

## 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 (DND) 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 (PD) 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 (BOT) as the governing body of the College under Section Nos. 5 and 11 of RA No. 7605, composed of the following:

|    | <b>Name</b>   | <b>Position/<br/>Designation</b> | <b>Mother Unit/Agency</b>                   |
|----|---|----------------------------------|---|
| 1  | Hon.Lilian A. De Las Llagas   | Chairperson                      | Commission on Higher Education (CHED)       |
| 2  | Prof. Marwin M. Dela Cruz, Ph.D.  | Vice-Chairperson                 | PhilSCA                                     |
| 3  | Sen. Emmanuel Joel Villanueva<br>Representative: Mr. Luquin Sartorio                          | Member                           | Senate of the Philippines                   |
| 4  | Cong. Mark O. Go –<br>representative: Hon. Congresswoman<br>Ma. Theresa V. Collantes          | Member                           | House of Representatives                    |
| 5  | Hon. Karl Kendrick Chua –<br>representative: Dir. Bien A. Ganapin                             | Member                           | National Economic and Development Authority |
| 6  | Lt. Gen. Allen T. Paredes, AFP –<br>representative: Col. Jose Johnson T. Grayda<br>PAF (MNSA) | Member                           | Philippine Air Force                        |
| 7  | MGen. Ramon A. Ragasa, AFP (Ret)  | Member                           | Private Sector Representative               |
| 8  | Col. Inocencio G. Silbol, PAF (Ret)   | Member                           | Private Sector Representative               |
| 9  | (vacant)  | Member                           | Alumni Trustee                              |
| 10 | Asst. Prof. Ramsey S. Ferrer  | Member                           | Faculty Trustee                             |
| 11 | (vacant)  | Member                           | Student Trustee                             |

As of December 31, 2019, PhilSCA has 464 personnel assigned in the different Campuses, as follows:

| Particulars             | Total      | Villamor Campus | Fernando Campus | Mactan Campus | Basa Campus |
|-------------------------|------------|-----------------|-----------------|---------------|-------------|
| <i>Status:</i>          |            |                 |                 |               |             |
| Permanent               | 205        | 119             | 30              | 27            | 29          |
| Contractual             | 259        | 160             | 24              | 52            | 23          |
| <b>Total</b>            | <b>464</b> | <b>279</b>      | <b>54</b>       | <b>79</b>     | <b>52</b>   |
| <i>Workforce:</i>       |            |                 |                 |               |             |
| Academe                 | 264        | 146             | 37              | 48            | 33          |
| Part-timers             | 44         | 32              | -               | 12            | -           |
| Admin and Support Staff | 150        | 101             | 14              | 17            | 18          |
| Security                | 6          | -               | 3               | 2             | 1           |
| <b>Total</b>            | <b>464</b> | <b>279</b>      | <b>54</b>       | <b>79</b>     | <b>52</b>   |

## B. Operational Highlights

During the Academic Years (AYs) 2019-2020, a total of 14,736 students were enrolled at PhilSCA- VAB Campus and in its three other Campuses, of which 180 belong to the graduate studies and 14,556 in the undergraduate schools, while the total number of graduates for AYs 2018-2019 totaled 3,685 presented as follows:

| Particulars                     | Total        | Villamor Campus | Fernando Air Base Campus | Mactan Air Base Campus | Basa Air Base Campus |
|---------------------------------|--------------|-----------------|--------------------------|------------------------|----------------------|
| <b>SY 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) 2019 are as follows:

| Major Final Outputs (MFOs) and Performance Indicators   | Targets | Actual Accomplishments | Accomplishment Rate |
|---|---------|------------------------|---------------------|
| <b>MFO 1- Higher Education Services</b>   |         |                        |                     |
| <i>Outcome Indicators:</i>  |         |                        |                     |
| 1. Percentage of first-time licensure exam-takers that pass the licensure exams                 | 70%     | 78.87%                 | 113                 |
| 2. Percentage of graduates (Two years prior) that are employed                                  | 31%     | 4.5%                   | 15                  |
| <i>Output Indicators:</i>   |         |                        |                     |
| 1. Percentage of undergraduate student population enrolled in CHED-identified priority programs | 50%     | 86.39%                 | 173                 |
| 2. Percentage of undergraduate programs with accreditation                                      | 20%     | 60%                    | 300                 |

## C. Financial Highlights

For Calendar Year (CY) 2019, the PhilSCA has total appropriations of ₱195,265,347.00 consisting of current year budget of ₱184,640,000.00 as provided for in the General Appropriations Act (GAA) for Fiscal Year (FY) 2019 or RA No. 11260, Automatic Appropriations of ₱9,166,492.00 for Retirement and Life Insurance Premiums and Special Purpose Fund of ₱1,458,855.00 for Miscellaneous Personnel Benefit and Pension and Gratuity Fund. Total allotments received from the Department of Budget and Management (DBM) for the year amounted to ₱167,539,248.00, of which, ₱159,376,250.13 were obligated, thereby leaving an unobligated balance of ₱8,162,997.87. The details are presented as follows:

| Sources of Funds                                | Appropriations        | Allotment             | Obligation Incurred   | Unobligated Balance |
|---|-----------------------|-----------------------|-----------------------|---------------------|
| <b>Current Year Appropriations</b>              |                       |                       |                       |                     |
| <b>Agency Specific Budget</b>                   |                       |                       |                       |                     |
| Personnel Services (PS)                         | 133,475,000.00        | 105,748,901.00        | 100,749,099.74        | 4,999,801.26        |
| Maintenance and Other Operating Expenses (MOOE) | 41,165,000.00         | 41,165,000.00         | 39,579,735.39         | 1,585,264.61        |
| Capital Outlay                                  | 10,000,000.00         | 10,000,000.00         | 9,880,923.00          | 119,077.00          |
| <b>Sub - Total</b>                              | <b>184,640,000.00</b> | <b>156,913,901.00</b> | <b>150,209,758.13</b> | <b>6,704,142.87</b> |
| <b>Automatic Appropriations</b>                 |                       |                       |                       |                     |
| Retirement and Life Insurance Premium           | 9,166,492.00          | 9,166,492.00          | 9,166,492.00          | -                   |
| <b>Sub - Total</b>                              | <b>9,166,492.00</b>   | <b>9,166,492.00</b>   | <b>9,166,492.00</b>   | <b>-</b>            |
| <b>Special Purpose Funds</b>                    |                       |                       |                       |                     |
| Miscellaneous Personnel Benefit                 | 1,344,000.00          | 1,344,000.00          | -                     | 1,344,000.00        |
| Pension and Gratuity Fund                       | 114,855.00            | 114,855.00            | -                     | 114,855.00          |
| <b>Sub - Total</b>                              | <b>1,458,855.00</b>   | <b>1,458,855.00</b>   | <b>0.00</b>           | <b>1,458,855.00</b> |
| <b>Grand Total</b>                              | <b>195,265,347.00</b> | <b>167,539,248.00</b> | <b>159,376,250.13</b> | <b>8,162,997.87</b> |

Also, PhilSCA has a total allotment of ₱179,755,231.63 from the approved budget on income utilization under the Special Trust Fund (STF), of which ₱115,158,326.97 or 64.06 percent was obligated leaving an unobligated balance of ₱64,596,904.66 or 35.94 percent as at year-end.

The PhilSCA's financial position and financial performance for CY 2019 with comparative figures for CY 2018 are as follows:

| Particulars               | Amount           |                |
|---------------------------|------------------|----------------|
|                           | 2019             | 2018           |
| <b>Financial Position</b> |                  |                |
| Assets                    | 1,012,575,620.24 | 776,407,643.48 |

| <b>Particulars</b>                                     | <b>Amount</b>         |                       |
|--|-----------------------|-----------------------|
| Liabilities  | 13,481,508.50         | 18,624,568.47         |
| Net Assets/Equity                                      | 999,094,111.74        | 757,783,075.01        |
| <b>Financial Performance</b>                           |                       |                       |
| Revenue  | 334,100,468.68        | 137,795,047.82        |
| Less: Current Operating Expenses                       |                       |                       |
| PS   | 120,990,359.31        | 97,582,932.07         |
| MOOE   | 112,708,319.03        | 106,612,750.72        |
| Non-Cash Expenses                                      | 9,374,485.13          | 5,278,336.82          |
| Surplus/(Deficit) from Current Operations              | 91,027,305.21         | (71,678,971.79)       |
| Financial Assistance/ Subsidy from National Government | 155,286,842.03        | 179,479,277.83        |
| <b>Surplus for the Period</b>                          | <b>246,314,147.24</b> | <b>107,800,306.04</b> |

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

The audit covered the review of accounts and operations of PhilSCA and its Campuses for CY 2019. 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 years' 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, 2019 because of total misstatements of ₱8,239,196.73 that exceeded the materiality threshold of ₱2,430,731.63 and unresolved variances between PhilSCA's accounting records and the supporting schedules/documents and unsubstantiated balances in the amount of ₱924,047,468.24, as stated in the Independent Auditor's Report which are discussed in detail in Part II of the Report.

#### **F. Significant Audit Observations and Recommendations**

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

1. Total misstatements in seven accounts under the Assets, Liabilities and Expenses categories aggregating to ₱8,239,196.73, resulting from errors, omissions and improper accounting treatment of transactions as of December 31, 2019, exceeded the materiality threshold of ₱2,430,731.63, hence the accuracy, completeness, occurrence, cut-off, classification and existence of the said accounts could not be relied upon, thereby affecting the fair presentation of the FSs.

**We recommended that Management:**

- a. **comply with the provisions of the PD No. 1445, the COA Circulars and the GAM for NGAs in the recording/recognition of accounts; and**
  - b. **effect the necessary adjustments to correct/reclassify the affected financial accounts**
2. Unresolved variances between PhilSCA's accounting records and the supporting schedules/documents and unsubstantiated balances in the amount of ₱924,047,468.24 were noted which affected the reliability of the Assets and Liabilities accounts, contrary to Section 6.e, Chapter 19 of the GAM for NGAs, Volume I.

**We recommended that Management to resolve the variances and/or discrepancies in the PhilSCA accounting records and provide supporting schedules in accordance with the aforementioned criteria.**

3. Lapses in the programming of the Special Trust Fund (STF) budget and execution of the programmed projects and budget reporting of PhilSCA for CY 2019 were noted which include, among others a) deficiencies in the submission of documents to support the budget proposal; b) non-compliance with the prescribed classification of funds; c) no supporting schedule/breakdown of fiduciary funds and other fiduciary funds; d) variance of ₱1,432,500.01 between the CY 2019 Programs of Receipts and Expenditures (PRE) and Financial Accountability Reports (FARs) 2 and 2-A, and e) unutilized STF budget totaling ₱64,596,904.66, contrary to the provisions of COA Circular No. 2000-002 dated April 4, 2000 and CMO No. 20, series of 2011, thus rendered the budget unreliable and caused the non-delivery of the much needed improvement of the College' facilities and equipment.

**We recommended that Management:**

- a. **comply with the provisions of COA Circular No. 2000-002 dated April 4, 2000 and CMO No. 20, series of 2011, on the use and disposition of internally generated funds accruing to the College;**
  - b. **prepare and implement well-planned and realistic annual STF budget with the required and correct supporting documents/schedules to be presented to the BOT for approval; and**
  - c. **identify the variance of ₱1,432,500.01 between the CY 2019 PRE and the SABUDB (FAR 2)/SABUDBOE (FAR 2-A).**
4. Deficiencies were noted in the implementation of the Tulong Dunong Program (TDP) of the College as shown by: a) delayed release of the financial assistance to TDP students-beneficiaries by 102 to 136 days; b) absence of Memorandum of

Agreement (MOA) from CHEDROs; c) non-maintenance of a separate subsidiary records; and d) insufficient supporting documents, contrary to the provisions of CHED-DBM Joint Memorandum Circular (JMC) Nos. 2017-2 and 2017-3 both dated May 24, 2017, CHED-DBM JMC No. 2017-2A dated September 29, 2017 and COA Circular No. 94-013 dated December 13, 1994, thereby adversely affecting the educational needs of the underprivileged yet qualified and deserving students-grantees.

**We recommended that Management:**

- a. **prepare and submit for approval of the BOT written policies and guidelines on the grant, utilization and liquidation of funds transferred (specifically to the Main and the Regional Campuses) for the implementation of the TDP and other scholarship/ financial assistance programs in accordance with COA Circular No. 94-013 dated December 13, 1994 and other pertinent laws/JCs/ Memorandum thereon;**
  - b. **designate a Coordinator for the Regional Campuses to facilitate the timely release of financial/scholarship assistance to the students-beneficiaries and the consolidation of the required documentary requirements;**
  - c. **submit to the COA Audit Team a status report on the unreleased financial assistance to the student of MBEAB Campus and its due release upon submission of the required documents;**
  - d. **submit to the COA Audit Team a status report on the PhilSCA-BAB Campus, Pampanga's receipt of funds from CHEDRO III for the TDP and the release of financial assistance to students upon submission of the required the documents;**
  - e. **furnish/submit to the Audit Team copies of the MOA with the CHEDROs.**
5. Deficient implementation of RA No. 10931 or the "Universal Access to Quality Tertiary Education Act of 2017" was noted, such as: a) delay for a period of three to six months in the submission to CHED of billing of tuition and other school fees of actual qualified enrolled students for Academic Year (AY) 2019-2020; b) no separate bank account maintained for funds received for FHE totaling ₱428,133,099.00 which are deposited in STF bank account; and c) improper recognition in the books of the funds received amounting to ₱99,366,381.00, contrary to CHED-UniFAST Memorandum No. 2018-02 dated August 8, 2018, which provides for the Guidelines on FHE in SUCs and CHED-Recognized Local Universities and Colleges (LUCs).

**We recommended that Management:**

- a. **formulate an action plan, for approval of the BOT, to resolve/prevent the incurrence of delay in the submission of the reports and the billing statements to CHED-UniFAST;**
  - b. **comply with the provision of CHED-UniFAST MCNo. 2018-02 to open and maintain a separate bank account for the proper account management of the Free HE; and transfer the corresponding funds deposited with PhilSCA's STF bank account;**
  - c. **reconcile the funds received for the implementation of Free HE with the disbursements made therefrom and deposit the remaining balance with a separate bank account for Free HE;**
  - d. **seek clarification with the CHED-UniFAST on whether the tuition and other fees paid by students who opted-out and/or ineligible be deposited with the separate bank account for Free HE or be deposited with the STF bank account of the College; and**
  - e. **observe proper accounting treatment of the funds received and adjust the accounting entry made, thru the Accounting Office, to avoid errors or misstatements in the FSs.**
6. The simultaneous transfers of funds in 2017 and 2018 to the Philippine International Trading Center (PITC), for the two procurement of goods projects and two infrastructure projects, which to date are still in the process of procurement/implementation, resulted in the accumulation of unliquidated fund transfers of ₱89,300,000.00 and deferment of benefits to the agency and students, contrary to COA Circular 2016-002 dated May 31, 2016.

**We recommended that Management:**

- a. **explain/justify the transfer of funds for the four projects on the same dates;**
- b. **coordinate with PITC for the timely process of procurement and implementation of the projects.**

The foregoing audit observations and recommendations were communicated through Audit Observation Memoranda (AOM) and discussed during the Exit Conference with concerned PhilSCA officials and employees on July 23, 2020. 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, 2019, the PhilSCA has unsettled suspensions and disallowances of ₱5,652,043.11 and ₱30,202,460.26, respectively. Details are discussed in Part II of this Report.

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

Of the 53 audit recommendations embodied in the prior years' AARs, 17 were fully implemented and 36 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               | 17            | 32                |
| Not Implemented                 | 36            | 68                |
| <b>Total</b>                    | <b>53</b>     | <b>100</b>        |