**PART II - OBSERVATIONS AND RECOMMENDATIONS**

**FINANCIAL AUDIT**

*Misstatements of Financial Statements*

1. Audit of the PhilSCA’s financial statements disclosed five misstatements in the total amount of ₱148,043,635.16, three of which are considered to be material which affect the fair presentation of the financial statements.
   1. Section 15 of the Government Accounting Manual (GAM) states that *“The FSs shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in PPSAS.”*
   2. Moreover, Section 111 of Presidential Decree (PD) No. 1445 provides that the accounts of the agency shall be kept in such detail as necessary to meet the needs of the agency at the same time be adequate to furnish the information needed by fiscal or control agencies of the government.
   3. Our audit of the PhilSCA’s financial statements disclosed misstatements in several accounts as shown below:

| **Category/ Classification** | **Balance as at December 31, 2018** | **Misstatements** | | | **Assertions Affected** |
| --- | --- | --- | --- | --- | --- |
| **Affected Accounts** | **Amount (in Pesos)** | **Errors/Audit Observations** |
| Receivables | 116,150,950.81 | Due from NGAs | 118,276,920.00  (7,999,680.00) | Unrecorded receivables from tuition fees (Finding No. 2)  Fund transfer to DBM-Procurement Service (PS) was not credited upon its delivery (Finding No. 3) | Completeness  Accuracy  Accuracy |
| Property, Plant and Equipment | 330,940,983.25 | Aircrafts and Aircrafts  Ground  Equipment | 8,041,233.16 | Flight Simulator and its incidental costs were not recognized in the books (Finding No. 3) | Completeness  Accuracy |
|  |  | Other Land Improvement  School Buildings | 306,202.00    (306,202.00) | Erroneous classification to the Building account (Finding No. 4) | Presentation and Disclosure  Accuracy |
| **Total Misstatements in Assets** | | | **118,318,473.16** |  |  |
| **Percentage of Misstatements to Total Assets** | | | **15.24%** |  |  |
| Service and Business Income | 133,640,418.59 | School Fees | (21,286,780.00)  118,276,920.00 | Refund of tuition fees was erroneously recognized as Other Maintenance and Operating Expenses instead of School Fees Income  (Finding No. 5)  Unrecorded income from tuition fees (Finding No. 2) | Presentation and Disclosure  Accuracy  Completeness  Accuracy |
| Maintenance and Other Operating Expenses | 106,612,750.72 | Repair and Maintenance - Building and Other Structures  Other Maintenance & Operating Expenses | 41,553.16  21,286,780.00 | Erroneous recognition of expense account (Finding No. 3)  Refund of tuition fees collected was erroneously recognized as Other Maintenance and Operating Expenses instead of School Fees Income  (Finding No. 5) | Presentation and Disclosure  Accuracy  Presentation and Disclosure  Accuracy |
| Personnel Services | 8,885,344.60 | Honoraria  Traveling Expenses- Local | 132,500.00  (132,500.00) | Erroneous recording of travel expense instead of honoraria (Finding No. 6) | Presentation and Disclosure  Accuracy |
| **Total Misstatements in Net Assets/Equity** | | | **118,318,473.16** |  |  |
| **Percentage of Misstatements to Net Assets/Equity** | | | **15.61%** |  |  |

* 1. The concept of materiality is applied in evaluating the effect of identified misstatement or omission in the financial statements. The overall materiality threshold of ₱2,094,740.20 is set on one per cent of the total expenses of ₱209,474,019.61 per Statement of Financial Performance.

The detailed discussions of misstatements and corresponding recommendations are as follows:

*Due from National Government Agencies (NGAs)-Commission on Higher Education (CHED) - ₱118,276,920.00*

1. Due from NGAs-CHED and School Fees accounts were both understated by ₱118,276,920.00 due to the non-submission/delayed submission of Billing Statement to CHED for the reimbursement of tuition and other related fees for the 1st Semester, Academic Year 2018-2019 which is not in accordance with Republic Act (RA) No. 10931, hence receivable from CHED was not recognized.
   1. RA No. 10931 promotes Universal Access to Quality Tertiary Education by providing for Free Tuition and other School Fees in State Universities and Colleges, Local Universities and Colleges and State-Run Technical-Vocational Institutions, establishing the Tertiary Education Subsidy and Student Loan Program, strengthening the Unified Student Financial Assistance System for Tertiary Education, and appropriating Fund therefor.
   2. Joint Memorandum Circular (JMC) No. 2017-1 dated April 20, 2017 of the CHED and Department of Budget and Management (DBM) pertains to the Guidelines on the Grant of Free Tuition in State Universities and Colleges to ensure proper implementation of the special provision in the 2017 General Appropriations Act subject to the Conditional Implementation ordered by the President.
   3. Special Provision No. 2 under Other Executive Offices (OEO)-CHED, Volume I-B, page 272 states that:

*Higher Education Support Fund. The amount of Eight Billion Pesos (~~P~~8,000,000,000.00) appropriated herein under provision for Higher Education Support Program shall be allocated to State Universities and Colleges (SUCs) based on the estimated income from tuition fees of the respective SUCs in the 2017 Budget of Expenditures and Sources of Financing (BESF). The amount herein appropriated shall be used for the priority programs and projects of the SUCs.*

* 1. Special Provision No. 1 under SUCs, Special Provision(s) applicable to the SUCs, Volume I-A, page 963 also states that:

*Tuition Fees and School Charges. SUCs are authorized to collect tuition fees and other necessary school charges in accordance with RA No. 8292, provided that starting the first semester of SY 2017-2018, no tuition fee shall be collected from undergraduate students. The SUCs shall charge the Higher Education Support Fund in lieu of the income from tuition fees.*

* 1. Section 6.3 of the JMC requires the SUCs to bill the CHED for the total tuition subsidies awarded to students, subject to their budget ceiling per semester. The budget ceiling per semester shall not exceed 50% of the budget allocated to the SUC.
  2. The Budget Allocation of PhilSCA for 2017 was ₱113,839,000.00.
  3. Within one month after the end of each semester enrollment period, SUCs shall submit “Billing Statement” with all attachments to CHED.
  4. Billing Statement for 1st and 2nd Semesters for Academic Year (AY) 2017-2018 submitted by PhilSCA shows no evidence of receipt by CHED, although the amounts of ₱55,409,952.00 and ₱9,700.00 were credited to the PhilSCA bank account (Account No. 3562-1003-25) on February 12, 2018 and September 3, 2018, respectively. An amount of ₱53,999,428.00 was credited to the same account on July 24, 2018. The credited amounts were issued Official Receipts Nos. 0613369 dated March 23, 2018; 0626006 dated September 6, 2018; and 0624585 dated July 26, 2018, respectively, summarized as follow:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **AY 2017-2018** | **Received/Credited** | | **Amount based on Actual Enrollees** | **Difference** |
| **Amount** | **Date** |
| 1st semester | 55,409,952.00 | 2/12/2018 | 55,532,452.00 |  |
|  | 9,700.00 | 9/3/2018 |  |  |
| 2nd semester | 53,999,428.00 | 7/24/2018 | 53,999,428.00 |  |
| **Total** | **109,419,080.00** |  | **109,531,880.00** | **112,800.00** |

* 1. As shown in the table above, there is a difference of ₱112,800.00 that was not reimbursed to PhilSCA.
  2. Verification revealed that there was no set-up of receivables for the billing to CHED of tuition fees and other school charges for the last two semesters which showed that entries made for the receipt of funds from CHED was debited to Cash in Bank-LCCA and credited to School Fees accounts.
  3. Further, the Billing Statement with all its attachments for the 1st semester of Academic Year (AY) 2018-2019 was not yet submitted to CHED.
  4. PhilSCA has a total enrollees of 9,965 for the 1st semester of AY 2018-2019.
  5. The Agency furnished the COA Office a copy of the Schedule of tuition fees and other charges per course and year level of student. Except for the 4th and 5th years of Bachelor of Science in Air Transportation (BSAT) which were composed of 71 students, the tuition fees and other school charges ranging from ₱2,952.00 to ₱9,125.00 per semester or an average of ₱7,000.00 for 9894 students.
  6. Verification of the books further revealed that the collectible from CHED pertaining to the 1st Semester, AY 2018-2019 was not recognized since no billing statement was submitted, thus understating the Due from NGAs-CHED and School Fees-Income from Tuition accounts with an estimated amount of ₱118,276,920.00. Details of which is shown below:

|  |  |  |
| --- | --- | --- |
| **Semester Covered** | **Particulars** | **Amount** |
| 1st Semester, AY 2018-2019 | Billing to CHED - All Campuses | 49,966,395.00 |
| 2nd Semester, AY 2018-2019 | 1st Tranche Billing to CHED (VAB -BSAT, BAB and FAB Campuses only) | 68,310,525.00 |
| **Total** | | **118,276,920.00** |

* 1. **We recommended that the Management:**

1. **promptly prepare and submit Billing Statement to CHED for the 1st Semester of AY 2018-2019;**
2. **require the Accountant to prepare necessary entries for the recognition of receivables in the books; and**
3. **submit an explanation as to why the balance of ₱112,800.00 for AY 2017-2018 was not reimbursed by the CHED.**

*Property, Plant and Equipment - Aircrafts and Aircraft Ground Equipment - P8,041,233.16*

1. Delivered Flight Simulator and its incidental costs were not recognized in the books, thus understated the Property, Plant and Equipment (PPE) account by ₱8,041,233.16. Moreover, the corresponding fund transfer to DBM-Procurement Service (PS) was not credited upon its delivery thereby overstating the Due from NGAs – DBM-PS account by ₱7,999,680.00.
   1. Section 3, Chapter 10 on PPE of the Government Accounting Manual (GAM) for NGAs Volume 1 provides that:

*Section 3. Criteria for Recognition. The cost of an item shall be recognized as assets if, and only if:*

1. *It is probable that the future economic benefits or service potential associated with the item will flow to the entity;*
2. *The cost or fair value of the item can be measured reliably;*
3. *Beneficial ownership and control clearly rest with the government;*
4. *The asset is used to achieve government objectives; and*
5. *It meets the capitalization threshold of ₱15,000.00.*
   1. Section 5 of the same Manual also provides that:

*Section 5. Measurement at Recognition. PPE that qualifies for recognition as an asset shall be measured at cost. However, where the PPE is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition. The cost of an item of PPE comprises:*

1. *Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;*
2. *Any cost directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Examples of directly attributable costs are:*
3. *Costs of employee benefits arising directly from the construction or acquisition of the item of PPE;*
4. *Costs of site preparation;*
5. *Initial delivery and handling costs;*
6. *Installation and assembly costs;*
7. *Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and*
8. *Professional fees.*
   1. Section 17 on Acquisition of PPE through Fund Transfer to other Government Agencies further provides that:

*Implementation of projects through funds transferred to other government agencies may require the acquisition of the necessary PPE. For proper monitoring and accountability, the following policies shall be followed:*

*xxx*

*2. The source agency/entity shall monitor the PPE purchased out of transferred funds to other government agencies but shall not record the PPE until it is returned by the implementing agency.*

* 1. For CY 2018, the PPE of PhilSCA amounted to ₱330,940,983.25, as follows:

| **Classification** | **Carrying Value** |
| --- | --- |
| Land | 255,000,000.00 |
| Furniture and Fixtures | 7,077,610.28 |
| Books | 162,217.52 |
| Other PPE | 101,418.60 |
| School Buildings | 20,024,133.17 |
| Other Structures | 6,977,372.74 |
| Information and Communication Technology Equipment | 12,849,278.53 |
| Office Equipment | 10,481,346.55 |
| Communication Equipment | 648,099.32 |
| Disaster Response and Rescue Equipment | 46,370.73 |
| Medical Equipment | 193,047.67 |
| Sport Equipment | 94,737.62 |
| Technical and Scientific Equipment | 6,292,796.75 |
| Other Machinery and Equipment | 2,579,856.26 |
| Motor Vehicles | 5,587,893.33 |
| Aircrafts and Aircraft Ground Equipment | 2,824,804.18 |
| **Total** | **330,940,983.25** |

* 1. The Aircrafts and Aircraft Ground Equipment account amounting to ₱2,824,804.18 is broken down as follows:

|  |  |
| --- | --- |
| **Particulars** | **Carrying Value** |
| Tampico | 1,209,960.00 |
| Training Kit | 50,491.74 |
| Fire Extinguisher | 5,149.04 |
| Aircraft Battery | 10,336.85 |
| Aircraft Items (Donated) | 1,400,000.00 |
| Digital Multimeter | 11,915.44 |
| Tools and Equipment | 136,951.11 |
| **Total** | **2,824,804.18** |

* 1. On December 28, 2015, the PhilSCA made a fund transfer of ₱8,000,000.00 to DBM-PS for the purchase of one Flight Simulator to be used by the Flying School of PhilSCA-Villamor Air Base (VAB) Campus through Check No. 88470 and Disbursement Voucher (DV) No. 201512002378. The Accounting Department debited the said amount to Due from NGAs - DBM-PS.
  2. On May 18, 2018, the Flight Simulator was delivered to PhilSCA by Manila Aerospace Products Trading (MAPTRA) with Delivery Receipt (DR) No. 3202. Consequently, an unnumbered Inspection Acceptance Report (IAR) dated August 10, 2018 was made by a PhilSCA official for the acceptance.
  3. It is noted that on January 29, 2019, another IAR, which was numbered as 2019-01-006, was made for the same equipment upon issuance of DR No. M19-001255-NCS by the DBM-PS with a corresponding amount of ₱7,999,680.00.
  4. As per inquiry from the Supply Officer, they prepared another IAR with Acknowledgment Receipt for Equipment (ARE) since the actual amount of the Flight Simulator was only determined upon the issuance of DR No. M19-001255-NCS by the DBM-PS.

* 1. Upon receipt of the Flight Simulator, PhilSCA converted one of its classrooms into a simulator room in the amount of ₱41,553.10, details of which are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Date** | **Check No.** | **Nature of Payment** | **Amount** |
|
| 7/27/2018 | 77817 | Purchase of various construction supplies for Simulator Room/Partition of Hangar | 32,473.16 |
| 7/27/2018 | 77818 | Purchase of various supplies/materials for installation of proposed Fired Glass Flight Simulator Room | 9,080.00 |
| **Total** | | | **41,553.16** |

* 1. The cost of installing the equipment was debited to Repairs and Maintenance – Building and Other Structures instead of capitalizing such incidental cost as prescribed by the GAM.
  2. The said Flight Simulator is maintained and controlled by PhilSCA since May 18, 2018. However, up to the date of this Report, the said asset in the amount of ₱7,999,680.00 and its incidental costs amounting to ₱41,553.16 is not yet recognized in the book thereby understating the PPE account by ₱8,041,233.16.
  3. As per inquiry from the Accounting Department, the supporting documents for the delivery of the said equipment were not forwarded to them. Hence, the amount of Due from NGAs – DBM PS is not yet also credited thereby overstating the account.
  4. **We recommended that the Management:**

1. **instruct the Accountant to recognize in the books the purchased Flight Simulator together with its incidental costs; and**
2. **adjust the accounts Due from NGAs – DBM-PS and Repairs and Maintenance – Building and Other Structures accordingly.**

*Property, Plant and Equipment – School Buildings - P306,202.00*

1. Deficiencies were noted in the property accounts of PhilSCA-Basa Air Base (BAB) Campus amounting to ₱16,455,112.09 as per BAB Campus-Supply Office Report on the Physical Count of PPE (RPCPPE) due to: a) erroneous classification to the Building account of properties amounting to ₱306,202.00 which is not in accordance with the Revised Chart of Accounts (RCA), Chapter 3, Volume III of the GAM for NGAs; b) constructed perimeter fence by the Department of Public Works and Highways (DPWH) thru a fund transfer not recognized in the books in the amount of ₱1,000,000.00; c) unserviceable properties still carried in the books; and d) donated motor vehicle not recognized in the books due to transfer of ownership but still not completed which is not in accordance with Chapter 10, Volume I of GAM for NGAs, which affected the fair presentation of the account.
   1. PhilSCA-BAB Campus has PPE in the total amount of ₱16,455,112.09as of December 31, 2018, as shown in the following table:

| **Classification** | **Total Amount** | **Remarks** |
| --- | --- | --- |
| ***Furniture, Fixtures and Books*** |  |  |
| Furniture and Fixtures | 59,950.00 | Fund 05 |
| Books | 175,790.00 | Fund 05 |
| ***Other Property, Plant and Equipment*** |  |  |
| Other PPE | 103,500.00 | Fund 05 |
| ***Building and Other Structures*** |  |  |
| School Buildings | 5,146,913.50 | Fund 05 |
| Other Structures | 5,485,244.09 | Fund 01 |
| ***Machinery and Equipment*** |  |  |
| Information and Communication Technology Equipment | 973,355.10  1,618,434.02 | Fund 01  Fund 05 |
| Office Equipment | 1,573,443.00 | Fund 05 |
| Technical and Scientific Equipment | 761,247.08 | Fund 05 |
| Other Machinery and Equipment | 83,950.00 | Fund 05 |
| ***Transportation Equipment*** |  |  |
| Motor Vehicles | 398,285.30 | Fund 05 (unserviceable; acquired on 1995) |
| Aircrafts and Aircraft Ground Equipment | 75,000.00 | Fund 05 |
| **Total** | **16,455,112.09** |  |

* 1. Section 42, Chapter 10 of GAM for NGAs, Volume I provides that the Accounting Unit shall maintain the Property, Plant and Equipment Ledger Card (PPELC) for each category of PPE. Likewise, the Supply/Property Unit shall maintain Property Card (PC) for PPE for check and balance.
  2. The School Buildings account amounting to ₱10,632,157.59 is composed of the following:

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **Date Acquired** | **Amount** | **Remarks** |
| Mini Grotto | 1/1/1990 | 50,000.00 |  |
| Manually Operated Galvalume Shutter | 1/1/2004 | 75,000.00 |  |
| Perimeter Fence | 1/1/2003 | 171,202.00 |  |
| Guard House | 1/1/2006 | 75,000.00 |  |
| Buildings | 1/1/1990 | 3,325,711.50 | Classrooms/offices |
| Stage | 1/1/1990 | 150,000.00 |  |
| Extension, PE, GS, SSC/OSA Building | 1/1/2009 | 270,000.00 |  |
| Powerplant Laboratory | 1/1/2007 | 470,000.00 |  |
| Airframe Laboratory | 1/1/2009 | 50,000.00 |  |
| Quadrangle | 1/1/1990 | 500,000.00 |  |
| Flagpole | 1/1/1990 | 10,000.00 | Less than the capitalization threshold of ₱15,000 |
| Science and Technology Building | 5/2015 | 5,485,244.09 | Located at Palmayo |
| **Total** |  | **10,632,157.59** |  |

* 1. Volume III of GAM for NGAs provides the lists and descriptions of all accounts to be used to properly recognize and present their financial transactions.
  2. Analysis disclosed that four (4) properties were classified as School Buildings amounting to ₱306,202.00 instead of under Other Land Improvements, as follows:

|  |  |
| --- | --- |
| **Description** | **Amount** |
| Mini Grotto | 50,000.00 |
| Manually Operated Galvalume Shutter | 75,000.00 |
| Perimeter Fence | 171,202.00 |
| Flagpole | 10,000.00 |
| **Total** | **306,202.00** |

* 1. Further verification revealed that in July 2016, the College made a fund transfer to DPWH amounting to ₱1,000,000.00 (Due from NGAs) for the construction of the perimeter fence, Phase I of PhilSCA-Basa Palmayo Campus, which was found on site but was not yet recognized in the books as PPE since no liquidation report and supporting documents were received from the DPWH.
  2. Further, the physical condition of the motor vehicle amounting to ₱398,285.30 was seen in state of deterioration upon inspection. Also it exceeded the estimated useful life of 15 years and declared unserviceable in the RPCPPE but no Inventory and Inspection Report of Unserviceable Property (IIRUP) was prepared.
  3. Chapter 10 on PPE, Section 40, Volume I of GAM for NGAs provides the policies on idle, unserviceable and fully depreciated PPEs.
  4. Also, a Mitsubishi L300 was found in station which was acquired thru donation from the Provincial Government of Pampanga under the leadership of Governor Lilia G. Pineda, not yet recognized in the books and still in the name of the Provincial Government of Pampanga as stated in the Certificate of Registration (CR).
  5. Section 1, Chapter 10, Volume I of GAM for NGAs provides for the accounting treatment, recognition, measurement, and derecognition to ensure that all PPEs are properly valued and recorded, and the disclosure requirements in reporting PPE.
  6. Section 12, Chapter 10, Volume I of GAM for NGAs provides for the recognition of property acquired thru donation without condition.
  7. The above-mentioned deficiencies affect the fair presentation of the financial statements.
  8. **We recommended that the Management:**

1. **require the Accountant to properly reclassify properties to appropriate accounts such as Other Land Improvements or other related account;**
2. **require the liquidation of the fund transfer for the construction of the perimeter fence, Phase I together with the necessary documentation as basis for recognition in the books;**
3. **instruct the Property Unit to prepare IIRUP for idle, unserviceable and fully depreciated PPEs; and**
4. **furnish the Audit Team a copy of the Memorandum of Donation and work out for the transfer of ownership of the Motor Vehicle acquired thru donation.**

*Service and Business Income - P21,286,780.00*

1. Refund of tuition fees collected amounting to ₱21,286,780.00 were erroneously recognized as Other Maintenance and Operating Expenses (5-02-99-990-00) instead of adjustment/deduction from School Fees Account, thereby resulted in an overstatement of both accounts.
   1. Philippine Public Sector Accounting Standards (PPSAS) No. 1 – Presentation of Financial Statements states that: *Financial Statements (FS) shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, conditions in accordance with the definitions and other events, and recognition criteria for assets, liabilities, revenue, and expenses set out in PPSAS.*
   2. Accounts School Fees (4-02-02-010-00) and Other Maintenance and Operating Expenses (5-02-99-990-00) had balances of ₱133,640,418.59 and ₱25,145,793.43, respectively, as of December 31, 2018.
   3. Verification of transactions showed that claims for the refund of tuition fees amounting to ₱21,286,780.00 were treated as expense/debited to account Other Maintenance and Operating Expenses, which should have been an adjustment/deduction from the account School Fees.
   4. The overstatement of both accounts affects the fair presentation of the FS.
   5. **We recommended that Management instruct the Accountant to make the necessary adjustments to correct the books for fair presentation of the FS.**

*Honoraria – P132,500.00*

1. Payments of honoraria amounting to ₱132,500.00 were recorded as Travelling Expenses (5-02-01-010-00) instead of Honoraria (5-01-02-100-01), thus overstating the Travelling Expenses and understating the Honoraria accounts by the same amount.
2. The following honoraria paid to the Board of Trustees were recorded as Travelling Expenses (5-02-01-010-00) instead of Honoraria (5-01-02-100-01):

| **Reference** | **Particular** | **Amount** |
| --- | --- | --- |
| Report of Cash Disbursement No. 2018-03-0001 | Liquidation (honorarium/Traveling Expenses) | 33,500.00 |
| Report of Cash Disbursement No. 2018-05-0001 | Liquidation (honorarium/Traveling Expenses) | 36,500.00 |
| Report of Cash Disbursement No. 2018-07-0001 | Liquidation (honorarium/Traveling Expenses) | 36,500.00 |
| Report of Cash Disbursement No. 2018-012-0001 | Liquidation (honorarium/Traveling Expenses) | 26,000.00 |
|  | **Total** | **132,500.00** |

1. We recommended that the Management instruct the Accountant to adjust affected accounts in accordance with the definitions and other events, and recognition criteria for assets, liabilities, revenue, and expenses set out in PPSAS and Chapter 3, Volume III of the GAM for NGAs.

**COMPLIANCE AUDIT**

*Cash – Collecting Officers*

1. The Collecting Officer (CO) does not deposit intact all her collections with Authorized Government Depository Bank (AGDB) daily or not later that the next banking day which is not in conformity with laws and rules provided in the Revised Cash Examination Manual and may expose the collections to probable risk of loss.
2. Paragraph 32 of the Revised Cash Examination Manual states that “All COs shall deposit intact all their collections, as well as collections turned over to them by sub-collectors/tellers, with authorized government depository bank (AGDB) daily or not later than the next banking day. Where collections are minimal and daily thereof becomes costly and practical, the COs shall deposit their collections at least once a week, or as soon as the collections reach ₱10,000.00”.
3. Since CY 2016, the CO did not deposit intact all her collections with the AGDB daily or not later than the next banking day and/or as soon as the collections reach ₱10,000.00.
4. Furthermore, verification revealed that the CO deposited her collections ranging from ₱15,565.00 to ₱149,869.00 in CY 2018 for the months of January, February, April, May and July two times each month while in CY 2017, the CO deposited only once a month in July, August, September and December with amounts ranging from ₱34,414.00 to ₱166,052.00 which is not in conformity with the provisions of the Revised Cash Examination Manual.
5. This practice exposes the undeposited collections to risk of probable loss or misuse.
6. We recommended that the Management:
7. **require the Accountable Officer (AO) to abide with laws and rules provided in the Revised Cash Examination Manual to deposit intact all their collections; and**
8. **justify why collections were not deposited intact.**

*Cash – Collecting Officers - Unproduced Unused Accountable Forms*

1. The designate Personnel-in-Charge of the Collecting Office does not maintain Cashbook/Cash Receipts Record as required in Volume II of GAM for NGAs and was not able to produce/present the unused accountable forms (Official Receipts) upon demand, which is not in conformity with laws and rules provided in the Revised Cash Examination Manual.
   1. The Report of Cash Examination, otherwise known as General   
      Form No. 74 (A) provides that upon demand, the AO is required to produce all cash, treasury warrants, checks, money orders, cash items, paid vouchers, unused accountable forms, etc., for which he/she is officially accountable.
   2. Paragraph 10, Chapter II of the Revised Cash Examination Manual states that: *“Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.”*
   3. The Revised Cash Examination Manual and Volume II of GAM for NGAs both provide that the CO/AO shall maintain the Cash Receipts Record (CRR) or its equivalent to monitor his/her accountability.
   4. The AO was not able to present the unused Official Receipts (ORs) upon demand because she did not know the number combination to unlock the vault where the ORs were kept. She said that it is the Contract of Service (COS) personnel who know the combination and secured the ORs.
   5. The Personnel-in-Charge does not practice diligence in the safekeeping of funds or property contrary to the provision of Paragraph 10, Chapter II of the Revised Cash Examination Manual. Such practice may result in the possibility of loss or misuse of ORs.
   6. The unused ORs which were not presented on cash count are the following:

|  |  |  |
| --- | --- | --- |
| **Quantity** | **Serial No:** | |
| **From** | **To** |
| 615 | 0582386 | 0583000 |
| 1400 | 0593001 | 0594400 |

* 1. Those ORs were included/reflected in the Report of Accountability for Accountable Forms (RAAF) for the month of October.
  2. **We recommended that the Management:**

1. **require the Personnel-in-Charge, Collecting Office/AO to abide with the rules and regulations on the use of the prescribed records such as Cashbook/CRR required in maintaining the Fund;**
2. **properly designate a person that will be responsible for the safekeeping of records and is a regular employee of the agency; and**
3. **require the AO to submit a justification/explanation why it was the Contract of Service (COS) personnel who know the combination of the vault.**

*Advances to Special Disbursing Officers*

1. Of the cash advance granted to the two (2) Special Disbursing Officers (SDOs) totaling ₱133,400.00, ₱7,171.47 remained unliquidated per books as of December 31, 2018, even though the purpose has been served, which is not in conformity with COA Circular No. 2012-001 dated June 14, 2012 and resulted in the understatement of various expense accounts. Also, the SDO did not use Cash Disbursements Register (CDReg) as required in Volume II of GAM for NGAs and was not able to produce the cash advance balance of ₱7,171.47 upon demand, which is not in conformity with laws and rules provided in the Revised Cash Examination Manual.
   1. PPSAS No. 1 – Presentation of Financial Statements states that Financial Statements (FS) shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, conditions in accordance with the definitions and other events, and recognition criteria for assets, liabilities, revenue, and expenses set out in PPSAS.
   2. Chapter I of the Revised Cash Examination Manual states that “The Commission on Audit (COA) is constitutionally mandated with power, authority, and duty to examine, audit, and settle all accounts pertaining to the revenues and receipts of, and expenditures or uses of funds and property.”
   3. COA Circular No. 2012- 001 dated June 14, 2012 provides that the AO shall liquidate his/her cash advance for special purpose as soon as the purpose of the cash advance has been served.
   4. The following are the cash advances granted to PhilSCA-Mactan Campus personnel:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Check No.** | **Date** | **Amount Granted** | **Liquidated** | **Balance** | **Purpose** |
| 77654 | 6/8/2018 | 83,400.00 | 76,228.53 | 7,171.47 | For CAAP inspection; 3 months unliquidated |
| 77863 | 8/6/2018 | 50,000.00 | 50,000.00 | - | Petty Cash Fund for daily expenses of MAB |
|  | **Total** | **133,400.00** | **126,228.53** | **7,171.47** |  |

* 1. The delay in the submission of Liquidation Report (LR) resulted in the understatement of various expense accounts.
  2. The Report of Cash Examination, otherwise known as General   
     Form No. 74 (A) provides that upon demand, the AO is required to produce all cash, treasury warrants, checks, money orders, cash items, paid vouchers, unused accountable forms, etc., for which he/she is officially accountable.
  3. Paragraph 10, Chapter II of the Revised Cash Examination Manual states that “Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.”
  4. Volume II of the GAM for NGAs provides that the CDReg shall be used to record, monitor and report transactions involving the cash advances/payments charged thereto, and liquidation thereof by disbursing accountable officer.
  5. The AO was not able to present the amount of ₱7,171.47 upon demand. A Certification was issued by the AO regarding the transfer of accountability to the Director, and because the Director was on leave, confirmation was not done by the Audit Team.
  6. Also, the designated SDO does not maintain the CDReg, which is not in compliance with Volume II of the GAM for NGAs.
  7. We recommended that the Management:

1. **instruct the SDO/AO to abide with the rules and regulations on the use of the prescribed records such as CDReg; and**
2. **submit justification/explanation why the AO transferred his cash advance or why he allowed his name to be used as AO.**

*Various Disbursements*

1. Deficiencies were noted on various disbursements for PhilSCA-Board of Trustees (BOT) meetings such as lack of sufficient and relevant documentation to properly evaluate the transaction and/or establish validity of claim as required under the General Requirements for All Types of Disbursement, COA Circular No. 2012-001 dated June 14, 2012, and erroneous classification of accounts which is not in accordance with the Revised Chart of Accounts, Chapter 3, Volume III of the GAM for NGAs and PPSAS No. 1- Presentation of Financial Statements.
   1. COA Circular No. 2012-001 dated June 14, 2012 prescribes the revised guidelines and documentary requirements for common government transactions.
   2. Analysis of transactions pertaining to the conduct of BOT meetings consisting of payments of honoraria to its members and representatives, purchase of food, payments for toll fees, various supplies, and other related expenses, disclosed the following:
2. The Board of Trustees conducted four (4) meetings for CY 2018.
3. Eleven members compose the PhilSCA BOT but two seats are vacant as of December 31, 2018, as follows:

|  |  |  |
| --- | --- | --- |
| **Board of Trustees** | **Agency** | **Designation** |
| Dr. Lilian A. De Las Llagas | Commissioner, CHED | Chairperson- designate |
| Prof. Marwin M. Dela Cruz, Ph. D. | President, PhilSCA | Vice-Chairperson |
| Sen. Francis Escudero | Chairperson, Senate Committee on Education, Arts and Culture | Member |
| Cong. Paolo Everardo S. Javier | Chairperson, House Committee on Higher and Technical Education | Member |
| Hon. Ernesto M. Pernia | Director General, NEDA | Member |
| Lt. Gen. Galileo Gerard R. Kintanar, AFP | Commanding General PAF | Member |
| MGen. Ramon A. Ragasa, AFP (Retired) | Private Sector Representative | Member |
| Vacant | Private Sector Representative | Member |
| MGen. Rolando F. Capacia, AFP (Retired) | Alumni Representative | Member |
| Mr. Kent Ivan Rae B. Miranda | Student Trustee | Member |
| Vacant | Faculty Trustee | Member |

1. The transactions that are related to the BOT meetings are as follows:

| **Reference** | **Date** | **Particular** | **Amount** |
| --- | --- | --- | --- |
| Report of Cash Disbursement No. 2018-03-0001 |  | Liquidation (honorarium/Traveling Expenses) | 33,500.00 |
| LR#201800500075 |  | Liquidation (meals, fuel, toll fees, prepaid card, and various supplies) | 64,697.36 |
| Report of Cash Disbursement No. 2018-05-0001 |  | Liquidation (honorarium/Traveling Expenses) | 36,500.00 |
| Report of Cash Disbursement No. 2018-07-0001 | 7/31/2018 | Liquidation (honorarium/Traveling Expenses) | 36,500.00 |
| LR# 201800800136 |  | Liquidation (meals, various supplies, fuels, toll fees, call cards) | 60,699.80 |
| LR# 2019-00010013 |  | Liquidation (meals, various supplies, fuels, toll fees, call cards) | 68,804.36 |
| Report of Cash Disbursement No. 2018-012-0001 |  | Liquidation (honorarium/Traveling Expenses) | 26,000.00 |
|  |  | **Total Expenses** | **326,701.52** |

* 1. Some of the transactions stated above lack sufficient and relevant documentations, such as:

1. Minutes of meetings/Board Resolution
2. TIN of the member of the BOT and those who received the honoraria were not stated in the payroll, as it is also requirement in the Report of Salaries and Allowances (ROSA) received by the members of BOT
3. Authorization of representatives of the BOT members who actually attended the board meeting (DBM Budget Circular No. 2003-6 dated September 29, 2003)
4. The name and TIN of authorized representative in the payroll were not specified
5. Individual Pass/Time Adjustment Slip of various concerned employees
6. Certificate of Appearance
7. Certification by the recipient that the load cards were used for official business
8. List of recipients of prepaid cards
9. Certification from the Supply/Property Office that the supplies purchased were not available in stock
   1. The lack of documentary requirements affected the validity of the transactions and the erroneous classification of accounts misstates the balances of the accounts and affected the fair presentation of the FSs.
   2. **We recommended that the Management:**
10. **require the Board Secretary to submit relevant documents in relation to BOT meetings that affect the validity of the financial transactions as prescribed in 5.7.3, COA Circular No. 2012-001 on Honoraria, Governing Boards of Collegial Bodies.**
11. **require the Disbursing Officer/concerned** **employees to submit necessary documents to support the liquidations.**

*Income Generating Projects (IGP)*

1. Deficiencies were noted in the operation of the IGP:
2. PhilSCA-Mactan Benito Ebuen Air Base (MBEAB) Campus such as:
3. income/collection from sale of items were not remitted to the Collecting Office but instead retained in the hands of the IGP Coordinator, thus, exposed funds to risk of loss or misuse;
4. Reports on Summary of Income were not prepared;
5. the IGP Coordinator was not bonded contrary to the provision of Treasury Circular No. 02- 2009 dated August 6, 2009;
6. inventory of items were not recorded in Stock Cards (SC), contrary to Appendix 58, Volume II of GAM for NGAs; and
7. no collections from rental for the usage of spaces of three canteens were reported.
8. PhilSCA-BAB Campus such as:
9. rental fees charged to various lessees for the use of space had no standard rate or charges were not uniform resulting in lesser income to the college from favored lessees; and
10. revenue from rental of IGP were not properly monitored, thus the absence of updated contracts with lessees and income earned from rentals were not promptly collected.

CHED Memorandum Order No. 20, Series of 2011 dated August 4, 2011 provides the policy and guidelines to be observed by SUCs in the use and disposition of all internally generated funds of the SUC in accordance with the pertinent provisions of Republic Act (RA) No. 7722, otherwise known as the Higher Education Act of 1994.

* 1. Section 3 of the same Memorandum Order, Definition of Terms, states that *“Income Generating Projects (IGPs) refer to activities which generate additional revenue for the specific purpose for which it was created.”* Furthermore, *“Income Generating Units (IGUs) refer to the fund classification of entities in the SUC which undertakes the management of IGPs which has become a regular part of the operations and activities of the SUC.”*
  2. It is provided in the PhilSCA Administrative Manual, 2010 Edition that the Auxiliary Services shall cover all Productions/Income-Generating Projects and Food Services, such as:
* Canteen/Fast foods/Cafeteria
* Rental for School Facilities
* Stall Rentals
* Other Income Generating Projects
  1. Also, it provides that The Auxiliary Services Chief shall have the following functions:

1. Monitor and/or evaluate the implementation of policies and guidelines concerning auxiliary services;
2. Assist in the initiation and planning of the establishment of the income-generating projects and other auxiliary services activities;
3. Assist in the processing and evaluation and recommendations, proposals and other matters related to auxiliary services; and
4. Prepare such report and communication relative to Auxiliary Services as required by higher authorities.
   1. Appendix 58, Volume II of the GAM for NGAs provides that the *“Stock Card (SC) is a form used in the Supply and/or Property Division/Unit for each type of supplies to record all receipts and issues made. It shall be maintained by fund cluster.”*
   2. Paragraph 4 of Treasury Circular No. 02-2009 dated August 6, 2009 provides that *“Every officer, agent, and employee of the Government of the Philippines, regardless of the status of their appointment shall, whenever the nature of the duties performed by such officer, agent, or employee permits or requires the possession, custody or control of funds or properties for which he is accountable, be deemed a bondable officer and shall be bonded or bondable and his fidelity insured.”*
   3. Section 32 of PhilSCA Student Manual Revised 2010 provides that every student shall wear the complete uniform during uniform days with paraphernalia. Also, students are required to wear the departmental shirts during Wednesdays; shop/ laboratory uniforms during their shop/laboratory periods; the prescribed P. E. uniform during their P. E. classes and the NSTP uniform during their NSTP classes.

*PhilSCA-MBEAB Campus*

* 1. Verification revealed that the IGP Coordinator handled the sale of various school paraphernalia such as: shoulder boards, nameplates, wings, P.E. uniforms and departmental shirts; however she was not bonded for the money and property in her possession, custody or control for which she is accountable.
  2. As stated in her records, she has a net collection balance of ₱20,970.00 from the sale of various school paraphernalia. It was also noted that she did not maintain Stock Cards (SC) to record receipts and issuances made.
  3. Analysis of sales of various school paraphernalia showed that the current IGP Coordinator purchased various school paraphernalia on credit totaling ₱46,865.00.
  4. Furthermore, gross sales by the Auxiliary Services of PhilSCA-MBEAB Campus for the months of August to October 2018 amounted to ₱36,755.00.
  5. Verification disclosed that the collections from sale of various school peripherals/paraphernalia amounting to ₱36,755.00 were not remitted to the collecting office, but instead was kept on hand/in the possession of the IGP Coordinator.

* 1. Since the IGP Coordinator does not have revolving fund for use in the operation of the program (sales of school paraphernalia), outright use of the funds generated from sales was resorted to purchase needed items.
  2. Further verification revealed that the IGP Coordinator paid ₱18,805.00 to creditors.
  3. The Audit Team conducted actual physical count of inventories to validate the existence of various items:

| **Particulars** | **Quantity** | **Unit Cost** | **Total** |
| --- | --- | --- | --- |
| Shoulder Pads | 80 | 165.00 | 13,200.00 |
| Nameplates | 1 | 150.00 | 150.00 |
| Wings | 5 | 225.00 | 1,125.00 |
| Departmental Shirts | 72 | 260.00 | 18,720.00 |
| P. E. Shirts | 9 | 175.00 | 1,575.00 |
| **Total** | 167 |  | **34,770.00** |

* 1. The IGP Coordinator upon demand was not able to present the cash on hand as stated in her record amounting to ₱20,970.00 for which she explained that it was left in her house since there were no classes at the time. Based on the data gathered and presented in the previous paragraphs, there would appear a difference of ₱3,020.00 which cast doubt on the reported beginning balance which pertained only to the turned-over shoulder pads and unreported sales of other school paraphernalia. Analysis is as follows:

|  |  |
| --- | --- |
| Beginning balance as of August 1, 2018 | 21,945.00 |
| Add: Purchases for the period August to October 2018 on credit | 46,865.00 |
| Total Available for Sale | 68,810.00 |
| Less: Ending balance as of October 23, 2018 | 34,770.00 |
| Cost of Goods Sold | 34,040.00 |
| Add: Markup – income earned | 2,715.00 |
| Gross Sales | 36,755.00 |
| Less: Payment to creditors | 18,805.00 |
| **Net Cash Available as of October 23, 2018** | **17,950.00** |
| **Net Collection per Record of the IGP Coordinator** | **20,970.00** |
| **Difference** | **3,020.00** |

* 1. Further, if the payment to creditors of ₱18,805.00 pertained only to purchases made during the period August to October 2018 of ₱46,865.00, then there appears to be a balance still payable to the creditors amounting to ₱28,060.00. The IGP Coordinator needs to prepare and submit a true report on the actual inventories on hand as well as the amount due to the creditors at the time of assumption in order to arrive at the actual inventories, amount due to creditors, actual sales and income earned from the IGP operations at PhilSCA-MBEAB Campus.
  2. Analysis would show that income earned from the sale of school paraphernalia amounted to ₱2,715.00, however, the Report on Summary of Income was not furnished to COA Office.

| **Particulars** | **Selling Price** | **Cost of Sales** | **Mark Up** | **Quantity Sold** | **Net Income** |
| --- | --- | --- | --- | --- | --- |
| Shoulder Pads | 185.00 | 165.00 | 20.00 | 67 | 1,340.00 |
| Nameplates | 165.00 | 150.00 | 15.00 | 4 | 60.00 |
| Wings | 250.00 | 225.00 | 25.00 | 12 | 300.00 |
| Departmental Shirts | 280.00 | 260.00 | 20.00 | 36 | 720.00 |
| P. E. Shirts | 180.00 | 175.00 | 5.00 | 59 | 295.00 |
| **Total** |  |  |  |  | **2,715.00** |

* 1. For SY 2018-2019, out of the 2,319 enrolled students of PhilSCA-MBEAB Campus, 1,090 were freshman students.
  2. As per records, the students did not purchase school paraphernalia which were part of the prescribed uniform; i.e., the sales of 67 pieces shoulder pads which is 6% only of the total enrolled students or a ratio of 6:100, same goes with the other school paraphernalia, Departmental Shirts and P. E. Uniform.
  3. It showed that the Campus Director did not strictly impose the use of the prescribed uniform which affected the program of the IGP.
  4. Also, it was learned that prior to the visit of the Audit Team, there were three canteens operating inside the campus, but no reports of collections had been received.
  5. The Campus did not report collections of rental from usages of space for the three (3) canteens then in operation.
  6. The IGP Coordinator could not give information regarding the rental of the three canteens since she only assumed responsibility in August 2018 when the canteens had already stopped operating.
  7. The Director of Auxiliary Services had no Reports on Income from MBEAB Campus submitted to COA Office.

*PhilSCA-BAB Campus*

* 1. Audit of revenue from rental of lessees operating within BAB Campus showed the following:

| **Lessee** | **Area Covered** | **Duration of Contract** | **Monthly Rental** | **Remarks** |
| --- | --- | --- | --- | --- |
| Lessee 1 | 2.5 m x 1.8 m (4.5 square meters) | January 1, 2018- January 1, 2019 (April 1 to May 31, 2018 payment of rentals were waived) | 1,500.00  (₱333.33/ sq m) | with copy of contract; no operation on vacation and no rental collected |
| Lessee 2 | 3.5 m x 8.5 m (29.75 square meters) | August 1, 2018- December 31, 2018  (April 1 to May 31, 2019 payment of rentals were waived) | 3,500.00  (₱117.65/sq m) | with copy of contract; |
| Lessee 3 | 1 m x 1.2 m (1.2 square meters) | August 1, 2018- December 31, 2018 | 1,200.00 (₱1000/sq m) | with copy of contract for 2018 |
| Lessee 4 | 2 m x 1.8 m (3.6 square meters) | January 8, 2017- January 8, 2018 (April 1 to May 31, 2017 payment of rentals were waived) | 1,000.00 (₱277.77/sq m) | no copy of contract for 2018 |
| Lessee 5 | 3.5 m x 3.8 m (13.30 square meters) | January 9, 2017- January 9, 2018 (April 1 to May 31, 2017 payment of rentals were waived) | 3,000.00 (₱225.56/sq m) | no copy of contract for 2018 |

Verification revealed that the monthly rates for rental charged from various lessees were not standard on per square meter (m2) basis. The monthly rental ranged from ₱117.65 per square meter to ₱1,000.00 per square meter. The non-uniform charges of rental may result in undue advantage for favored lessees which may result in lesser income to the College.

* 1. The BAB Campus was able to collect income from rental amounting to ₱41,500.00 and ₱12,866.76 for electricity and water usages for the period January to September 2018:

| **Lessee** | **Particulars** | **Rental** | **Electricity and Water Bills** | **Remarks** |
| --- | --- | --- | --- | --- |
| Lessee 1 | a) Rental for Dec. 2017; Jan. 2018; Aug. 2018  b) Electricity and water bills- Nov. 26, 2017- Jan. 19, 2018; Jan. 19- Mar. 19, 2018; Mar. 19- Jun. 14, 2018; Jun. 14- Aug. 14, 2018 | 4,500.00 | 4,418.40 | No payment of rental for February; March;  June; July |
| Lessee 2 |  | none | none | Duration of contract is August 1, 2018- December 31, 2018; ₱3,500.00 per month |
| Lessee 3 | Electricity- Dec. 6- 2017- Jan. 19, 2018 | none | 48.96 | Duration of contract is August 1, 2018- December 31, 2018; ₱1,200.00 per month |
| Lessee 4 | Rental- Jan.; Feb.; Mar.; Jun. & Jul. 2018 | 5,000.00 |  | no copy of contract for 2018 |
| Lessee 5 | a) Rental- Dec. 2017; Jan. 2018; Feb. 2018; Mar. 2018; May 2018; Jun. 2018; July, 2018; Aug. 2018 & Sept. 2018  b) Electricity and water bills- Sept, 2017- Nov. 2017; Nov. 26, 2017- Jan. 19, 2018; Jan. 19, 2018- Mar. 19, 2018; Mar. 19- Jun. 14, 2018; Jun. 14- Aug. 14, 2018 | 32,000.00 | 8,399.40 | no copy of contract for 2018 |
| **Total** | | **41,500.00** | **12,866.76** |  |

* 1. Based on the tables above, it would show that the IGP operations were not properly monitored, thus the absence of updated contracts on two lessees and income earned from rent were not promptly collected.
  2. It was also noted that the amount of ₱12,866.76 collected for electricity and water usages were treated as income, instead of deduction from expenses.
  3. **We recommended that the Management:**

1. **furnish the COA Office a copy of the standard policies on:**

* **revenue generation involving the operation of Auxiliary services, land utilization and other physical assets of the Campuses; and**
* **operation and management of all income generating structures, facilities and equipment such as grounds, gym/covered court, building, cafeteria, guestel, stall/concessionaires, water, electricity, vehicles and other related structures, facilities and equipment, applicable for all Campuses.**

1. **establish standard guidelines on rental of space and facilities to serve as basis for preparation of contracts and to avoid doubts of questionable negotiations or arrangements with lessees;**
2. **for** **PhilSCA-MBEAB Campus:**

* **require the IGP Coordinator to prepare and submit a true report on the actual inventories on hand as well as the amount due to the creditors at the time of assumption in order to arrive at the actual inventories, amount due to creditors, actual sales and income earned from the IGP operations at PhilSCA-MBEAB Campus;**
* **require the IGP Coordinator to remit the collection made from sale of various school paraphernalia to the collecting office;**
* **insure the IGP Coordinator with the Fidelity Fund;**
* **require the IGP Coordinator to maintain SCs of the school peripherals for sale;**
* **require the IGP Coordinator to submit Reports on Summary of Income from sale of school peripherals, and regularly furnish a copy to the COA Office;**
* **set up a Revolving Fund for the operation of the IGP program (sales of school peripherals);**
* **require the Campus Director to submit the Report of Collections from rentals;**

1. **for PhilSCA-BAB Campus:**

* **submit copies of contracts of the two lessees;**
* **collect unpaid rent and electricity and water bills; and**

1. **instruct the Accountant to prepare the necessary adjusting entries to correct the books on the collections from electricity and water bills as deductions from expenses.**

*Research Programs, Projects and Activities*

1. PhilSCA did not allocate budget for research programs, projects and activities, contrary to Section 8, Article III of the CHED Memorandum Order No. 20 series of 2011 dated August 4, 2011, which requires State Universities and Colleges (SUCs) to allocate ten percent (10%) of tuition fees after deducting allowance for college wide common administrative costs. Furthermore, ₱1,600,000.00 research funds approved by the BOT in CYs 2012 and 2013 remained idle for more than five to six years; hence, defeated the goals and objectives of the College to be the center for research and advanced studies in the field of aeronautics.
   1. Section 8, Article III on Specific Budgetary Allocation of the CHED Memorandum Order No. 20 series of 2011 on Policies and Guidelines for the Use of Income, Special Trust Fund and Programs of Receipt and Expenditures of the SUCs mandates that:

*Section 8. Budget Allocation for Research Services (10%) of tuition fees) – Budget allocation for the second major function of the SUC, the research function, shall be set at a fixed rate of ten percent (10%) of tuition fees after deducting allowance for college wide common administrative costs. Said allocation shall be used for the objects of expenditure related to the formulation or implementation of programs, projects, and activities, such as but not limited to honoraria and incentives of researchers, lecturers, or research presenters, research assistants (with contract of employment), and wages of other personnel, office and IT equipment, facilities, supplies and materials, training and travel expenses, in-house research review, research presentation in appropriate forum and other research activities or undertaking that is geared towards producing research outputs that would be beneficial for the development of the community or locality where the SUC is located.*

* 1. The Higher Education Modernization Act of 1997 or RA No. 8292 dated June 6, 1997 provides that:

*Section 4. Powers and duties of Governing Boards. – The governing board shall have the following specific powers and duties in addition to its general powers of administration and the exercise of all the powers granted to the board of directors of a corporation under Section 36 of Batas Pambansa Blg. 68 otherwise known as the Corporation Code of the Philippines;*

*xxx*

*(d) to fix the tuition fees and other necessary school charges, such as but not limited to matriculation fees, graduation fees and laboratory fees, as their respective boards may deem proper to impose after due consultations with the involved sectors.*

*Such fees and charges, including government subsidies and other income generated by the university or college, shall constitute special trust funds and shall be deposited in any authorized government depository bank, and all interests shall accrue therefrom shall form part of the same fund for the use of the university or college.*

*xxx*

*Any provision of existing laws, rules and regulations to the contrary notwithstanding, any income generated by the university or college from tuition fees and other charges, as well as from the operation of auxiliary services and land grants, shall be retained by the university or college, and may be disbursed by the Board of Regents/Trustees for instruction, research, extension, or other programs/projects of the university or college: Provided, that all fiduciary fees shall be disbursed for the specific purposes for which they are collected.*

*If, for reason of control, the university or college, shall not be able to pursue any project for which funds have been appropriated and, allocated under its approved program of expenditures, the Board of Regents/Trustees may authorize the use of said funds for any reasonable purpose which, in its discretion, may be necessary and urgent for the attainment of the objectives and goals of the universities or college.* (emphasis ours)

* 1. The PhilSCA goals and objectives are stated below:

*The programs and objectives of the College shall be undertaken in such a manner as to reflect its aspiration to be the center for:*

1. *professional and advanced technical training in the field of aeronautics and liberal arts;*
2. *research and advanced studies, and*
3. *progressive leadership in its field of specialization as mandated by its charter.*

*In view of the above, the College shall strive to implement programs and projects that shall:*

1. *transmit and disseminate knowledge and skills relevant to the manpower needs of the country;*
2. *discover and disseminate new knowledge/technology needed for the development of the country;*
3. *enhance, preserve and disseminate national culture and sports; and produce progressive leaders, trained, skilled and semi-skilled manpower for national development.* (emphasis ours)
   1. PhilSCA Research and Development Center (RDC) has the following vision, mission, and goals and objectives:

*Vision:*

*PhilSCA shall be the leading research engine in aeronautical technology in the country responding to society’s needs of improving the aviation industry to satisfy demands for better quality and safety in air transportation.*

*Mission:*

*To generate and disseminate knowledge in the aeronautical sciences through meaningful, and challenging research programs in aircraft design and innovations, maintenance and operations and aviation information technology for the benefit of the people and the society.*

*Goals and Objectives:*

* *Strengthen R & D capabilities in terms of both manpower and research facilities as a strategy for long-term excellence and competitiveness.*
* *Establish research culture by promoting and enhancing research awareness among faculty members and students.*
* *Provide financial support through research and scholarship grants.*
* *Encourage research collaboration and cooperation among members of the academic community and other institutions locally and internationally.*
* *Conduct relevant and high impact researches in the fields of Aeronautical education.*
  1. Of the collected tuition fee amounting to ₱32,749,974.21 in CY 2017, PhilSCA did not allocate budget for research programs, projects and activities, contrary to Section 8, Article III of the CHED Memorandum Order No. 20 series of 2011.
  2. The Proposed Program of Receipts and Expenditures for CY 2018 which was approved by the PhilSCA BOT through Referendum No. 03, Series of 2018 does not include budget allocation for research services. It is also noted that since CY 2011 to 2018, PhilSCA has no appropriation for research services under the General Appropriations Act (GAA) although it is one of the trifocal functions of the SUCs. The breakdown of which is as follows:

| **Programs/Activities and Projects (PAPs)** | **Beginning Balance as of December 31, 2017** | **GAA 2018 (MOOE & CO)** | **Fiduciary and Other Fiduciary Fee** | **Total** |
| --- | --- | --- | --- | --- |
| **Receipts** | **114,493,067.87** | **34,124,000.00** | **32,305,275.07** | **180,922,342.94** |
| General Administration and Support (GAS) | 15,469,629.05 | 14,726,000.00 | - | 30,195,629.05 |
| Operations | 62,974,917.26 | 9,398,000.00 | - | 72,372,917.26 |
| Capital Outlay | 18,118,000.00 | 10,000,000.00 | - | 28,118,000.00 |
| Student Activities | - | - | 13,499,310.00 | 13,499,310.00 |
| Supplies Materials and Facility Improvement | - | - | 6,194,910.00 | 6,194,910.00 |
| **Projected Expenditures** | **96,562,546.31** | **34,124,000.00** | **19,694,220.00** | **150,380,766.31** |
| Balance | 17,930,521.56 | - | 12,611,055.07 | 30,541,576.63 |
| Total Mandatory Reserve Fund | 4,828,127.32 |  | 1,969,422.00 |  |

* 1. On the execution of research, 14 proposals which were approved by the BOT through BOT Resolution No. 58 series of 2012 and BOT Resolution No. 25 series of 2013, remained unutilized for five to six years. These research proposals have approved funds of ₱1,200,000.00 and ₱400,000.00, respectively. Breakdown of which is as follows:

1. *BOT Resolution No. 58 series of 2012 and PhilSCA Research Council Resolution No. 1 s. 2012*

| **No.** | **Title of Research Proposal** | **Approved Budget** |
| --- | --- | --- |
| 1 | Comparative Study on the Manual and On-Line Ticketing Course Lecture System for Information Management major in Airline Operations Program | 50,000.00 |
| 2 | Student Journalism in the Philippine State College of Aeronautics: Aeronautica Then and Now | 50,000.00 |
| 3 | Multi-Sensor Waste Generator | 120,000.00 |
| 4 | Imahe ng Baler at Pangasinan Bilang mga Destinasyon Pang-Turismo: Pagmamapa sa Ugnayan ng Wika at Turismo | 120,000.00 |
| 5 | PhilSCA On-Line Tourism Web Portal in Support to PhilSCA Aviation Tourism Advocacy Program | 150,000.00 |
| 6 | Comparative Analysis of Mechanical and Thermal Properties of Composites from Selected Natural Fibers | 150,000.00 |
| 7 | Philippine Air Force College of Aeronautics: A Study of Change and Transition as a Reflection of the Institution’s Value for Heritage | 160,000.00 |
| 8 | Design of a Meteorological Surveillance and Terrain Mapping Aircraft (MSaT) | 200,000.00 |
| 9 | Design and Construction of Composite Trainer Aircraft (Phase 1) PhilSCA Experimental Aircraft PXA 001 | 200,000.00 |
|  | **Total** | **1,200,000.00** |

1. *BOT Resolution No. 25 series of 2013*

| **No.** | **Title of Research Proposal** | **Approved Budget** |
| --- | --- | --- |
| 1 | Marshaling the Landscape of Aviation Education in the Philippine Context | 400,000.00 |
| 2 | A Study on the Reasons and Expectations of the New Students in Enrolling at PhilSCA |
| 3 | Performance in the Aeronautical Engineering Board Examination for the Last Five Years: Trends, Issues and Future Directions |
| 4 | An Assessment of the Manifestation of PhilSCA-VAB Vision Mission Goals and Objectives to Meet the Course Outcomes of the CMO28 for Aeronautical Engineering |
| 5 | Gear Applied Wooden Wing Rib Stress Tester |

* 1. The above-mentioned unimplemented research projects were already discussed in AOM No. 2015-002 dated March 19, 2015 wherein it was recommended that the Management, thru the RDC, prioritize the execution and completion of the targeted research projects.
  2. Upon inquiry with the Finance Office, it was informed that there was no request made by the RDC for the release of funds. On the other hand, the RDC is waiting for the funds to be released by the Management.
  3. To enable the Agency to use the allocated fund, the RDC conducted a meeting for re-entry plan for previous BOT-approved research proposal on October 29, 2018.
  4. **We recommended that the Management:**

1. **allocate budget for research services in compliance with Section 8, Article III of the CHED Memorandum Order No. 20 series of 2011;**
2. **instruct the RDC for the implementation of the approved research proposals; and**
3. **require the RDC to coordinate with the Finance Office for the release of BOT-approved funds for implementation of the said research proposals based on the re-entry plan according to the Agency process on research funds.**

**OTHER COMPLIANCE ISSUES**

*Gender and Development (GAD)*

1. PhilSCA was able to deliver two activities which seeks to identify corresponding interventions for each gender issue that the Agency commits to address in compliance with DBM-NEDA-PCW Joint Circular No. 2004-1 dated April 5, 2004, wherein agencies are tasked to formulate a Gender and Development (GAD) plan.
   1. Section 2.4 of Joint Circular No. 2004-1 dated April 5, 2004 issued by the DBM, National Economic and Development Authority (NEDA) and the Philippine Commission on Women (PCW) provides that *“Pursuant to the annual GAA, agencies are tasked to formulate a GAD plan and to implement the same by utilizing at least five percent (5%) of their total budget appropriations.”*
   2. Section 5.1 of the same Circular provides that *“The agency GAD Focal Point shall prepare the annual GAD plan and budget in coordination with the agency budget officers following the format and procedure prescribed in Annex A to be approved by the agency head. Agencies shall submit their annual GAD plans and budgets to the National Commission on the Role of Filipino Women (NCRFW) for review and endorsement prior to the submission of the agency budget proposal. Agencies shall submit to the DBM their NCRFW-endorsed annual GAD plans and budgets along with the agency budget proposals in accordance with the budget call.”*
   3. Annex A of the Joint Circular in the Identification of GAD activities provides that the objective of this action is *“to identify corresponding interventions for each gender issue that the agency commits to address”.* Said interventions may take the form of the Agency’s existing Programs/Activities/Projects (PAP) but enhanced with GAD perspective or it may take in the form of a reformulated PAP.
   4. Pursuant to Section 30 of the General Provisions of FY 2018 GAA, the GAD Plan shall be integrated in the regular activities of the agencies which shall be at least five percent (5%) of their budget.
   5. For CY 2018, the Agency conducted the following GAD activities:
2. Stepping Up in Gender Equality Seminar

Objectives:

1. Increased level of awareness and understanding of faculty members, school personnel and students on GAD issues and concerns and laws on women; and
2. To determine the gender mainstreaming effort of PhilSCA and measure the level of compliance as mandated by RA No. 9710, otherwise known as Magna Carta of Women.
3. PhilSCA 18-day campaign to end Violence Against Women (VAW)

Objectives:

1. To learn how to respect women and girls and be able to stop violence against women and girls in any form;
2. To instill the importance of what we do should be done with love and respect for our fellow humans, regardless of age, sex, class, ethnicity and ability;
3. To develop in every PhilSCAnians a high regard for the thoughts, feelings and experiences of everyone; and
4. To develop the capacity to promote, protect and fulfill the rights of women and girls.

*Senior Citizens and Differently-Abled Persons*

1. The PhilSCA did not allocate from its approved budget nor prepare/formulate corresponding plans, program and projects to address the concerns of the Senior Citizens (SC) and Persons with Disability (PWDs) in the College, contrary to Section 31 of the General Provisions of RA No. 10964, the GAA for FY 2018.
   1. Section 31 of the General Provisions of RA No. 10964, the GAA for FY 2018, provides that *“All agencies of the government shall formulate plans, programs and projects intended to address the concerns of senior citizens and persons with disability, insofar as it relates to their mandated functions, and integrate the same in their regular activities”.*
   2. The Management had no responsible unit and official assigned to initiate formulation and implementation of plans, programs and projects addressing the concerns of SCs and PWDs.
   3. **We recommended that the Management assign responsible unit and official to initiate the formulation and implementation of plans, program and projects to address the concerns of SCs and PWDs.**

*Remittances to GSIS and BIR*

1. For CY 2018, the Agency has faithfully deducted from the salaries of its personnel the required taxes and premiums and remitted total taxes of ₱2,295,677.34 and GSIS deductions of ₱15,441,657.00as well as the government share within the prescribed period to the concerned institutions or agencies summarized below.

|  |  |  |
| --- | --- | --- |
| **Area** | **Account Affected** | **Status** |
| Compliance with Tax Laws | Due to BIR | PhilSCA was able to withhold and remit taxes amounting to ₱2,295,677.34 in CY 2018, in compliance with the Bureau of Internal Revenue (BIR) Tax Revenue Regulation No. 10-2008 dated July 8, 2008 for compensation and Revenue Memorandum Circular No. 23-2007 dated March 23, 2007 for government money payment due or payable to all suppliers of goods and/or services. |
| Deduction and Remittance of GSIS Premiums | Due to GSIS | Timely remittances of GSIS Life and Retirement premiums contribution for personal and government shares, loan amortizations and Employees Compensation (EC) Premiums in the total amount of ₱15,441,657.00 were made by the Agency.  Verification of GSIS contributions and remittances from General Payroll and Disbursement Vouchers disclosed that employees’ and employer’s contributions of ₱5,045,846.13 and ₱6,762,235.55 respectively, and ECC Government share of ₱201,700.00 as of December 31, 2018 were fully remitted to GSIS in compliance with RA No. 8291. |

*Status of Settlement of Audit Suspensions, Disallowances and Charges*

1. The status of compliance with the suspensions, disallowances and charges in prior years and during CY 2018 of the PhilSCA are presented in the following table:

| **Particulars** | **Beginning Balance January 1, 2018** | **Issuance During the Year** | **Settlement During the Year** | **Ending Balance December 31, 2018** |
| --- | --- | --- | --- | --- |
| Audit Suspensions | 5,751,745.36 | 644,438.57 | 477,296.47 | 5,918,887.46 |
| Audit Disallowances | 30,201,996.26 | 112,695.94 | 17,702.59 | 30,296,989.61 |
| Audit Charges | - |  |  | - |
| **Total** | **35,953,741.62** | **757,134.51** | **494,999.06** | **36,215,877.07** |

* 1. Out of the total suspensions and disallowances of ₱6,396,183.93 and ₱30,314,692.20, respectively, only ₱494,999.06was settled, leaving a balance of ₱5,918,887.46 and ₱30,296,989.61, respectively, as of December 31, 2018.
  2. The breakdown of disallowances amounting to ₱30,296,989.61 as of December 31, 2018 is shown below:

| **Notice of Disallowance** | | | **Description/**  **Nature** | **Status** |
| --- | --- | --- | --- | --- |
| **Number** | **Date** | **Amount** |
| 11-001-164(07-09) | 2/25/2011 | 355,000.00 | Hiring of private legal counsel without concurrence of COA | NGS-Cluster 5 Decision was issued granting the exclusion of Ms. Imelda F. Navigar among persons liable thereon. |
| 11-003-164(10) | 6/28/2011 | 327,096.79 | Issued Notice of Finality of Decision (NFD) dated July 12, 2012. |
| 12-001-164(06&07) | 6/29/2012 | 1,371,750.00 | Non- compliance with the requirements within the reglementary period. | NGS-Cluster 5 Decision No. 2018-019 was issued affirming the disallowance and denying the Appeal of the Appellants for lack of merit. |
| 2012-164-01(2011) | 3/2/2012 | 479,031.31 | Non- compliance with the requirements within the reglementary period. | Pending appeal filed by Ms. Imelda F. Navigar, Chief Accountant. |
| 13-001-164(2011) | 10/7/2013 | 216,000.00 | Payment of services rendered by private legal counsel, contrary to COA Circular No. 95-011 dated December 4, 1995 | Petition for Review filed by Ms. Imelda F. Navigar, one of the persons liable, docketed as COA CP Case No. 2015-023 dated December 18, 2015. |
| 13-002-164(2012) | 10/11/2013 | 216,000.00 |
| 2016-002-164(14) | 8/22/2016 | 8,554,353.16 | Payment of Personnel Welfare Benefit for CY 2014 non- conformance with RA No. 8292 | Appeal filed with the Office of the Cluster Director, Cluster 5 – NGS, COA. |
| 2016-002-164(12&13) | 8/22/2016 | 18,681,300.00 | Payment of Personnel Welfare Benefit for CYs 2012 and 2013- non- conformance with RA No. 8292 |
| 17-003-01(2017) | 7/20/2017 | 1,385.00 | Excess payment of payroll | Pending issuance of NSSDC for settlements made through payroll upon submission of the Admin Unit of proof of deduction. |
| 18-010-01(2017) | 5/7/2018 | 544.00 | Overpayment of travel expenses |  |
| 18-003-01(2017) | 4/19/2018 | 2,140.00 | Penalty incurred for the late payment of registration of motor vehicles |  |
| 18-001-01/05(2017) | 4/19/2018 | 91,564.35 | Excess payment of telephone expenses for CY 2016-2017 | Issued partial NSSDC in the amount of P9,423.11 for refund made by various employees |
| 18-013-05(2017) | 11/12/2018 | 825.00 | Overpayment of travel expenses |  |
| **Total** | | **30,296,989.61** |  |  |

* 1. The disallowances issued prior to the implementation of the Rules and Regulations on Settlement of Accounts (RRSA) amounting to ₱263,000.00 were not included in balance of Statement of Audit Suspensions, Disallowances and Charges (SASDC) for the period ending December 31, 2018.
  2. **We recommended that the Management require the concerned persons determined responsible/liable to immediately settle their suspensions and disallowances in accordance with the 2009 RRSA.**