

## 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 (CHED)
Dr. Marwin M. Dela Cruz	Vice Chairman	PhilSCA
Sen. Francis Joseph ‘Chiz’ Escudero	Member	Senate of the Philippines
Cong. Paolo Everardo S. Javier	Member	House of Representatives
Mr. Ernesto M. Pernia	Member	National Economic and Development Authority (NEDA)
Mr. Rolando F. Capacia AFP (Ret.)	Alumni Representative	PhilSCA Alumni
LtGen. Galileo Gerard R. Kintanar – rep. by Col Eric A. Gachalian	Member	PAF
MGen. Ramon A. Ragasa AFP (Ret.)	Member	Private Sector
Mr. Kent Ivan Rae B. Miranda	Student Trustee	PhilSCA

As of December 31, 2018, PhilSCA has 452 personnel assigned in the different Campuses, as follows:

<b>Particulars</b>	<b>Total</b>	<b>Villamor Campus</b>	<b>Fernando Campus</b>	<b>Mactan Campus</b>	<b>Basa Campus</b>
<i>Status:</i>					
Permanent	199	114	30	28	27
Part-timer	27	13	1	13	0
Contractual	226	126	22	46	32
<b>Total</b>	<b>452</b>	<b>253</b>	<b>53</b>	<b>87</b>	<b>59</b>
<i>Workforce</i>					
Academe	253	135	35	51	32
Part-timers	27	13	1	13	0
Admin and support Staff	141	89	15	18	19
Security	31	16	2	5	8
<b>Total</b>	<b>452</b>	<b>253</b>	<b>53</b>	<b>87</b>	<b>59</b>

## **B. Operational Highlights**

During the Academic Years (AYs) 2017-2018 and 2018-2019, a total of 19,542 students were enrolled at PhilSCA VAB and in its three other Campuses, of which, 165 belong to the graduate studies and 19,377 in the undergraduate schools, while the total number of graduates for AYs 2017-2018 and 2018-2019 are as follows:

<b>Particulars</b>	<b>Total</b>	<b>Villamor Campus</b>	<b>Fernando Air Base Campus</b>	<b>Mactan Air Base Campus (and Medellin)</b>	<b>Basa Air Base Campus</b>
<b>AY 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>
<b>AY 2018 – 2019 Graduates</b>					
Undergraduate Studies	3,626	2,030	381	816	399
Graduate Studies	59	59	-	-	-
<b>Total</b>	<b>3,685</b>	<b>2,089</b>	<b>381</b>	<b>816</b>	<b>399</b>

The reported plans/targets vis-à-vis its accomplishments for Calendar Year (CY) 2018 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>			
Percentage of first-time licensure exam-takers that pass the licensure exams	70%	78.87% (56 out of 71 licensure exam-takers passed)	112.67

<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 graduates (2 years prior) that are employed	31%	70.33%	226.87
<i>Performance Indicator 3:</i> Percentage of undergraduate student population enrolled in CHED-identified priority programs	73%	84.03%	115.11
<i>Performance Indicator 4:</i> Percentage of undergraduate programs with accreditation	71%	100%	140.84

### **C. Financial Highlights**

The PhilSCA has total appropriations of ₱126,841,239.00 for CY 2018 consisting of current year Agency-Specific Budget of ₱113,127,000.00 as provided for in RA No. 10964, the Fiscal Year (FY) 2018 General Appropriations Act (GAA), Specific Purpose Funds of ₱5,263,319.00 for Miscellaneous Personnel Benefits Fund and ₱1,015,767.00 for Pension and Gratuity Fund/Terminal Leave Benefits, and an Automatic Appropriations of ₱7,435,153.00 for Retirement and Life Insurance Premiums. Total allotments released by the Department of Budget and Management (DBM) amounted to ₱125,612,953.00, of which, ₱121,893,245.62 or 97.04 percent was obligated, thereby, leaving an unobligated balance of ₱3,719,707.38 or 2.96 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)	79,003,000.00	77,774,714.00	76,179,142.90	1,595,571.10
Maintenance and Other Operating Expenses (MOOE)	24,124,000.00	24,124,000.00	22,025,169.23	2,098,830.77
Capital Outlay	10,000,000.00	10,000,000.00	9,974,696.00	25,304.00
<b>Sub - Total</b>	<b>113,127,000.00</b>	<b>111,898,714.00</b>	<b>108,179,008.13</b>	<b>3,719,705.87</b>
<b>Special Purpose Funds</b>				
Miscellaneous Personnel Benefits Fund	5,263,319.00	5,263,319.00	5,263,319.00	-
Pension and Gratuity Fund/Terminal Leave Benefits	1,015,767.00	1,015,767.00	1,015,765.49	1.51
<b>Sub - Total</b>	<b>6,279,086.00</b>	<b>6,279,086.00</b>	<b>6,279,084.49</b>	<b>1.51</b>

Sources of Funds	Appropriations	Allotment	Obligation Incurred	Unobligated Balance
<b>Automatic Appropriations</b>				
Retirement and Life Insurance Premium	7,435,153.00	7,435,153.00	7,435,153.00	-
<b>Sub - Total</b>	<b>7,435,153.00</b>	<b>7,435,153.00</b>	<b>7,435,153.00</b>	<b>-</b>
<b>Grand Total</b>	<b>126,841,239.00</b>	<b>125,612,953.00</b>	<b>121,893,245.62</b>	<b>3,719,707.38</b>

The PhilSCA's financial position and financial performance for CY 2018 with comparative figures for CY 2017 are as follows:

Particulars	Amount	
	2018	2017
<b>Financial Position</b>		
Assets	776,407,643.48	747,163,523.61
Liabilities	18,624,568.47	95,510,220.95
Net Assets/Equity	757,783,075.01	651,653,302.66
<b>Financial Performance</b>		
Revenue	137,795,047.82	88,501,564.86
Less: Current Operating Expenses		
PS	97,582,932.07	74,504,937.26
MOOE	106,612,750.72	98,797,293.80
Financial Expenses	-	120.00
Non-Cash Expenses	5,278,336.82	6,947,936.00
Deficit from Current Operations	(71,678,971.79)	(91,748,722.20)
Financial Assistance/Subsidy from National Government	179,479,277.83	103,862,555.75
<b>Surplus for the Period</b>	<b>107,800,306.04</b>	<b>12,113,833.55</b>

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

The audit covered the review of accounts and operations of PhilSCA and its Campuses for CY 2018. 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; and c) 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, 2018 for reasons stated in the Independent Auditor's Report which are discussed in detail in Part II of this Report. The concept of materiality is applied in evaluating the effects of identified misstatements or omissions in the financial statements. The overall materiality threshold of ₱2,094,740.20 is set on one percent of the total expenses of ₱209,474,019.61 per Statement of Financial Performance.

## **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. Due from National Government Agencies-Commission on Higher Education (CHED) and School Fees (4-02-02-010-00) accounts were both understated by ₱118,276,920.00 due to non-submission/delayed submission of Billing Statement to CHED for the reimbursement of tuition and other related fees for the 1<sup>st</sup> Semester, Academic Year (AY) 2018-2019 which is not in accordance with Republic Act (RA) No. 10931, hence receivable from CHED was not recognized. (Observation No. 2)

**We recommended that the Management: a) promptly prepare and submit Billing Statement to CHED for 1<sup>st</sup> Semester, AY 2018-2019; b) require the Accountant to prepare necessary entries for the recognition of receivables in the books; and c) submit explanation why the balance of ₱112,800.00 for AY 2017-2018 was not reimbursed by the CHED.**

2. 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-PS was not credited upon its delivery thereby overstated the Due from National Government Agencies (NGAs) – DBM-PS account by ₱7,999,680.00. (Observation No. 3)

**We recommended that the Management a) instruct the Accountant to recognize in the books the purchased flight simulator together with its incidental cost; and b) adjust the Due from NGAs – DBM-PS and Repairs and Maintenance – Building and Other Structures accounts accordingly.**

3. 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 instead of adjustment/deduction from School Fees Account, thereby resulted in an overstatement of both accounts. (Observation No. 5)

**We recommended that the Management instruct the Accountant to make the necessary adjustments to correct the books for fair presentation of the financial statements.**

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 April 10, 2019. 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, 2018, the PhilSCA has unsettled suspensions and disallowances of ₱5,918,887.46 and ₱30,296,989.61, respectively. Details are discussed in Part II of this Report.

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

Of the 83 audit recommendations embodied in the prior years' AARs, 59 were fully implemented and 24 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	59	71
Not Implemented	24	29
<b>Total</b>	<b>83</b>	<b>100</b>