

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 advanced 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:

	Name	Position/ Designation	Mother Unit/Agency
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 Representative: Mr. Luquin Sartorio	Member	Senate of the Philippines
4	Cong. Mark O. Go – Representative: Congw. Ma. Theresa V. Collantes	Member	House of Representatives
5	Hon. Karl Kendrick Chua – Representative: Dir. Bien A. Ganapin	Member	National Economic and Development Authority
6	Lt.Gen. Allen T. Paredes, AFP Representative: Col. Jose Johnson T. Grayda, MNSA (PAF)	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	Asst. Prof. Ramsey S. Ferrer	Member	Faculty Representative
10	(vacant)	Member	Alumni Trustee
11	Reden Carlo Domingo Decano	Member	Student Trustee

As of December 31, 2020, PhilSCA has 499 personnel assigned in the different Campuses, as follows:

Particulars	Total	Villamor Campus	Fernando Campus	Mactan Campus	Basa Campus
<i>Status:</i>					
Permanent	221	131	30	32	28
Contractual	278	178	25	44	31
Total	499	309	55	76	59
<i>Workforce:</i>					
Academe	321	187	38	55	41
Part-timers	28	27	0	1	0
Admin and Support Staff	150	95	17	20	18
Security	0	0	0	0	0
Total	499	309	55	76	59

B. Operational Highlights

During the Academic Years (AYs) 2020-2021, a total of 8,970 students were enrolled at PhilSCA-VAB Campus and in its three other Campuses, of which 217 belong to the graduate studies and 8,753 in the undergraduate schools, while the total number of graduates for AYs 2019-2020 totaled 3,337, presented as follows:

Particulars	Total	Villamor Campus	Fernando Air Base Campus	Mactan Air Base Campus	Basa Air Base Campus
SY 2019-2020 Graduates					
Undergraduate Studies	3,292	1,370	504	904	514
Graduate Studies	45	45	-	-	-
Total	3,337	1,415	504	904	514

The reported plans/targets vis-à-vis its accomplishments for Calendar Year (CY) 2020 are as follows:

Major Final Outputs (MFOs) and Performance Indicators	Targets	Actual Accomplishments	Accomplishment Rate
MFO 1- Higher Education Program			
<i>Outcome Indicators:</i>			
1. Percentage of first-time licensure exam-takers that pass the licensure exams	70%	0%	0%
2. Percentage of graduates (Two years prior) that are employed	50%	57.74%	115.48
<i>Output Indicators:</i>			
1. Percentage of undergraduate student population enrolled in CHED-identified and RDC-identified priority programs	50%	81.69%	163.38

Major Final Outputs (MFOs) and Performance Indicators	Targets	Actual Accomplishments	Accomplishment Rate
2. Percentage of undergraduate programs with accreditation	40%	40%	100

C. Financial Highlights

For CY 2020, the PhilSCA has total adjusted appropriations of ₱179,785,507.00 consisting of current year budget of ₱170,316,000.00 (*adjusted*) as provided for in the General Appropriations Act (GAA) for Fiscal Year (FY) 2020 or RA No. 11465, Automatic Appropriations of ₱2,715,507.00 (*adjusted*) for Retirement and Life Insurance Premiums and Special Purpose Fund of ₱6,754,000.00 (*adjusted*) for Miscellaneous Personnel Benefit. Total allotments received from the Department of Budget and Management (DBM) for the year amounted to ₱179,785,507.00, of which, ₱177,572,215.38 was obligated, thereby leaving an unobligated balance of ₱2,213,291.62. The details are presented as follows:

Sources of Funds	Appropriations	Allotment	Obligation Incurred	Unobligated Balance
	(in Php)			
Current Year Appropriations				
Agency Specific Budget				
Personnel Services (PS)	108,872,000.00	108,872,000.00	107,807,542.22	1,064,457.78
Maintenance and Other Operating Expenses (MOOE)	41,444,000.00	41,444,000.00	40,330,079.92	1,113,920.08
Capital Outlay	20,000,000.00	20,000,000.00	19,965,086.24	34,913.76
Subtotal	170,316,000.00	170,316,000.00	168,102,708.38	2,213,291.62
Automatic Appropriations				
Retirement and Life Insurance Premium	2,715,507.00	2,715,507.00	2,715,507.00	-
Subtotal	2,715,507.00	2,715,507.00	2,715,507.00	-
Special Purpose Funds				
Miscellaneous Personnel Benefit	6,754,000.00	6,754,000.00	6,754,000.00	-
Subtotal	6,754,000.00	6,754,000.00	6,754,000.00	-
Total	179,785,507.00	179,785,507.00	177,572,215.38	2,213,291.62

PhilSCA has a total continuing appropriation of ₱30,354,462.73. Total allotments received from the DBM amounted to ₱11,235,185.73, of which ₱8,606,822.00 was obligated, thereby leaving an unobligated balance of ₱2,628,363.73, shown as follows:

Sources of Funds	Appropriations	Allotment	Obligation Incurred	Unobligated Balance
	(in Php)			
Current Year Appropriations				
Agency Specific Budget				
Personnel Services (PS)	30,354,462.73	11,235,185.73	8,606,822.00	2,628,363.73
Maintenance and Other Operating Expenses (MOOE)	-	-	-	-
Capital Outlay	-	-	-	-
Total	30,354,462.73	11,235,185.73	8,606,822.00	2,628,363.73

Also, PhilSCA has a total allotment of ₱342,001,890.11 from the approved budget on income utilization under the Special Trust Fund (STF), of which ₱209,159,132.34 or 61.16 percent was utilized leaving an unobligated balance of ₱132,842,757.77 or 38.84 percent as at yearend.

The PhilSCA's financial position and financial performance for CY 2020 with comparative figures for CY 2019 are as follows:

Particulars	Amount (in Php)	
	2020	2019
Financial Position		
Assets	1,189,024,914.14	1,012,575,620.24
Liabilities	114,084,736.86	13,481,508.50
Net Assets/Equity	1,074,940,177.28	999,094,111.74
Financial Performance		
Revenue	152,454,384.75	334,100,468.68
Less: Current Operating Expenses		
PS	136,222,944.23	120,990,359.31
MOOE	112,553,077.04	112,708,319.03
Non-Cash Expenses	6,249,751.43	9,374,485.13
Surplus/(Deficit) from Current Operations	(102,571,387.95)	91,027,305.21
Financial Assistance/ Subsidy from National Government	175,934,866.97	155,286,842.03
Surplus for the Period	73,363,479.02	246,314,147.24

D. Scope of Audit

The audit covered the review of accounts and operations of PhilSCA and its Campuses for CY 2020. 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 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 CY 2020 for reasons stated in the Independent Auditor's Report in Part I, 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 of ₱18,557,708.82 in Cash in Bank – Local Currency Current Account (LCCA), Due from NGAs, Inventories, Prepayments, Liabilities, and Expenses accounts resulting from errors, omissions and improper accounting treatment of transactions as of December 31, 2020 exceeded the materiality threshold of ₱2,550,257.72, hence the accuracy, completeness, cut-off and classification of the said accounts could not be relied upon, thereby affecting the fair presentation of the Financial Statements (FSs). (Observation No. 1)

We recommended that Management,

- a. **thru the Accountant, effect the necessary adjustments to correct the misstatements in the accounts affected;**

For Cash in Bank – Local Currency Current Account

- b. **provide the Audit Team with a copy of the legal basis for opening and maintaining the SHS VP bank account within five days from receipt hereof;**
- c. **determine the necessity of SHP VP account's continued existence and consider the immediate closure if no longer needed; and**

For Due from NGAs

- d. **submit supporting documents for the recorded receivables amounting to ₱1,153,600.00, otherwise prepare JEV to adjust the previously recorded accounting entry;**

For Liabilities

- e. **analyze, reconcile and make the necessary adjusting entry to correct the discrepancies of ₱2,026,441.07 noted in the audit of the previous and current years; and**
- f. **reconcile regularly the monthly withholding and remittances of taxes to ensure proper and accurate recording and avoid errors**

2. Non-restatement of the material Prior Period Adjustments (PPAs) in the CY 2020 FSs with a total amount of ₱3,971,899.38 adversely affected the fair presentation of the comparative FSs contrary to the provisions of the GAM for NGAs, Volume I and the IPSAS. (Observation No. 2)

We recommended that Management:

- a. **comply with the retrospective application of the PPAs by restating the 2019 FSs as stated in IPSAS 1 and 3 in reference to Sections 42, 44 and 46, Chapter 19 of the GAM for NGAs, Volume I;**
 - b. **use the prescribed format provided in Section 45, Chapter 19 of the GAM for NGAs, Volume I for proper procedures and disclosures of Retrospective Restatement of Errors; and**
 - c. **provide the supporting details of the prior period adjustments showing the specific accounts affected and present them in the Notes to FSs.**
3. Unresolved variances and huge discrepancies between PhilSCA's Accounting records and their supporting schedules/documents and unsubstantiated balances were noted which affected the reliability of the Cash in Bank – LCCA and Accounts Receivable accounts totaling ₱524,076,604.95 as at December 31, 2020, contrary to Section 6.e, Chapter 19 of the GAM for NGAs, Volume I. (Observation No. 4)

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

4. The audit of Special Trust Fund (STF) budget revealed a) inconsistencies in the budgeted amounts in the submitted Financial Accountability Reports (FARs) against the FY 2020 Program of Receipts and Expenditures (PRE), with a difference of ₱24,206,555.60; and b) significant amount of unutilized budget of ₱132,842,757.77 or 39 percent of the total STF budget of ₱342,001,890.11, thus affected the efficiency and effectiveness of the College's operations that deferred the benefits of modernized facilities and equipment for the students. (Observation No. 5)

We recommended that Management:

- a. **ensure that the BOT Resolution approving the College's PRE indicates the amount of the approved budget;**
- b. **submit justification on the inconsistencies of the FY 2020 budget presented in the PRE and the FARs;**

- c. **prepare a more realistic budget by considering the needs and capability of the College to disburse the same, and maximize the utilization thereof for the effective implementation of planned programs/projects; and**
 - d. **ensure the consistency of the disclosed budget between the approved PRE and the SABUDB (FAR No. 2)/ SABUDBOE (FAR No. 2-A) to ensure the reliability and validity of the submitted reports.**
5. Out of the ₱3,000,000.00 fund transfer from CHEDRO- NCR for the implementation of the Tulong Dunong Program (TDP), a total of ₱636,000.00 was not utilized/released to the student-grantees by PhilSCA, thereby adversely affecting the educational needs of the underprivileged yet qualified and deserving student-grantees, contrary to the Joint CHED-DBM issuances on the Program. Also, the copy of Memorandum of Agreement (MOA), as vital basis for the evaluation of Program implementation was not submitted to the Audit Team. (Observation No. 6)

We recommended that Management:

- a. **furnish the Audit Team with the copy of the liquidation of the remaining unreleased TDP financial assistance amounting to ₱636,000.00; and**
 - b. **submit the Memorandum of Agreement (MOA) with CHEDRO- NCR for the implementation of the TDP as reference in audit.**
6. Lapses in the implementation of the TES-ESGPPA for AYs 2018-2019 and 2019-2020 were noted such as: a) non-compliance of the College with its responsibilities in the implementation of the Program; b) non-issuance of Official Receipts (ORs) for funds received from CHED totaling ₱3,563,800.00; and c) unreleased educational assistance to the student-grantees amounting to ₱4,781,800.00 contrary to CHED-UniFAST Memorandum Circular No. 2018-0001 dated March 26, 2018 and CHED-UniFAST-DBM Joint Memorandum Circular No. 07, s. 2019 dated December 27, 2019, thus hampered the timely receipt of benefits that could have financially assisted the grantees (Observation No. 7).

We recommended that Management:

- a. **issue ORs for the funds received from CHED totaling ₱3,563,800.00 and furnish the COA Office copies of the ORs;**
- b. **release the financial assistance amounting to ₱4,781,800.00 to the qualified student-grantees of PhilSCA and furnish the Audit Team the copies of Fund Utilization Reports;**

c. maintain a separate bank account with the LBP, for proper account management of TES funds.

7. The minimal utilization of the budget for research projects, programs and activities of only ₱34,285.48 or less than one percent of the ₱5,083,027.91 allocated budget, defeated the goals and objectives of the College to establish research culture by promoting and enhancing research awareness among faculty members and students and to conduct relevant and high impact researches in the fields of Aeronautical education (Observation No. 14)

We recommended that Management:

- a. activate the research function of the College thru the implementation of the budgeted and programmed research projects and activities in line with its objective of promoting and enhancing research awareness and developing high impact researches in the fields of aeronautical education; and**
- b. submit relevant supporting documents on the research-related expenses amounting to ₱34,285.48 to preclude the issuance of a Notice of Suspension/Notice of Disallowance by COA.**

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 May 13, 2021. 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, 2020, the PhilSCA has unsettled suspensions and disallowances of ₱5,613,243.11 and ₱30,201,916.26, respectively. Details are discussed in Part II of this Report.

H. Status of Implementation of Prior Years' Audit Recommendations

Of the 140 audit recommendations embodied in the prior years' AARs, 52 were fully implemented and 88 were not implemented, as summarized in the table below. The details of prior years' audit recommendations are discussed in Part III of this Report.

Status of Implementation	Number	Percentage
Fully Implemented	52	37
Not Implemented	88	63
Total	140	100