

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 the Armed Forces of the Philippines (AFP) Regulations s. 168-342 issued by the AFP 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-fledged College and was renamed Philippine Air Force College of Aeronautics (PAFCA). On June 3, 1992, Republic Act (RA) No. 7605 was approved by then President Corazon C. Aquino, converting PAFCA into a state college, the PhilSCA. It has four campuses located in Mactan, Cebu; Floridablanca, Pampanga; Lipa City, Batangas; 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.

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
Dr. Alex B. Brillantes, Jr.	Chairman	Commission on Higher Education
Dr. Bernard R. Ramirez	Vice Chairman	PhilSCA
Sen. Paolo Benigno Aquino	Member	Philippine Senate
Congw. Ann K. Hofer	Member	House of Representatives
Capt. Jim C. Sydiongco	Member	Civil Aviation Authority of the Philippines
Lt. Gen. Edgar R. Fallorina	Member	Philippine Air Force
Mr. Ernesto M. Pernia	Member	National Economic and Development Authority
Mr. Iluminado B. Laguna	Faculty Trustee	PhilSCA
Mr. Jen Mark A. Calub	Student Trustee	PhilSCA

As of December 31, 2016, personnel from VAB and other campuses consist of the following:

Particulars	Total	Villamor Campus	Fernando Campus	Mactan Campus	Basa Campus
<i>Status:</i>					
Permanent	136	78	14	24	20
Part-timer	72	49	2	18	3

Particulars	Total	Villamor Campus	Fernando Campus	Mactan Campus	Basa Campus
Contractual	311	186	37	44	44
Total	519	313	53	86	67
<i>Workforce</i>					
Academe	258	137	36	47	38
Part-timers	72	49	2	18	3
Admin support Staff	153	107	12	16	18
Security	36	20	3	5	8
Total	519	313	53	86	67

B. Operational Highlights

During the School Years (SYs) 2015-2016 and 2016-2017, a total of 21,422 students were enrolled at PhilSCA VAB and in its three other campuses, of which 162 belong to the graduate studies and 21,260 in the undergraduate schools, while the total number of graduates is as follows:

Particulars	Total	Villamor Campus	Fernando Air Base Campus	Mactan Air Base Campus	Basa Air Base Campus
CY 2016 Graduates					
Undergraduate Studies	3,828	1,862	526	866	574
Graduate Studies	15	15	-	-	-
Total	3,843	1,877	526	866	574
CY 2015 Graduates					
Undergraduate Studies	3,455	1,673	520	746	516
Graduate Studies	3	3	-	-	-
Total	3,458	1,676	520	746	516

The reported plans/targets vis-à-vis its accomplishments for Calendar Year (CY) 2016 are as follows:

Major Final Outputs (MFO) and Performance Indicators	Target	Actual Accomplishment	Percentage of Accomplishment
MFO 1- Higher Education Services			
<i>Performance Indicator 1:</i>			
Total number of graduates	2,056	3,458	168
<i>Performance Indicator 2:</i>			
Percentage of total graduates that are in priority courses	BS Aeronautics – 86%	BS Aeronautics – 100% (59 out of 59)	116
	BS Aircraft Maintenance – 81%	BS Aircraft Maintenance – 100%	123

Major Final Outputs (MFO) and Performance Indicators	Target	Actual Accomplishment	Percentage of Accomplishment
<i>Performance Indicator 3:</i> Average percentage passing of licensure exams by the SUC graduates/ national average percentage passing across all disciplines covered by SUC	70%	77.78%	111
<i>Performance Indicator 4:</i> Percentage of programs accredited at Level 1 (<i>The target was a misprint from the 2014 Physical Targets</i>)	33%	-	-
<i>Performance Indicator 5:</i> Percentage of graduates who finished academic program according to the prescribed timeframe	91%	86% (2,967 out of 3,458 graduates)	95

C. Financial Highlights

The PhilSCA has an appropriation of ₱129,672,000.00 as provided for in RA No. 10717, the Fiscal Year 2016 General Appropriations Act (GAA), ₱8,111,338.00 for Special Purpose Funds and ₱5,446,507.00 for Automatic Appropriations for Retirement and Life Insurance Premiums. Total allotments released by the Department of Budget and Management (DBM) amounted to ₱93,722,078.00, of which, ₱87,455,072.13 or 93.31 percent was obligated, thereby, leaving an unobligated balance of ₱6,267,005.87 or 6.69 percent as at year-end. The details are shown below:

Sources of Funds	Appropriation	Allotment	Obligation Incurred	Unobligated Balance
A. Current Year Budget				
Agency Specific Budget				
Personnel Services (PS)	64,646,000.00	55,138,233.00	55,136,197.62	2,035.38
Maintenance and Other Operating Expenses (MOOE)	25,026,000.00	25,026,000.00	18,968,284.64	6,057,715.36
Capital Outlay	40,000,000.00	-	-	-
Subtotal	129,672,000.00	80,164,233.00	74,104,482.26	6,059,750.74
Special Purpose Funds				
2.1. Miscellaneous	2,968,000.00	2,968,000.00	2,968,000.00	-
Personnel Benefits Fund	4,910,545.00	4,910,545.00	4,900,433.00	10,112.00
PS	5,000.00	5,000.00	5,000.00	-
2.2. Pension and Gratuity Fund/ Terminal Leave Benefits	227,793.00	227,793.00	227,791.68	1.32
Sub - Total	8,111,338.00	8,111,338.00	8,101,224.68	10,113.32

Sources of Funds	Appropriation	Allotment	Obligation Incurred	Unobligated Balance
Automatic Appropriations				
Retirement and Life Insurance Premium	5,446,507.00	5,446,507.00	5,249,365.19	197,141.81
Subtotal	5,446,507.00	5,446,507.00	5,249,365.19	197,141.81
Grand Total	143,229,845.00	93,722,078.00	87,455,072.13	6,267,005.87

Also, PhilSCA has a total allotment of ₱145,446,503.22 from the approved budget on income utilization under the Special Trust Fund (STF), of which ₱89,943,006.30 or 61.84 percent was obligated leaving an unobligated balance of ₱55,503,496.92 as at year-end.

The PhilSCA's financial position and financial performance for CY 2016 with comparative figures for CY 2015 are as follows:

Particulars	Amount	
	2016	2015
Financial Position		
Assets	633,596,522.60	560,715,649.54
Liabilities	6,884,416.39	11,737,481.64
Equity	626,712,106.21	548,978,167.90
Financial Performance		
Revenue	164,598,170.08	188,135,838.91
Less: Current Operating Expenses		
PS	72,213,391.76	67,959,968.01
MOOE	95,536,367.07	105,016,176.62
Financial Expenses	200.00	-
Non-Cash Expenses	6,073,103.86	6,448,009.46
Surplus (Deficit) from Current Operations	(9,224,892.61)	8,711,684.82
Financial Assistance/ Subsidy from National Government	89,086,829.60	96,483,664.93
Surplus for the Period	79,861,936.99	105,195,349.75

D. Scope of Audit

The audit covered the review of accounts and operations of PhilSCA and its campuses for CY 2016. It was conducted to: a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; b) determine the propriety of transactions as well as the extent of compliance with applicable laws, rules and regulations; c) recommend agency improvement opportunities; and d) determine the extent of implementation of prior years' audit recommendations.

E. Auditor's Report on the Financial Statements

The Auditor rendered a qualified opinion on the fairness of presentation of the financial statements of the PhilSCA for the year ended December 31, 2016 for reasons stated in the Independent Auditor's Report which are discussed in detail in Part II of this Report.

F. Significant Audit Observations and Recommendations

The significant observations and recommendations, among others, as discussed with Management and detailed in Part II of the Report are as follows:

1. Out of the collected Special Trust Fund (STF)–Fiduciary Fees of ₱34,582,920.50, only ₱12,032,246.69 or equivalent to 35 percent was utilized, leaving an unutilized amount of ₱22,550,673.81 or 65 percent thereof; while of the total STF - Other Fees, collections of ₱22,474,052.00, only ₱10,367,640.63 or 46 percent was utilized, and the rest or a substantial amount of ₱12,106,411.37 or 65 percent was unutilized. Moreover, the balance of STF amounting to ₱271,668,774.83 as of December 31, 2016 was not included in the Special Budget Utilization. Thus, the paying students did not benefit much from the additional school charges imposed on them. (Observation No. 1)

We recommended that Management: a.) prepare a STF budget that will reflect the approximate collection as basis for utilization, and be efficient in spending thereof in accordance with existing laws and regulations; b.) support the Special Budget with the Schedule of Fiduciary Fees broken down as to college, campus, and fund showing the details of the fees collected in accordance with CMO No. 20 series of 2011; c.) implement programs and projects appropriately chargeable from the fiduciary funds to assure timely benefits to the paying students. If the funds are not yet needed, consider returning the same to the paying students or to stop imposing those fees to ease their financial burden; and d.) request approval from BOT for the budget on the use of income as provided under Section 22, Article 10 of CHED Memorandum Order No. 20 series of 2011 to use excess income for University priority projects.

2. Out of the appropriated amount of ₱2,182,000.00 intended for the ESGP-PA scholars, only ₱1,005,200.00 equivalent to 46 percent was obligated and disbursed to the student-grantees for SY 2016-2017, leaving an unobligated balance of ₱1,176,800.00 or 54 percent, thus, denying the student grantees prompt access of their scholarship benefits to defray school expenses. (Observation No. 2)

We recommended that Management: a.) facilitate the timely release of the scholarship grant considering that the grantees of the program are less privileged but deserving students and the funds are intended to cover the cost of tuition and other school fees, textbooks/other learning materials and stipend; and b.) address the delayed release of benefits for efficient and effective implementation of the program.

3. Account Cash in Bank- Local Currency, Current Account is understated by ₱11,421,198.06 due to: a) unrecorded collections of tuition fees directly deposited to the bank totalling ₱9,767,159.09; b) unrecorded fund transfers for tuition fee of ESGP-PA scholars and Tulong Dunong grantees totalling ₱1,440,136.00; and c) unrecorded interest income from deposits totalling to ₱213,902.99. Moreover, no regular reconciliation of cash account per book and bank is done. (Observation No. 3)

We recommended that Management: a.) submit BRS within the prescribed period in accordance with Section 7, Chapter 21 of GAM for NGAs, Volume 1, to COA Auditor; and b.) prepare a JEV to recognize all reconciling items that require adjustment and correction in the books of accounts.

4. Deficiencies in managing the Petty Cash Fund (PCF) were noted such as: a) PCF in excess by the amount of ₱294,261.19 based on the average monthly expenses incurred; b) PCF Record (PCFR) prescribed to monitor, control and report transactions was not maintained contrary to Section 35 and 37, Chapter 6 on Disbursements of the Government Accounting Manual; c) expenses were not adequately supported by documentary requirements contrary to COA Circular No. 2012-001 dated June 14, 2012; and d) meal expenses totalling to ₱26,870.40 incurred by various official and employees while on liaison within Metro Manila were charged to PCF which are not in conformity with Paragraph 4.1 of COA Circular No. 2012-003 dated October 29, 2012, thus, exposed the fund to risk of loss or probable misuse. (Observation No. 4)

We recommended that Management: a.) reduce the amount of petty cash fund that should be sufficient for the recurring petty operating expenses of the office for one month; b.) abide by the rules and regulations in handling petty cash fund particularly on the use of the prescribed records and forms required in maintaining the Fund; c.) review required supporting documents for each transaction in accordance with laws, rules and regulations; d.) stop the practice of charging/reimbursing food expenses of various official and employees to PCF while on liaison within Metro Manila; and e.) submit to the Accounting Unit all unreplenished PCVs for recording in the books of accounts.

5. The account Loans Receivables-Others amounting to ₱883,000.00 arising from Student Assistance Fund for Education for a Strong Republic (SAFE-4-SR) remained outstanding for more than six years with doubtful collectability since the grantees have already graduated and are not anymore connected with PhilSCA. Likewise, Other Receivables account with a total amount of ₱1,189,307.75 remained dormant for more than eight to 13 years which rendered the account balances unreliable. (Observation No. 5)

We recommended that Management: a.) send demand letters to former students who received financial assistance fund and to the Board of Directors or their representatives who received excess allowance from the College; b.) find the whereabouts of concerned individuals who incurred cash shortage and exhaust all legal efforts to recover the asset; c.) request for write off on the other receivables arising from cash shortage of the deceased person following the prescribed procedures; and d.) submit documents and information on the individuals with pending case as supporting document of the other miscellaneous receivable accounts.

6. The three parcels of land donated to PhilSCA in CYs 2013, 2014 and 2016 were not recognized in the books of accounts due to lack of appraisal value at the time of its donation, thus, understating the land account by the amount of its appraised value; the recorded property in Villamor Air Base amounting to ₱255 million, subject of swap arrangement with the Bases Conversion Development Authority (BCDA), is not covered by Transfer Certificate of Title in the name of PhilSCA due to non-execution of the basic documents of amended Memorandum of Agreement (MOA) and Deed of Absolute Sale (DOAS) needed for its transfer, thus, ownership of the property is still not registered in the name of PhilSCA. (Observation No. 6)

We recommended that Management: a.) appraise and recognize in PhilSCA books the value of the three donated lands at its fair market value at the time of donation and work for on issuance of the TCT; b.) continuously follow-up with the CHED for the reviewed MOA and DOAS which are documents needed by the BCDA to facilitate the transfer of title of the property located at Piccio Garden, West Service Road, SLEX Villamor Air Base, Pasay City in the name of PhilSCA; and c.) exhaust all efforts to have the properties titled in the name of PhilSCA.

7. The Rent/Lease Income account with balance of ₱1,129,431.92 as of December 31, 2016 is doubtful due to: a) uncollected rent of ₱377,000.00 from consignees/lessees not recognized in the books; b) unascertained completeness of the recorded collections of ₱105,902.92 due to lack of copy of contract on five lessees; c) lack of clear policies on the use/operation of dormitory (Guestel) of PhilSCA-VAB Campus which resulted to failure on charging guests of the amount of rental fee for their stay at the Guestel; and

d) unrecorded adjustment in the amount of ₱266,123.00, thus overstating the Rent/Lease Income account by the same amount. (Observation No. 7)

We recommended that Management: a.) demand payment from the defaulting consignees, and impose penalty stipulated in the provisions of the Contract of Lease ; b.) furnish COA Office with copies of contracts between Philippine Vending Corp. and the four lessees from FAB and BAB Campuses respectively; c.) prepare clear policies and guidelines on the use of dormitory (Guestel); and make the necessary operational plan and maintenance of the Guestel to generate more income; d.) submit justification/explanation why not all guests were charged with rental fee for the stay at the Guestel; and e.) properly classify accounts to rent/lease income and make appropriate adjustments to correct the books.

8. Various deficiencies were noted during the audit of the Fernando Air Base (FAB) campus such as non-adherence to established controls in property management and operation of Income Generating Project (IGP) and pertinent rules and regulations under the Government Accounting Manuals which may expose the property to risk of loss or probable misuse. (Observation No. 8)

We recommended that Management require the concerned officials to comply with the provisions of pertinent laws, rules and regulations on property management and IGP operation for a more efficient Campus operation.

The foregoing audit observations and recommendations were communicated through Audit Observation Memoranda and discussed during the exit conference with concerned PhilSCA officials and employees on March 17, 2017. Their comments were incorporated in this Annual Audit Report (AAR), where appropriate.

G. Summary of Audit Suspensions, Disallowances and Charges at Year-end

As at December 31, 2016, the PhilSCA had unsettled disallowances of ₱30,218,007.05. Details of which are discussed in Part II of this Report.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 54 audit recommendations embodied in the prior years' AAR, 16 were fully implemented, 20 partially implemented, and 18 were not implemented as shown below. The details of prior years' audit recommendations are discussed in Part III of this Report.

Status of Implementation	Number	Percentage
Fully Implemented	16	30
Partially Implemented	20	37
Not Implemented	18	33
Total	54	100