

## 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 Series of 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 known as 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 (PAF) 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, composed of the following:

Name	Position/Designation	Mother Unit/Agency
Hon. Patricia B. Licuanan Chair – designate: Comm. Lilian A. De Las Llagas	Chairman	Commission on Higher Education
Dr. Marwin M. Dela Cruz	Vice Chairman	PhilSCA
Sen. Francis Escudero	Member	Philippine Senate
Congw. Ann K. Hofer	Member	House of Representatives
Lt. Gen. Edgar R. Fallorina	Member	PAF
Mr. Ernesto M. Pernia	Member	National Economic and Development Authority
Mr. Iluminado B. Laguna	Faculty Trustee	PhilSCA
Mr. Rolando F. Capacia	Alumni Representative	PAF
Mr. Ramon A. Ragasa	Private Sector Representative	PAF
Mr. Isidoro T. Macaranas	Private Sector Representative	PAF
Mr. Patrick Martinn P. Demagante	Student Trustee	PhilSCA

As of December 31, 2017, PhilSCA has 439 personnel assigned in the different Campuses, as follows:

<b>Particulars</b>	<b>Total</b>	<b>Villamor</b>	<b>Fernando</b>	<b>Mactan</b>	<b>Basa</b>
<i>Status:</i>					
Permanent	179	99	27	26	27
Part-timer	34	23	1	4	6
Contractual	226	133	24	35	34
<b>Total</b>	<b>439</b>	<b>255</b>	<b>52</b>	<b>65</b>	<b>67</b>
<i>Workforce</i>					
Academe	231	118	37	41	35
Part-timers	34	23	1	4	6
Admin and support Staff	140	95	11	16	18
Security	34	19	3	4	8
<b>Total</b>	<b>439</b>	<b>255</b>	<b>52</b>	<b>65</b>	<b>67</b>

## **B. Operational Highlights**

During the School Years (SYs) 2016-2017 and 2017-2018, a total of 18,894 students were enrolled at PhilSCA VAB and in its three other Campuses, of which 165 belong to the graduate studies and 18,729 in the undergraduate schools, while the total number of graduates for SYs 2016-2017 and 2017-2018 are as follows:

<b>Particulars</b>	<b>Total</b>	<b>Villamor Campus</b>	<b>Fernando Air Base Campus</b>	<b>Mactan Air Base Campus</b>	<b>Basa Air Base Campus</b>
<b>SY 2016 - 2017 Graduates</b>					
Undergraduate Studies	3,828	1,862	526	866	574
Graduate Studies	15	15	-	-	-
<b>Total</b>	<b>3,843</b>	<b>1,877</b>	<b>526</b>	<b>866</b>	<b>574</b>
<b>SY 2017 – 2018 Graduates</b>					
Undergraduate Studies	2,814	1,467	387	657	303
Graduate Studies	19	19	-	-	-
<b>Total</b>	<b>2,833</b>	<b>1,486</b>	<b>387</b>	<b>657</b>	<b>303</b>

The reported plans/targets vis-à-vis its accomplishments for Calendar Year (CY) 2017 are as follows:

<b>Major Final Outputs (MFOs) and Performance Indicators</b>	<b>Target</b>	<b>Actual Accomplishment</b>	<b>Percentage of Accomplishment</b>
<b>MFO 1- Higher Education Services</b>			
<i>Performance Indicator 1:</i>			
Total number of graduates	3,221	2,833	88

<b>Major Final Outputs (MFOs) and Performance Indicators</b>	<b>Target</b>	<b>Actual Accomplishment</b>	<b>Percentage of Accomplishment</b>
<i>Performance Indicator 2:</i>			
Percentage of total graduates that are in priority courses	BS Aeronautics- 71%	BS Aeronautics - 100% (72 out of 72)	141
	BS Aircraft Maintenance - 81%	BS Aircraft Maintenance -100% (1,574 out of 1,574)	123
<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%	87.93%	126
<i>Performance Indicator 4:</i>			
Percentage of programs accredited at Level 1 ( <i>The target was a misprint from the 2014 Physical Targets</i> )	40%	60% (6 out of 10 programs accredited)	150
<i>Performance Indicator 5:</i>			
Percentage of graduates who finished academic program according to the prescribed time frame	84%	86%	102

### **C. Financial Highlights**

The PhilSCA has total appropriations of ₱174,208,000.00 for CY 2017 consisting of current year budget of ₱168,592,000.00 as provided for in RA No. 10924, the Fiscal Year (FY) 2017 General Appropriations Act (GAA), and an Automatic Appropriations of ₱5,616,000.00 for Retirement and Life Insurance Premiums. Total allotments released by the Department of Budget and Management (DBM) amounted to ₱166,505,616.00, of which ₱145,817,156.30 or 87.57 percent was obligated, thereby, leaving an unobligated balance of ₱20,688,459.70 or 12.43 percent as at year-end. The details are shown below:

<b>Sources of Funds</b>	<b>Appropriations</b>	<b>Allotment</b>	<b>Obligation Incurred</b>	<b>Unobligated Balance</b>
<b>Current Year Appropriations</b>				
<b>Agency Specific Budget</b>				
Personnel Services (PS)	83,095,000.00	79,079,725.00	63,150,257.19	15,929,467.81

Sources of Funds	Appropriations	Allotment	Obligation Incurred	Unobligated Balance
Maintenance and Other Operating Expenses (MOOE)	25,548,000.00	25,548,000.00	22,407,626.82	3,140,373.18
Capital Outlay	59,949,000.00	54,949,000.00	54,000,000.00	949,000.00
<b>Sub - Total</b>	<b>168,592,000.00</b>	<b>159,576,725.00</b>	<b>139,557,884.01</b>	<b>20,018,840.99</b>
<b>Special Purpose Funds</b>				
Pension and Gratuity Fund/Terminal Leave Benefits	-	1,079,074.00	1,079,072.81	1.19
<b>Sub - Total</b>	<b>-</b>	<b>1,079,074.00</b>	<b>1,079,072.81</b>	<b>1.19</b>
<b>Automatic Appropriations</b>				
Retirement and Life Insurance Premium	5,616,000.00	5,849,817.00	5,180,199.48	669,617.52
<b>Sub - Total</b>	<b>5,616,000.00</b>	<b>5,849,817.00</b>	<b>5,180,199.48</b>	<b>669,617.52</b>
<b>Grand Total</b>	<b>174,208,000.00</b>	<b>166,505,616.00</b>	<b>145,817,156.30</b>	<b>20,688,459.70</b>

Also, PhilSCA has a total allotment of ₱154,359,051.45 from the approved budget on income utilization under the Special Trust Fund (STF), of which ₱89,132,874.88 or 57.74 percent was obligated leaving an unobligated balance of ₱65,226,176.57 as at year-end.

The PhilSCA's financial position and financial performance for CY 2017 with comparative figures for CY 2016 are as follows:

Particulars	Amount	
	2017	2016
<b>Financial Position</b>		
Assets	747,163,523.61	633,596,522.60
Liabilities	95,510,220.95	6,884,416.39
Net Assets/Equity	651,653,302.66	626,712,106.21
<b>Financial Performance</b>		
Revenue	88,501,564.86	164,598,170.08
Less: Current Operating Expenses		
PS	74,504,937.26	72,213,391.76
MOOE	98,797,293.80	95,536,367.07
Financial Expenses	120.00	200.00
Non-Cash Expenses	6,947,936.00	6,073,103.86
Deficit from Current Operations	(91,748,722.20)	(9,224,892.61)
Financial Assistance/ Subsidy from National Government	103,862,555.75	89,086,829.60
<b>Surplus for the Period</b>	<b>12,113,833.55</b>	<b>79,861,936.99</b>

#### **D. Scope of Audit**

The audit covered the review of accounts and operations of PhilSCA and its Campuses for CY 2017. 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's improvement opportunities; and d) determine the extent of implementation of prior year's audit recommendations.

#### **E. Independent 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, 2017 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 this Report, are as follows:

1. Vacant positions for 52 faculty and 15 administrative personnel were not filled up, instead service contracts were entered into by PhilSCA, thus unobligated allotment for Personnel Services amounted to ₱15,929,467.81 as at year-end. Further, the Agency has unobligated amount of ₱3,140,373.18 on its Maintenance and Other Operating Expenses (MOOE) for training and scholarship grants while spending ₱1,859,785.17 from the Special Trust Fund (STF) for the same expenses which can be covered fully by the GAA thereby decreasing the programs and projects that can be funded from the STF. Also, Capital Outlay for FY 2017 amounting to ₱5,949,000.00 was not utilized which delayed the procurement and delivery of services that should have redounded to the benefit the Agency. (Observation No. 1)

**We recommended that the Management: a) fill up the 67 vacant positions and give priority to qualified service contract faculty and administrative personnel of the Agency to maximize the Personnel Services funds; b) pay personnel entitled to benefits allowed by RA No. 7305 on Magna Carta of Public Health Workers and include in the budget of personnel benefits; c) utilize and maximize the use of the MOOE fund specifically for Training and Scholarship Grants; d) identify the funding source of congressional insertion for the unreleased allotments on Capital Outlays and see to it that items covered under conditional implementation are utilized within the budget year.**

2. Payments to OMNI Aviation Corporation for the hangarage services totalling ₱1,217,419.08 were not supported with the required Certificate of Availability of Funds and additional documentary requirements for rental contracts which casts doubt on the validity of the Service Agreement. Likewise, the Service Agreements entered into with OMNI Aviation Corporation did not undergo a competitive bidding, contrary to the provisions of the 2016 Revised Implementing Rules and Regulations of RA No. 9184 on Alternative Mode of Procurement, thus casting doubt on the transparency and competitiveness in the procurement process. (Observation No. 2)

**We recommended that the Management submit the following documents in compliance with RA 9184 and COA Circular No. 2012-001, to wit:**

- a) Annual Procurement Plan (APP) for CYs 2016 and 2017;
- b) approval of the Board of Trustees for the contract;
- c) invitation or request for submission of price quotations;
- d) Notice of Award to OMNI Aviation Corporation;
- e) Certification form CIAC or CDC that OMNI Aviation Corporation is the only company in that area that can provide a hangar for the two aircrafts of PhilSCA;
- f) Certificate of Availability of Funds;
- g) Complete copy of the building floor plans indicating in shaded colors the rentable space;
- h) Copy of Certificate of Occupancy;
- i) Complete description of the building as to type, kind and class including its component parts and equipment facilities such as, but not limited to, parking areas, airconditioning systems, firefighting equipment, etc.;
- j) List of prevailing comparable property within vicinity;
- k) Vicinity map; and
- l) Billing Statements.

3. Out of the aggregate amount of ₱20,300,050.00 transferred to the DBM-PS as of December 31, 2017, only the procured items amounting to ₱11,183,894.90 were delivered leaving a balance of ₱9,116,155.10 in the custody of the DBM-PS, thus, funds were not put to immediate use by PhilSCA caused by the non-monitoring and lack of follow up on the deliveries which deprived the students of the benefit from the immediate use of the requested equipment. (Observation No. 6)

**We recommended that the Management:**

- a) make representation with the DBM-PS for the return of the balance of the fund transfers for the fully delivered items;
- b) evaluate the need of the PhilSCA for the undelivered equipment, otherwise, make representation with the DBM-PS for the change of purchase requests for the different items included in the Annual Procurement Plan of the agency to be charged against the advance payments made to enable the PhilSCA to use the same in its operations;
- c) follow up with DBM-PS/closely monitor the timely delivery/bidding of needed Flight Simulator Trainer; and
- d) require the Accountant to record subsequent deliveries from DBM-PS to reflect the correct balance thereof.

4. The accuracy and completeness of the account Property Plant and Equipment (PPE) amounting to ₱326,182,133.22 as of December 31, 2017 are doubtful due to: a) unrecorded three parcels of land acquired through donation in CY 2013, 2014, and 2016 contrary to Section 11 and 13, Chapter 10 on PPE, Volume 1 of the Government Accounting Manual (GAM) for NGAs; and b) non-reconciliation and non-maintenance of PPELC under Section 42 of Chapter 10 of the same Manual. (Observation No. 7)

**We recommended that the Management: a) comply with Sections 11 and 13, Chapter 10 on PPE, Volume 1 of the GAM for NGAs on recognition in the books the fair market value of property acquired through donation and a liability account recognized for the PPE acquired with conditions or restrictions until these have been fulfilled; and b) instruct Accounting Unit to maintain the PPELC for each category of PPE, likewise, the Supply/Property Unit to maintain the PC for PPE; direct both Offices to conduct reconciliation of properties; require the Accounting to submit a Schedule or List of PPE per group classification and the reason/justification for adjustment to support JEV No. GJ Local 17-07-10 dated July 31, 2017 and to submit a Schedule of PPE or its equivalent as December 31, 2017.**

5. Correctness of the Proportional Vacation Pay (PVP) paid to regular teaching personnel for the School Year (SY)/Academic Year (AY) 2016-2017 totalling ₱5,229,809.00 could not be ascertained due to absence of supporting documents as basis for number of PVP days earned of each faculty pursuant to CSC Memorandum Circular No. 9, s. 2012 dated May 21, 2012; and the non-observance of the official working hours, contrary to Section 1, Article 64 of the PhilSCA College Code, CSC Memorandum Circular No. 9, s.2012 and DepEd Memorandum No. 97, s.2017. (Observation No. 11)

**We recommended that the management: a) require the HRMO to submit the records of absences without pay or its equivalent per faculty member and the computation of PVP days earned of each faculty in accordance with DepEd Memorandum No. 97, s. 2017 dated May 26, 2017; b) submit basis for granting Teacher's Leave to faculty members with administrative functions and the non-observance of the working hours and not reporting to work on a regular basis during summer; c) submit updated official time of each faculty member for every semester of the SY/AY as basis for the recording of attendance, absences and undertimes, computation of salaries and wages, and honorarium; and d) submit List of Faculty members who are assigned additional functions which are administrative in nature together with their official designation to determine the extent of their administrative functions.**

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 22, 2018. Their comments were incorporated in this Annual Audit Report (AAR), where appropriate.

#### **G. Status of Settlement of Audit Suspensions, Disallowances and Charges**

As at December 31, 2017, the PhilSCA has unsettled suspensions and disallowances of ₱5,751,745.36 and ₱30,201,996.26, respectively. Details are discussed in Part II of this Report.

#### **H. Status of Implementation of Prior Years' Audit Recommendations**

Of the 57 audit recommendations embodied in the prior years' AARs, 25 were fully implemented, 20 partially implemented, and 12 were not implemented as shown below. The details of prior years' audit recommendations are discussed in Part III of this Report.

<b>Status of Implementation</b>	<b>Number</b>	<b>Percentage</b>
Fully Implemented	25	44
Partially Implemented	20	35
Not Implemented	12	21
<b>Total</b>	<b>57</b>	<b>100</b>