 154,978,030.28 |
| Total Income | ₱ 237,336,077.86 |
| B.2 Application of Funds | |
| Personnel Services | ₱ 69,468,272.15 |
| Maintenance & Other Operating Expenses | 113,948,210.39 |
| Non – Cash Expenses | 6,107,826.02 |
| Total Expenses | ₱ 189,524,308.56 |
| Surplus | ₱ 47,811,769.30 |

C. OPERATIONAL HIGHLIGHTS

During the School Years (SYs) 2013-2014 and 2014-2015, a total of 32,506 students were enrolled at PhilSCA VAB and in its three (3) other campuses, 222 in graduate and 32,284 in undergraduate studies.

In SY 2013-2014, there were 2,390 students who graduated from the College, which included one student from the graduate studies.

The reported plans/targets vis-à-vis its accomplishments for CY 2014 are as follows:

| Program/Projects/Activities | Target | Accomplishment | % of Accomplishment |
|--|---|---|-----------------------|
| MFO 1- Higher Education Services | | | |
| Total number of graduates | 2,056 | 2,391 | 116.29 |
| Percentage of total graduates that are in priority courses | BSAero 86% (48/56) (No. of takers – 56; Target passers – 48) | BSAero 89% (49/55) (No. of takers – 55; Actual passers – 49) | 103 |
| | BSAMT 81% (305/376) (No. of takers – 376; Target passers – 305) | BSAMT 97% (359/370) (No. of takers – 370; Actual passers – 359) | 120 |
| Average passing percentage of licensure exams by the SUC graduates/national average percentage passing across all disciplines covered by SUC | 149.35% (70.83%/47.43%) | 120.07% (56.60%/47.14%) | 80.40 (120.07/149.35) |
| Percentage of programs accredited at Level 1 | 33% (1/3) (BSAET course only) | 33% (1/3) (BSAET course only) | 100 |
| Percentage of graduates who finished academic program according to the prescribed timeframe | 91% (1,871/2,056) | 82% (1,952/2,391) | 90 |

D. SCOPE OF AUDIT

The audit covered the accounts and operations of PhilSCA and its campuses for the year ended December 31, 2014. 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, 2014 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 PhilSCA's special budget of ₱181.063 million for CY 2014 was based on estimate and not on actual deposited collections of only ₱83.120 million and provided only ₱1.2 million allocations for instruction, research and extension services contrary to CHED Memorandum Order No. 20 series of 2011 and COA Circular No. 2000-002 dated April 4, 2000 thus, resulting to unrealistic budget not responsive to the needs of the college. (Paragraphs 1-9)

We recommended and Management agreed to be more realistic in preparing their budget and consider the CHED Memorandum and COA Circular in the preparation of the budget proposal for approval by the BOT.

2. Only ₱3.568 million or 13.88 percent out of the ₱25.704 million STF budget for Capital Outlay was utilized resulting in failure to address the need of the College for a modern and improved facilities due to deficient planning, budgeting and execution of procurement activities which is evident further by the absence of time lines, mode of procurement and other required data in the Approved Procurement Plan and the frequent resorting to small value procurement/shopping methods for similar items which if procured in bulk may be more advantageous to the government. (Paragraphs 10-15)

We recommended and Management agreed to:

- **be more meticulous and judicious in planning the procurement projects and ensure full implementation thereof as well as the efficient utilization of the budget in compliance with RA No. 9184;**
- **prepare an APP that is sufficient in form and substance following the requirement of the same RA, and**
- **justify why the College had adopted alternative modes of procurement through shopping and small value procurement instead of the public bidding.**

3. The College overshot its approved budget for extension services of ₱400,000.00 by 108 percent or ₱833,299.18 due to: a) unreasonable number of at least 15 travelling personnel per training activity incurring travelling expenses of ₱347,311.00; b) approving reimbursement of expenses totaling ₱272,960.26 as a common practice; and c) incurrence of unnecessary expenses of ₱48,800.00 for snacks and meals thus, resulting to uneconomical spending of government resources. (Paragraphs 16-22)

We recommended that Management submit the BOT post approval for the incurrence of expenditures beyond the budget as well as the accomplishment reports of those who have travelled and submit valid justification for: a) authorizing the travel of 15 -17 personnel in the same activity; b) reimbursement of expenses; and c) charging from the College Fund the food expenses incurred. Henceforth, spend within the budget, limit the number of travelling personnel and discontinue the practice of reimbursement of expenses which are not allowable in audit.

4. PhilSCA incurred the amount of ₱601,719.58 as against its STF budget of ₱400,000.00 without completing any of the five targeted research projects under the Research and Development Center since 2013 resulting in the non-attainment of its vision to be the leading research engine in aeronautical technology in the country. (Paragraphs 23-32)

We recommended and Management agreed to:

- **prioritize the execution and completion of the targeted research projects and ensure that the research outputs will have beneficial outcome towards the realization of its vision; and**
 - **provide sufficient budget for the six research projects which should be disbursed within its limit and solely for its intended purpose. Also submit the approval of the BOT for the incurrence of expenses in excess of the budget.**
5. Out of the 35 potential student-grantees allocated to PhilSCA for Academic Year (AY) 2014-2015 for the Expanded Students' Grants-in-Aid Program for Poverty Alleviation (ESGP-PA) with an appropriation of ₱2,182,000.00, only 20 were enrolled in the three campuses but only seven were actual grantees who were included in the validated Master List of the DSWD-NCR, while the 13 are still for approval by the DSWD-NCR, hence the amount of ₱432,600.00 was obligated, thereby leaving an unutilized balance of ₱1,749,400.00 as of December 31, 2014. (Paragraphs 33-40)

We recommended and Management agreed to:

- **coordinate closely with DSWD-NCR for the immediate validation and approval of the remaining 13 enrolled students;**

- **facilitate the release of NCAs and scholarship grants to the students; and**
 - **address the issues and concerns affecting the effective implementation of the said Program at PhilSCA.**
6. The Budget Officer did not fill up the line item data on MOOE and Capital Outlay approved budget and unutilized budget but only the total per class of expenditure and also comparison of the total approved budget for capital outlay per Statement of Approved Budget, Utilizations, Disbursements and Balances by Object of Expenditures (SABUDBOE) (FAR No. 2-A) of ₱25,704,702.00 disclosed a difference of ₱2,800,000.00 as against the BOT approved 2014 Special Budget for Capital Outlay of ₱22,904,702.00 under COA-DBM Joint Circular No. 2014-1 dated July 2, 2014, which rendered unreliable and incomplete the said budgetary report as well as the incurrence of overdrafts per object of expenditure. (Paragraphs 42-45)

We recommended and Management agreed to revise the SABUDBOE to include the required data in the columns for approved budget and unutilized budget and to correct the misstatement appearing in the total of the Capital Outlay account. Henceforth, observe completeness and transparency in the filling up of the required data in the budgetary report.

7. Contrary to the Audit Team's prior year's recommendation to stop giving additional benefits without legal basis or DBM authority, PhilSCA continued granting Personnel Welfare and Benefits (PWB) in the form of "Best Organizational Unit Award" to all its personnel and extended 13th Month Pay in CY 2014 to personnel, student assistants, and security guards under job order/contractual basis without employee-employer relationship amounting to ₱8,554,353.16 charged from the STF resulting in audit disallowance totaling ₱27,235,653.16 (for CYs 2012, 2013 & 2014) due to violation of Civil Service Commission (CSC) Resolution No. 010112 dated January 10, 2001, RA No. 8292 and the Salary Standardization Law of 2009 (Joint Resolution No. 4 s. 2009 of the Senate and the House of the Representatives. (Paragraphs 46-60)

We recommended that Management:

- **stop the practice of giving out incentives/benefits to its employees chargeable against the STF without legal basis; and**
- **submit the documentary requirements on the Notice of Suspension issued and require the person liable to refund based on the Notice of Disallowance.**

8. PhilSCA has not yet addressed the recurring deficiencies in property management as proven by the: a) continued inadequacy of records in the Accounting and Property Sections both of which did not maintain the required Property, Plant and Equipment Ledger Card (PPELC) and the Property Cards; b) incomplete conduct of physical inventory taking wherein the latest is for CY 2013; and c) unreliable inventory report revealing an unreconciled difference of ₱36,056,560.72 as against the book balance of even date, thereby resulting in high risk of loss of depreciable assets without detection and rendering of doubtful existence and validity of its year end's book balance totaling ₱150,914,771.54 as of December 31, 2014. (Paragraphs 61-67)

We recommended and Management agreed to:

- **give preferential attention on improving the internal control on property management by strictly complying with the aforesaid rules and regulations. In case of continued defiance thereof, enforce firmly the corresponding legal sanctions against the concerned personnel for neglect of duty;**
- **conduct the required annual inventory taking, the result of which should be reported in a duly accomplished and timely submitted RPCPPE which should be reconciled with the records of the Accounting Section.**
- **maintain PPELC and Property Cards which should be regularly updated and reconciled by the concerned offices; and**
- **require the Property Officer to renew the ARE every three years or every time there is a change in accountability.**

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 2014 AAR is shown below:

| STATUS | NUMBER | PERCENTAGE |
|-----------------------|---------------|-------------------|
| Fully Implemented | 2 | 10.53 |
| Partially Implemented | 8 | 41.10 |
| Not Implemented | 9 | 47.37 |
| Total | 19 | 100 |

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