



**Republic of the Philippines**  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City

**ANNUAL AUDIT REPORT**

**ON THE**

**MINDANAO STATE UNIVERSITY**  
**Tawi-Tawi College of Technology and Oceanography**  
**Bongao, Tawi-Tawi**

**For the Year Ended December 31, 2015**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
Autonomous Region in Muslim Mindanao  
**OFFICE OF THE REGIONAL DIRECTOR**  
ARMM Compound, Cotabato City



June 30, 2016

**ATTY. LORENZO R. REYES**

Chancellor

Mindanao State University - Tawi-Tawi College  
of Technology and Oceanography  
Bongao, Tawi-Tawi

Sir:



We are pleased to transmit the Annual Audit Report on the MSU-Tawi-Tawi College of Technology and Oceanography for the Calendar Year ended December 31, 2015 in compliance with Section 2, Article IX-D of the Philippine Constitution and Section 43 of Presidential Decree No. 1445, otherwise known as the Government Auditing Code of the Philippines.

Our report consists of four parts: Part I – Audited Financial Statements, Part II – Audit Observations and Recommendations, Part III – Status of Implementation of Prior Years' Unimplemented Audit Recommendations, and Part IV – Appendices.

The audit was conducted in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided reasonable basis for our audit opinion.

We rendered an adverse opinion on the fairness of presentation of financial statements as of December 31, 2015 due to the following:

1. Cash Advances for travel of ₱ 11,135,301.75 and for payment of compensation and time-bound activities ₱11,892,092.12 remained unliquidated at year-end resulting in the understatement of the total expenses and overstatement of assets.
2. The Agency failed to conduct physical inventory of its Office Supplies Inventory and Property, Plant and Equipment as of year-end with book value of ₱ 9,135,517.63 and ₱ 223,644,489.71, respectively. The inadequacy of its records did not permit us to apply adequate alternative procedures to determine the validity, propriety and existence of these accounts which constitute 67.80% of the total assets of the Agency.

3. It also failed to provide depreciation on its Property, Plant PEs with acquisition cost of ₱ 270,345,395.32, hence, assets and net income for the year were overstated by about ₱ 18,603,011.27.

We request that the recommended remedial measures be immediately implemented and we will appreciate being informed of the action(s) taken thereon by submitting the duly accomplished *Agency Action Plan and Status of Implementation (AAPSI)* form hereto attached, within 60 days from receipt of this report, pursuant to Section 88 of the General Provisions of the General Appropriations Act for FY 2015 (RA 10633).

We acknowledge the assistance and cooperation extended to the Audit Team by the Agency officials and employees.

Very truly yours,

  
**BATO S. ALI, JR.**  
Director IV  
Regional Director

- Cc: 1. President of the Republic of the Philippines  
2. Vice-President of the Republic of the Philippines  
3. President of the Senate  
4. Speaker of the House of Representatives  
5. Chairperson-Senate Finance Committee  
6. Chairperson-Appropriations Committee  
7. Secretary, Department of the Budget and Management  
8. Presidential Management Staff, Office of the President  
9. Commission Proper, Commission on Audit  
10. The Board of Regents, MSU-TCTO  
11. National Library (soft copy)  
12. University of the Philippines (UP) Law Center (soft copy)  
13. COA Commission Central Library (soft copy)

[Name of the Agency and Address]

**AGENCY ACTION PLAN and  
STATUS of IMPLEMENTATION**  
Audit Observations and Recommendations  
For the Calendar Year 20XX  
As of \_\_\_\_\_

Ref	Audit Observations	Audit Recommendations	Agency Action Plan				Status of Implementation	Reason for Partial/Delay/Non-Implementation, if applicable	Action Taken/Action to be Taken
			Action Plan	Person/Dept. Responsible	Target Implementation Date				
					From	To			

Agency sign-off:

\_\_\_\_\_  
Name and Position of Agency Officer

\_\_\_\_\_  
Date

Note: Status of Implementation may either be (a) Fully implemented, (b) Ongoing, (c) Not Implemented, (d) Partially Implemented, or (e) Delayed





Republic of the Philippines  
**COMMISSION ON AUDIT**  
Autonomous Region in Muslim Mindanao  
**OFFICE OF THE SUPERVISING AUDITOR**  
Audit Group H  
ARMM Compound, Cotabato City



June 23, 2016

**ATTY. BATO S. ALI, JR.**  
Director IV  
Regional Director  
Commission on Audit-ARMM  
Cotabato City

Sir:


In compliance with Section 2, Article IX-D of the Philippines Constitution and pertinent sections of Presidential Decree No. 1445, we conducted a financial and compliance audit on the accounts and operations of the Mindanao State University-Tawi-Tawi College of Technology and Oceanography, Bongao, Tawi-Tawi for the year ended December 31, 2015.

The audit was conducted to ascertain the propriety of financial transactions and compliance of the agency with prescribed rules and regulations. It was also made to ascertain the accuracy of the financial records and reports, as well as the fairness of the presentation of the financial statements.

The audit was conducted in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided reasonable basis for our audit opinion.

We rendered an adverse opinion on the fairness of presentation of financial statements as of December 31, 2015, for reasons as stated in the Independent Auditor's Report.

Very truly yours,

  
**NORAH ALI ANSAO, CPA**  
State Auditor IV  
Audit Team Leader  
OIC-Supervising Auditor

# **EXECUTIVE SUMMARY**

## **1) INTRODUCTION**

### **a. Audited Agency**

The Mindanao State University- Tawi-Tawi College of Technology and Oceanography (MSU-TCTO) was formally established under Republic Act No. 6060, as amended, on August 4, 1969 in southern Sulu and it was known as the Sulu College of Technology and Oceanography and started its operation as an integral unit of the Mindanao State University. With the creation of the Province of Tawi-Tawi, the name was changed to Tawi-Tawi College of Technology and Oceanography on March 16, 1982, under Batas Pambansa Blg. 197.

Its primary mandate is to extend to the Muslims and other cultural minority groups (now communities) the opportunities of college education and develop such other programs that will promote Muslim welfare and hasten the economic development of the southernmost region of the Philippines.

The administration of the College and the exercise of its corporate powers are vested exclusively in the Board of Regents as constituted by law and the president of the College as authorized by the Board. Complementing and assisting the Chancellor in the educational thrust of the College are the Vice Chancellors for Academic Affairs, Research and Extension, and Administration and Finance.

### **b. Audit Methodology**

The audit was conducted in accordance with applicable legal and regulatory requirements, and the Philippine Public Sector Standards on Auditing. Those standards require that we plan and perform the audit to obtain a reasonable basis for our conclusions.

### **c. Scope of Audit**

The audit covered the accounts and operations of the MSU-TCTO for the Calendar Year 2015. It was aimed at ascertaining the propriety of financial transactions, Management's compliance to prescribed rules and regulations and the fairness of presentation of the financial statements.

## **2) FINANCIAL HIGHLIGHTS**

### **a. Comparative Financial Condition and Results of Operations**

Particulars	CY 2015	CY 2014	Increase/ (Decrease)	% Increase (Decrease)
Assets	343,352,649.75	326,825,040.76	16,527,608.99	5.06
Liabilities	64,933,137.59	32,948,685.66	31,984,451.93	97.07
Equity	278,419,512.16	293,876,355.10	(15,456,842.94)	(5.26)
Gross Income	419,265,287.42	474,729,753.56	(55,464,466.14)	(11.68)
Expenses	384,016,754.05	344,822,158.06	39,194,595.99	11.37
Net Income	35,248,533.37	129,907,595.50	(94,659,062.13)	(72.87)

b. Operational Highlights

Programs/Projects/Activities	Targets	Accom- plishments	Variance
MFO 1. Higher Education Services <i>Performance Indicators</i>			
1. Total number of graduates in mandated and priority programs	200	242	42
2. Average passing percentage of licensure exams by the SUC graduate/national average passing % across all discipline covered by the SUC	8	17	9
3. Percentage of graduates who finished academic program according to the prescribed timeframe	32	36	4
MFO 2. Advanced Education Services <i>Performance Indicators</i>			
1. Total number of graduates in mandated and priority programs	11	14	3
2. Percentage of graduates engaged in employment or whose status improved within one (1) year of graduation	12	24	12
3. Percentage of students who rated timeliness of education delivery/supervision as good or better	77	76	(1)

Programs/Projects/Activities	Targets	Accomplishments	Variance
MFO 3. Research Services <i>Performance Indicators</i>			
1. Number of research studies completed in the last three (3) years	7	64	57
2. Percentage of research outputs published in a recognized journal or submitted for patenting	8	5	(3)
3. Percentage of research projects completed on schedule	80	95	15
MFO 4. Technical Advisory Extension Services <i>Performance Indicators</i>			
1. Number of persons trained weighted by the length of training	1,200	1,147	(53)
2. Percentage of trainees/clients who rated services rendered as good or better	80	90	10
3. Percentage of requests for training/technical advice that are responded to within three (3) days of request	82	89	7
KRA No. 2 - Poverty Reduction and Empowerment of the Poor and the Vulnerable <i>Performance Indicator</i>			
1. Expanded Students Grants-In-Aid Program for Poor Alleviation (ESGP-PA) 301010000 155 (The program is for 1 year- 1st and 2nd Semester)	155	155	0

### 3) AUDIT OPINION ON THE FINANCIAL STATEMENTS

The Auditor rendered an adverse opinion on the fairness of presentation of the financial statements due to the material effects of the noted deficiencies on some of the accounts, as discussed in detail in Part II of the report.

### 4) SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS

1. *Management's laxity in the enforcement of Section 16 of Executive Order No. 248, as amended, and its implementing rules and regulations provided in COA*



*Circular No. 97-002 on cash advances granted for travel and special purpose/time bound undertaking, resulted in the accumulation of un-liquidated cash advances of ₱ 11,135,301.75 of which ₱5,552,605.53 are above one year and ₱ 5,582,696.22 are above 30 days but less than a year, thus sizeable amount of current operating expenses are unrecorded.*

We recommend the following measures:

- The Chancellor should refrain from approving Travel Order when notice is received from the Accountant that previous travel was not yet liquidated;
- Enforce withholding of salary of non-compliant personnel; and
- The Office of the Accountant should maintain up-to-date individual subsidiary ledgers for Due from Officers and Employees. This will facilitate monitoring of cash advances.

2. *Cash advances granted to regular and special disbursing officers of ₱11,892,092.12 for the payment of other compensation and time-bound activities were allowed to remain not liquidated at the end of the year contrary to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002 thus, expenses for personal services for the year were not recorded. And this resulted in the overstatement of the net income. Further, it exposed the funds to the risk of misuse and loss.*

Demand from the concerned accountable officers the immediate liquidation of the cash advances. Direct the College Cashier to withhold the salaries of the concerned accountable officers who failed to liquidate their obligations within thirty (30) upon receipt of the demand letter.

3. *Unnecessary grant of local travels to several personnel of the College which is not in accordance with Section 1.a.2 of Administrative Order No. 103 series of 2004 and Updated Guidelines for the Prevention and Disallowance of Unnecessary Expenditures under COA Circular No. 2012-003 dated October 29, 2012.*

We recommend that the College adhere to the provisions of Administrative Order 103 s. of 2004 and COA Circular 2012-003. Limit the grant of travel to officials and employees whose attendance to trainings, seminars and conferences is urgently needed.

4. *The College failed to conduct physical inventory and to submit the inventory report in Calendar Year 2015 as required under Section 490 of Government Accounting and Auditing Manual, Volume I, thus the validity, existence and correctness of the Supplies Inventory and Property, Plant and Equipment accounts with book value of ₱9,135,517.63 and ₱ 223,644,489.71, respectively,*

*could not be ascertained affecting the fair presentation of the accounts in the financial statements.*

We reiterate our recommendation for the Agency to conduct periodic physical inventory of its property, plant and equipment and a report thereon be immediately prepared and submitted to the Auditor not later than January 31 of each year. Items that are beyond economic repair shall be properly disposed and dropped from the books. The Property and Supplies Office/Unit should maintain Property Cards.

5. *Depreciation was not provided by the agency for its Property, Plant and Equipment with acquisition cost of ₱ 270,345,395.32, hence, assets and net income for the year was overstated by about ₱ 18,603,011.27.*

Direct the Accountant and the Property and Supply Officer to exert effort to secure the documents necessary to reconstruct the PPE accounts so that depreciation for the current and previous years maybe computed to arrive at the correct valuation of the property, plant and equipment. In case the necessary data could no longer be secured after exhausting all possible means, we recommend that appraisal of the PPEs be considered in order to establish the correct book values.

## **5) SUMMARY OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

The balances as of December 31, 2015 are as follows:

Notice of Suspension	P	0.00
Notice of Disallowances		0.00
Notice of Charges		0.00

## **6) STATUS OF IMPLEMENTATION OF PRIOR YEAR'S RECOMMENDATION**

The Agency failed to implement all of the twelve (12) unimplemented audit recommendations contained in Prior Year's Annual Audit Report. Four (4) of these are reiterated in the current report as they affect the fair presentation of the financial statements.

## TABLE OF CONTENTS

PART	PARTICULARS	PAGE
	AUDITED FINANCIAL STATEMENTS	
	Independent Auditor's Report	1
	Statement of Management Responsibility for Financial Statements	3
	Condensed Statement of Financial Position	4
	Condensed Statement of Financial Performance	5
	Condensed Statement of Changes in Equity	6
	Condensed Cash Flow Statement	7
	Notes to Financial Statements	8
II	Audit Observations and Recommendations	19
III	Status of Implementation of Prior Year's Unimplemented Audit Recommendations	26
	ANNEXES	
IV	A – Statement of Financial Position, By Fund	31
	B - Statement of Financial Performance, By Fund	35
	C – Statement of Cash Flows, By Fund	38
	D - Statement of Changes in Net Assets/Equity	39

**PART I**

**AUDITED FINANCIAL STATEMENTS**



Republic of the Philippines  
**COMMISSION ON AUDIT**  
**Commonwealth Avenue**  
Quezon City

## **INDEPENDENT AUDITOR'S REPORT**

**Atty. Lorenzo R. Reyes**  
Chancellor  
Mindanao State University-Tawi-Tawi College  
of Technology and Oceanography  
Bongao, Tawi-Tawi

### *Report on the Financial Statements*

We have audited the accompanying financial statements of the Mindanao State University – Tawi-Tawi College of Technology and Oceanography which comprise the Statement of Position as of December 31, 2015, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity and Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with state accounting principles generally accepted in the Philippines, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Philippine Public Sector Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the

financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Bases for Adverse Opinion*

- Cash Advances for travel of ₱ 11,135,301.75 and for payment of compensation and time-bound activities ₱11,892,092.12 remained unliquidated at year-end resulting in the understatement of the total expenses and overstatement of assets.
- The Agency failed to conduct physical inventory of its Office Supplies Inventory and Property, Plant and Equipment as of year-end with book value of ₱ 9,135,517.63 and ₱ 223,644,489.71, respectively. The inadequacy of its records did not permit us to apply adequate alternative procedures to determine the validity, propriety and existence of these accounts which constitute 67.80% of the total assets of the Agency.
- It also failed to provide depreciation on its Property, Plant PEs with acquisition cost of ₱ 270,345,395.32, hence, assets and net income for the year were overstated by about ₱ 18,603,011.27.

*Adverse Opinion*

In our opinion, due to the material effects of the deficiencies cited in the preceding paragraph, the financial statements referred to above do not present fairly the financial position of the Mindanao State University-Tawi-Tawi College of Technology and Oceanography as at December 31, 2015, and its financial performance and cash flows for the year then ended in accordance with the Philippine Public Sector Accounting Standards.

**COMMISSION ON AUDIT**

By:



**MAUREEN D. AMIL, CPA**

State Auditor III

OIC-Audit Team Leader

June 15, 2016

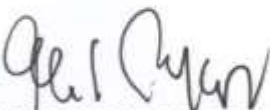


Mindanao State University  
TAWI-TAWI COLLEGE OF TECHNOLOGY AND OCEANOGRAPHY  
Sanga-Sanga, Bongao, Tawi-Tawi


**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS**

The management of MINDANAO STATE UNIVERSITY, TAWI-TAWI COLLEGE OF TECHNOLOGY AND OCEANOGRAPHY is responsible for all information and representations contained in the accompanying Statement of Financial Position as of December 31, 2015 and the related Statement of Financial Performance, Statement of Cash Flows, Statement of Comparison of Budget and Actual Amounts, Statement of Changes in Net Assets/Equity and the Notes to Financial Statements for the year then ended. The financial statements have been prepared in conformity with the Philippine Public Sector accounting Standards and generally accepted state accounting principles, and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

  
**ABDULKABI L. INGKOH**  
Chief Accountant

2/5/16  
Date Signed

  
**Atty. LORENZO R. REYES**  
Chancellor

                      
Date Signed

Mindanao State University -					
Tawi-Tawi College of Technology and Oceanography					
STATEMENT OF FINANCIAL POSITION					
As at December 31, 2015					
(With Comparative Figures for CY 2014)					
			Note	CY 2015	CY 2014
ASSETS					
Current Assets					
	Cash and Cash Equivalents	4	54,901,689.44	50,111,002.13	
	Receivables	5	24,754,412.92	21,323,737.64	
	Inventories	6	9,380,945.63	9,380,945.63	
	Other Current Assets	7	30,671,112.05	0.00	
	Total Current Assets		119,708,160.04	80,815,685.40	
Non-Current Assets					
	Property, Plant and Equipment	8	223,644,489.71	201,094,401.30	
	Other Non-Current Assets			44,914,954.06	
	Total Non-Current Assets		223,644,489.71	246,009,355.36	
TOTAL ASSETS			343,352,649.75	326,825,040.76	
LIABILITIES AND EQUITY					
LIABILITIES					
Current Liabilities					
	Financial Liabilities	9	50,607,767.10	7,396,026.92	
	Inter-Agency Payables	10	10,825,562.40	21,968,396.38	
	Deferred Credits		737,521.85	737,521.85	
	Other Payables	11	2,762,286.24	2,846,740.51	
	Total Current Liabilities		64,933,137.59	32,948,685.66	
TOTAL LIABILITIES			64,933,137.59	32,948,685.66	
EQUITY					
Government Equity					
	Accumulated Surplus		278,419,512.16	293,876,355.10	
TOTAL LIABILITIES AND EQUITY			343,352,649.75	326,825,040.76	

4

Mindanao State University -			
Tawi-Tawi College of Technology and Oceanography			
<b>STATEMENT OF FINANCIAL PERFORMANCE</b>			
For the Year ended December 31, 2015			
(With Comparative Figures for CY 2014)			
	<b>Note</b>	<b>CY 2015</b>	<b>CY 2014</b>
<b>REVENUE</b>			
Service and Business Income	12	17,046,562.69	10,927,633.43
Grants and Donations			54,500.00
<b>TOTAL REVENUE</b>		17,046,562.69	10,982,133.43
<b>LESS: CURRENT OPERATING</b>			
<b>EXPENSES</b>			
Personal Services	13	315,178,349.08	324,871,879.47
Maintenance and Other			
Operating Expenses	14	68,838,404.97	19,950,278.59
<b>TOTAL CURRENT OPERATING</b>			
<b>EXPENSES</b>		384,016,754.05	344,822,158.06
<b>Deficit from Current Operations</b>		(366,970,191.36)	(333,840,024.63)
Net Financial Assistance/Subsidy	15	402,218,724.73	463,747,620.13
<b>Surplus for the Period</b>		35,248,533.37	129,907,595.50

Mindanao State University				
Tawi-Tawi College of Technology and Oceanography				
<b>STATEMENT OF CASH FLOWS</b>				
For the Year Ended December 31, 2015				
(With Comparative Figures for CY 2014)				
			<b>CY 2015</b>	<b>CY 2014</b>
<b>Cash Flows from Operating Activities:</b>				
<b>Cash Inflows:</b>				
	Receipt of Notice of Cash Allocation		370,665,746.00	437,977,417.93
	Collection of Income/Revenues		17,046,562.69	10,927,633.43
	Receipts of Grants and Donations		-	54,500.00
	Receipts of Inter-Agency Cash Transfer		14,677,956.19	5,130,167.00
	Total Cash Inflows		402,390,264.88	454,089,718.36
<b>Cash Outflows:</b>				
	Payment of Operating Expenses		148,569,211.28	129,270,054.93
	Payment of Accounts Payable		17,593,380.25	20,902,864.97
	Cash Liquidation of Cash Advances		152,031,092.19	146,466,879.67
	Remittance of GSIS, Pag-Ibig & PhilHealth		63,779,158.16	62,412,539.29
	Release of Inter-Agency Fund Transfers		6,677,620.67	35,421,212.00
	Reversion of Unutilized NCA		20,709.49	4,971.54
	Total Cash Outflows		388,671,172.04	394,478,522.40
	<b>Cash Provided by operating Activities</b>		<b>13,719,092.84</b>	<b>59,611,195.96</b>
<b>Cash Flows from Investing Activities:</b>				
<b>Cash Inflows:</b>			-	-
<b>Cash Outflows:</b>				
	Purchase of Property, Plant and Equipment		7,496,094.07	2,979,981.14
	Construction of Property, Plant and Equipment		1,432,311.46	56,512,987.35
	Total Cash Outflows		8,928,405.53	59,492,968.49
	<b>Cash Provided by Investing Activities</b>		<b>(8,928,405.53)</b>	<b>(59,492,968.49)</b>
<b>Cash Provided by Operating and Investing Activities</b>				
			4,790,687.31	118,227.47
<b>Add: Beginning Balance, January 1, 2015</b>			<b>50,111,002.13</b>	<b>49,992,774.66</b>
<b>Cash End, December 31, 2015</b>			<b>54,901,689.44</b>	<b>50,111,002.13</b>

Mindanao State University				
Tawi-Tawi College of Technology and Oceanography				
<b>STATEMENT OF CHANGES IN NET ASSETS/EQUITY</b>				
For the Year ended December 31, 2015				
(With Comparative Figures for CY 2014)				
		Accumulated Surplus/ (Deficit)		
		<b>CY 2015</b>	<b>CY 2014</b>	
<b>Balance at January 1, 2015</b>		<b>293,876,355.10</b>	<b>182,167,772.00</b>	
<b>Add/(Deduct):</b>				
<b>Changes in Net Assets/Equity for the Calendar Year</b>				
Surplus/(Deficit) for the period		35,248,533.37	129,907,595.50	
*1				
Others		(50,705,376.31)	(18,199,012.40)	
<b>Balance at December 31, 2015</b>		<b>278,419,512.16</b>	<b>293,876,355.10</b>	
*1 - Direct adjustments to Net Assets/Equity which are not revenues or expenses				

Mindanao State University –  
Tawi-Tawi College of Technology and Oceanography  
**NOTES TO FINANCIAL STATEMENT**  
For the year ended December 31, 2015

**Note 1. General Information/Agency Profile**

- The Mindanao State University – Tawi-Tawi College of Technology and Oceanography was established in Southern Sulu under Republic Act No. 6060 on August 4, 1969 as the Sulu College of Technology and Oceanography and as integral unit of Mindanao State University. On March 16, 1982, under Batas Pambansa Blg. 197, the name of Sulu College of Technology and Oceanography was changed into Tawi-Tawi College of Technology and Oceanography with the creation of the Province of Tawi-Tawi.
- As mandated by Republic Act No. 6060, the College shall extend to the Muslims and other cultural minority groups the opportunity of college education and develop such other programs as will promote Muslim welfare and hasten the economic development of the southernmost region of the Philippines. In keeping with this mandate, the College shall develop academic programs for effective exploitation and conservation of the fisheries resources in the Sulu Sea and nearby waters, undertake researches in fish processing and culture, and in oceanography for increased understanding of the country's territorial waters, and adopt other programs and projects as may be necessary to promote the social and economic development of the people. As a leading institution of learning committed to community – centered sustainable development, the College shall develop distinctive competencies, organizational capacities and individual capabilities in order to become a center of excellence in Fisheries, Marine Sciences and Engineering, and Oceanography. It shall also help develop Tawi-Tawi into becoming a haven of peace and prosperity.

**Note 2. Statement of Compliance and Basis of Preparation of Financial Statements**

The consolidated financial statements have been prepared in accordance with and comply with the Philippine Public Sector Accounting Standards (PPSAS) issued by the Commission on Audit per COA Resolution No. 2014-003 dated January 24, 2014.

The consolidated financial statements have been prepared on the basis of historical cost, unless stated otherwise. The Statement of Cash Flows is prepared using the direct method.

**Note 3. Summary of Significant Accounting Policies:**

**3.1 Basis of accounting**

The Agency uses accrual basis of accounting. All expenses are recognized when



incurred and reported in the financial statements in the period to which they relate. Income is also on accrual basis except for transactions where accrual basis is impractical or when other methods are required by law.

### **3.2 Consolidation**

The controlled entities (funds) are all those over which the controlling entity has the power to govern the financial and operating policies.

Inter-group transactions, balances and unrealized gains and losses on transactions between entities (funds) are eliminated in full.

### **3.3 Cash and Cash Equivalents**

Cash and cash equivalents comprise of cash on hand and cash in bank and deposits on call. For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

### **3.4. Inventories**

The cost of inventory ending of office and school supplies and materials is determined on the basis of FIRST IN FIRST OUT method.

### **3.5 Property, Plant and Equipment**

Property, Plant and Equipment (PPE) are carried at historical cost less accumulated depreciation and impairment losses.

#### ***Depreciation Method***

The straight line method of depreciation is adopted.

#### ***Estimated Useful Life***

The Agency uses the Schedule on the Estimated Useful Life of PPE by classification prepared by COA.

A residual value equivalent to ten percent (10%) of the cost of the PPE is set.

#### ***Impairment***

An asset's carrying amount is written down to its recoverable amount, or recoverable service amount, if the asset's carrying amount is greater than its estimated recoverable service amount.

### 3.6 Petty Cash Fund

Petty Cash Fund (PCF) account is maintained under the Imprest System of Accounting. All replenishment is directly charged to the expense account.

#### Note 4. Cash and Cash Equivalents

This account consists of:

ACCOUNT TITLE	<i>As of Dec 31</i>	
	<i>2015</i>	<i>2014</i>
<i>Cash on Hand</i>	<u>100,503.56</u>	<u>100,503.56</u>
Cash – Collecting Officers	75,503.56	75,503.56
Petty Cash Fund	25,000.00	25,000.00
<i>Cash in Bank - Local Currency</i>	<u>54,801,185.88</u>	<u>31,038,492.38</u>
Cash in Bank – Local Currency, Current Account	31,053,931.41	23,899,220.98
Cash in Bank – Local Currency, Savings Account	23,747,254.47	7,139,271.40
<i>Treasury/Agency Cash Accounts</i>	<u>00.00</u>	<u>18,972,006.19</u>
Cash - Modified Disbursement System (MDS), Trust	0.00	18,972,006.19
<i>TOTAL</i>	<u>54,901,689.44</u>	<u>50,111,002.13</u>

Cash – Collecting Officer consists of un-deposited collections from tuition fees, matriculation fees, rental fees and other income.

The Petty Cash Fund was established for petty operating expenses of the Office of the Chancellor.

Cash In Bank – Local Currency, Current Account is composed of the deposit of collections from tuition fees, matriculation fees, rental fees and other income treated as special trust fund consistent with RA No. 8292.

Cash - Modified Disbursement System (MDS) are amounts of Notice of Cash Allocation received from the Department of Budget and Management which remain un-disbursed as of year-end.

**Note 5. Receivables**

ACCOUNT TITLE	As of Dec 31	
	2015	2014
<i>Loans and Receivable Accounts</i>		
Accounts Receivable	636,874.80	636,874.80
<i>Inter-Agency Receivables</i>		
Due from NGAs	2,176,500.00	2,176,500.00
<i>Other Receivables</i>		
Receivables – Disallowances/ Charges	516,325.37	516,325.37
Due from Officers and Employees	11,135,301.75	7,704,626.47
Other Receivables	10,289,411.00	10,289,411.00
<b><i>TOTAL</i></b>	<b><u>24,754,412.92</u></b>	<b><u>21,323,737.64</u></b>

Accounts Receivable represents uncollected tuition and other fees from the students.

Due from NGAs consists of the inter-agency cash transfers subject to liquidation.

Receivables - Disallowance/Charges represents collectibles from various employees/recipients resulting from audit disallowances in 1985. The management will be writing a request for write off of the dormant account.

Due from Officers and Employees consists of the cash advances granted for traveling expenses. The management had already sent memoranda as reminders to all concerned officials and employees of their respective liquidation documents.

Other receivables represents amount erroneously booked up as due from various claimants resulting from audit suspension in 1985 for lack of some supporting requirements. Request for write off will be made.

**Note 6. Inventories**

ACCOUNT TITLE	As of Dec 31	
	2015	2014
<i>Inventory Held for Consumption</i>		
Office Supplies Inventory	9,135,517.63	9,135,517.63
Accountable Forms, Plates and Stickers	150,000.00	150,000.00
Textbooks and Instructional Materials	95,428.00	95,428.00
<b><i>TOTAL</i></b>	<b><u>9,380,945.63</u></b>	<b><u>9,380,945.63</u></b>

**Note 7. Other Current Assets**

ACCOUNT TITLE	As of Dec 2015
<i>Advances</i>	
Advances for Payroll	8,766,416.15
Advances to Officers and Employees	11,892,092.12
<i>Prepayments</i>	
<i>Advances to Contractors</i>	10,012,603.78
<b><i>TOTAL</i></b>	<b><u>30,671,112.05</u></b>

**Note 8. Property, Plant and Equipment**

Account Title	Acquisition Cost	Accumulated Depreciation	Book Value
Land	16,994,835.50	0.00	16,994,835.50
School Buildings	199,013,436.57	61,817,245.15	137,196,191.42
Other Structures	3,092,056.95	0.00	3,092,056.95
Machinery	7,061,794.30	888,586.86	6,173,207.44
Office Equipment	13,005,806.15	125,053.40	12,880,752.75
ICT Equipment	14,784,128.19	810,468.00	13,973,660.19
Marine and Fishery Equipment	3,201,065.86	1,865,022.05	1,336,043.81
Communication Equipment	460,036.55	216,284.34	243,752.21
Firefighting Equipment and Accessories	802,000.00	702,000.00	100,000.00
Military, Police and Security Equipment	57,100.00	51,390.00	5,710.00
Medical Equipment	292,498.00	0.00	292,498.00
Sports Equipment	773,805.00	681,770.60	92,034.40
Technical & Scientific Equipment	21,690.00	19,868.34	1,821.66
Other Machinery and Equipment	2,451,596.64	1,549,692.48	901,904.16
Motor Vehicles	8,437,357.55	4,634,540.00	3,802,817.55
Watercrafts	5,524,566.90	4,797,067.50	727,499.40
Other Transportation Equipment	672,419.00	605,165.85	67,253.15
Furniture and Fixtures	11,318,555.86	5,669,565.89	5,648,989.97

Books	4,412,883.27	0.00	4,412,883.27
Construction in Progress- Buildings & Other Structure	14,711,467.13	0.00	14,711,467.13
Other Property, Plant and Equipment	5,111,550.50	4,122,439.75	989,110.75
<i>TOTAL</i>	<i>312,200,649.92</i>	<i>88,556,160.21</i>	<i>223,644,489.71</i>

Land is composed of an area at Pasiagan, Bongao, Tawi-Tawi which is used as demonstration fishpond, and areas at Sanga-Sanga Main Campus, Bongao Campus, 20 Community High Schools throughout the Province, and in Mandaluyong City.

School Buildings include all the buildings in the two campuses of the College and the 20 Community High Schools.

Furniture and Fixtures consists of all furniture and fixtures in all the campuses of the College including those in Mandaluyong City.

Library Books consists of purely books per inventory report received by the accounting office. Practically almost all existing books have already reached their estimated useful life. Adjustment will be made and will cost them at 10% scrap value.

Watercrafts consist of RPL, fishing boat trawl, palakaya and other fishing crafts acquired by the College.

Sports Equipment, Motor Vehicles, Communication Equipment and other equipment have been accumulated through the years for the operation to carry out various activities of the school.

The existence and condition of all these PPEs are uncertain pending the conduct of physical inventory and the subsequent submission of the Inventory Report on PPEs.

#### **Note 9. Financial Liabilities**

Account Title	CY 2015	CY 2014	Increase/ (Decrease)
Accounts Payable	₱ 27,127,047.49	₱ 1,490,047.49	₱ 25,637,000.00
Due to Officers and Employees	23,480,719.61	5,905,979.43	17,574,740.18
<i>TOTAL</i>	<i>₱ 50,607,767.10</i>	<i>₱ 7,396,026.92</i>	<i>₱ 43, 211,740.18</i>

**Note 10. Inter-Agency Payable**

Account Title	CY 2015	CY 2014	Increase/ (Decrease)
Due to BIR	₱ 473,282.84	₱ 220,666.71	₱ 252,616.13
Due to GSIS	169,074.04	125,220.43	43,853.61
Due to Pag-Ibig	45,993.57	27,446.21	18,547.36
Due to Philhealth	693,137.32	692,074.82	1,062.50
Due to NGAs	9,444,074.63	20,902,988.21	(11,458,913.58)
<b><i>TOTAL</i></b>	<b>₱ 10,825,562.40</b>	<b>₱ 21,968,396.38</b>	<b>(₱ 11,142,833.98)</b>

Due to GSIS, Due to Pag-IBIG, and Due to PhilHealth represent the government shares and personal contributions of employees due from DBM-NCR as a result of adjustment from amount withheld from the agency's allotment.

Due to NGAs pertains to the balance of fund transfers made by various national government agencies to the College for implementation of project on research and other special projects and scholarship grants.

**Note 11. Other Payables**

Other Payables consist of various loan deductions including previous years' insurance premiums deductions due to private companies/external creditors.

**Note 12. Service and Business Income**

Account Title	CY 2015	CY 2014
<b><i>Service Income</i></b>	<b><i>1,053,217.50</i></b>	<b><i>537,305.00</i></b>
Permit Fees	79,180.00	40,050.00
Registration Fees	150,060.00	199,500.00
Clearance and Certification Fees	49,670.00	101,710.00
Other Service Income	774,307.50	196,045.00
<b><i>Business Income</i></b>	<b><i>15,993,345.19</i></b>	<b><i>10,390,328.43</i></b>
School Fees	8,504,972.00	5,278,453.80
Examination Fees	159,295.90	427,027.60
Rent/Lease Income	343,970.00	343,215.00
Other Business Income	6,985,107.29	4,341,632.03
<b><i>TOTAL SERVICE AND BUSINESS INCOME</i></b>	<b><i>17,046,562.69</i></b>	<b><i>10,927,633.43</i></b>



## **Note 13. Personnel Services**

### **13.1 Salaries and Wages**

Account Title	CY 2015	CY 2014
Salaries & Wages - Regular	188,971,920.10	194,974,643.05
Salaries and Wages - Part-time	747,343.00	405,363.00
Salaries and Wages-Casual/Contractual	9,989,362.23	10,450,301.55
<b><i>Total Salaries and Wages</i></b>	<b><i>199,708,625.33</i></b>	<b><i>205,830,307.60</i></b>

### **13.2 Other Compensation**

Account Title	CY 2015	CY 2014
Personal Economic Relief Allowance (PERA)	4,523,954.59	4,628,794.61
Additional Compensation (ADCOM)	13,563,350.00	13,882,500.00
Representation Allowance (RA)	1,906,774.19	1,817,250.00
Transportation Allowance (TA)	1,906,774.20	1,817,250.00
Clothing/Uniform Allowance	-	3,750,000.00
Subsistence Allowance	134,550.00	36,900.00
Productivity Incentive Allowance	16,074,315.00	1,508,833.33
Honoraria	2,869,197.51	2,123,921.00
Overtime and Night Pay	760,528.52	638,979.70
Year-end Bonus	16,024,324.91	15,989,379.50
Cash Gift	3,804,750.00	3,780,000.00
Other Bonuses and Allowances	39,232.11	6,012,500.00
<b><i>Total Other Compensation</i></b>	<b><i>61,607,751.03</i></b>	<b><i>55,986,308.14</i></b>

### **13.3 Personnel Benefit Contributions**

Account Title	CY 2015	CY 2014
Retirement and Life Insurance Premiums	22,636,318.22	23,602,213.77
Pag-IBIG Contributions	903,400.00	926,705.00
PhilHealth Contributions	2,184,237.50	2,220,925.00
Employees Compensation Insurance Premiums	890,757.16	879,175.79
Terminal Leave Benefits	27,247,259.84	35,426,244.17
<b><i>Total Personnel Benefit Contributions</i></b>	<b><i>53,861,972.72</i></b>	<b><i>63,055,263.73</i></b>

## **Note 14. Maintenance and Other Operating Expenses**

### **14.1 Traveling Expenses**

Account Title	CY 2015	CY 2014
Traveling Expenses - Foreign	65,690.44	-
Traveling Expenses – Local	6,264,163.50	5,841,905.59
<b><i>Total Traveling Expenses</i></b>	<b><i>6,329,853.94</i></b>	<b><i>5,841,905.59</i></b>

### **14.2 Training and Scholarship Expenses**

Account Title	CY 2015	CY 2014
Scholarship Expenses	16,648,475.93	3,266,770.86
Training Expenses	4,813,895.00	241,100.00
<b><i>Total Training and Scholarship Expenses</i></b>	<b><i>21,462,370.93</i></b>	<b><i>3,507,870.86</i></b>

### **14.3 Supplies and Materials Expenses**

Account Title	CY 2015	CY 2014
Office Supplies Expenses	746,171.79	713,646.31
Food Supplies Expenses	1,775,883.09	692,348.00
Drugs and Medicine Expenses	279,751.00	106,397.15
Fuel, Oil and Lubricants Expenses	702,857.50	8,433.00
Agricultural and Marine Supplies Expenses	97,680.00	220,137.70
Other Supplies and Materials Expenses	863,739.26	780,152.15
<b><i>Total Supplies and Materials Expenses</i></b>	<b><i>4,466,082.64</i></b>	<b><i>2,521,114.31</i></b>

### **14.4 Utility Expenses**

Account Title	CY 2015	CY 2014
Water Expenses	1,654,097.51	713,646.31
Electricity Expenses	1,487,837.27	692,348.00
<b><i>Total Utility Expenses</i></b>	<b><i>3,141,934.78</i></b>	<b><i>3,002,961.69</i></b>

### **14.5 Communication Expenses**

Account Title	CY 2015	CY 2014
Telephone Expenses	49,339.23	60,546.48
Internet Subscription Expenses	7,824,791.28	403,482.00
Cable, Satellite, Telegraph and Radio Expenses	5,350.00	33,945.00
<b><i>Total Communication Expenses</i></b>	<b><i>7,879,480.51</i></b>	<b><i>497,973.48</i></b>

#### 14.6 Awards/ Rewards and Prizes

Account Title	CY 2015	CY 2014
Awards/ Rewards Expenses	50,000.00	40,000.00

#### 14.7 Confidential, Intelligence & Extraordinary Expenses

Account Title	CY 2015	CY 2014
Extraordinary and Miscellaneous Expenses	-	942,000.00

#### 14.8 Professional Fees

Account Title	CY 2015	CY 2014
Auditing Services	-	120,133.30
Consultancy Services	261,774.19	423,600.00
Other Professional Services	28,600.00	125,400.00
<b><i>Total Professional Fees</i></b>	<b><i>290,374.19</i></b>	<b><i>669,133.30</i></b>

#### 14.9 General Services

Account Title	CY 2015	CY 2014
Environment/Sanitary Services	36,000.00	30,000.00
Security Services	504,000.00	70,000.00
Janitorial Services	76,000.00	-
<b><i>Total General Services</i></b>	<b><i>616,000.00</i></b>	<b><i>100,000.00</i></b>

#### 14.10 Repairs and Maintenance

Account Title	CY 2015	CY 2014
Repairs and Maintenance-Buildings & Other Structures	6,988,088.64	689,787.92
Repairs and Maintenance - Office Equipment	45,072.00	17,863.00
Repairs and Maintenance - Marine & Fishery Eqpmnt	-	15,744.00
Repairs and Maintenance - Machinery	10,000.00	-
Repairs and Maintenance - Other Machinery	-	11,360.00
Repairs and Maintenance - Motor Vehicles	1,700.00	10,920.00
Repairs and Maintenance - Water Crafts	153,477.00	15,316.15
Repairs and Maintenance - Other PPE	13,395.00	-
<b><i>Total Repairs and Maintenance</i></b>	<b><i>7,211,732.64</i></b>	<b><i>760,991.07</i></b>

#### 14.11 Other Maintenance and Operating Expenses

Account Title	CY 2015	CY 2014
Advertising Expenses	-	13,400.00
Representation Expenses	120,000.00	3,200.00
Transportation and Delivery Expenses	107,058.00	42,412.00
Rent/Lease Expenses	125,250.00	-
Membership Dues & Contribution to Organization	178,880.00	119,837.75
Subscription Expenses	251,900.00	166,380.00
Miscellaneous Expenses	78,515.99	-
Other Maintenance and Operating Expenses	16,423,971.35	1,661,098.54
<b><i>Total Other Maintenance and Operating Expenses</i></b>	<b><i>17,285,575.34</i></b>	<b><i>2,006,328.29</i></b>

#### Note 15. Financial Assistance/Subsidy

Account Title	CY 2015	CY 2014
Subsidy from National Government (NCA)	390,520,775.29	463,747,620.13
Subsidy Income from Other Funds	11,697,949.44	-
<b><i>Total Financial Assistance/Subsidy</i></b>	<b><i>402,218,724.73</i></b>	<b><i>463,747,620.13</i></b>

For this year, the College received from the Department of Budget and Management Notice of Cash Allocations (NCAs) of ₱ 390,541,484.78, inclusive of TRA. At year-end, it has reverted to the National Treasury unused NCA of ₱ 20,709.49.

## **PART II**

# **FINDINGS AND RECOMMENDATIONS**

## DETAILED FINDINGS AND RECOMMENDATIONS

### Financial and Compliance

#### Accumulation of unliquidated cash advances for travel

1. *Management's laxity in the enforcement of Section 16 of Executive Order No. 248, as amended, and its implementing rules and regulations provided in COA Circular No. 97-002 on cash advances granted for travel and special purpose/time bound undertaking, resulted in the accumulation of un-liquidated cash advances of ₱ 11,135,301.75 of which ₱ 5,552,605.53 are above one year and ₱ 5,582,696.22 are above 30 days but less than a year, thus sizeable amount of current operating expenses are unrecorded.*

Section 16 of Executive Order No. 248 dated May 29, 1985, as amended by Order No. 298 dated March 23, 2004, provides:

*“Within sixty (60) days after his return to the Philippines, in the case of official travel abroad, or within thirty (30) days of his return to his permanent official station in the case of official travel, every official or employees shall render an account of the cash advance received by him in accordance with existing applicable rules and regulations and/ or such rules and regulations as may be promulgated by the Commission on Audit for the purpose. xxx. Payment of the salary of any official or employee who fails to comply with the provisions of this Section shall be suspended until he complies therewith.”*

Section 4.1.2 of COA Circular No. 97-002 dated February 10, 1997 provides:

*“No additional cash advances shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.”*

The accumulation of cash advances to officers and employees especially those which are not accounted within 30 days after the return to permanent station may be attributed to:

- Approval of Travel Order by the Chancellor despite receipt of notice from the Accountant that previous travel was not yet liquidated;
- Non-enforcement of withholding of salary for non-liquidation of cash advances; and
- Lack of monitoring of cash advances for travel by the Office of the Accountant;

Because of Management laxity, a sizeable amount of travelling expenses was not recorded understating the total expenses and eventually overstating the net income for the year.

*We recommend the following measures:*

- *The Chancellor should refrain from approving Travel Order when notice is received from the Accountant that previous travel was not yet liquidated;*
- *Enforce withholding of salary of non-compliant personnel; and*
- *The Office of the Accountant should maintain up-to-date individual subsidiary ledgers for Due from Officers and Employees. This will facilitate monitoring of cash advances.*

**Unliquidated cash advances for other compensation and time-bound activities**

2. *Cash advances granted to regular and special disbursing officers of ₱11,892,092.12 for the payment of other compensation and time-bound activities were allowed to remain not liquidated at the end of the year contrary to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002 thus, expenses for personal services for the year were not recorded. And this resulted in the overstatement of the net income. Further, it exposed the funds to the risk of misuse and loss.*

Section 89 of PD 1445 sets the limit for the grant of cash advance, as follows:

*“xxx No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.”*

COA Circular No. 97-002 dated February 10, 1997 provides for the rules and regulations on the grant, utilization and liquidation of cash advances as follows:

*Section 4.1.3 A cash advance shall be reported on as soon as the purpose for which it was given has been served.*

*Section 5.1 The AO shall liquidate his cash advance as follows:*

*Section 5.1.1 Salaries, Wages, etc. - within five (5) days after each fifteen (15) day/end of the month pay period.*

*Failure of the AO to liquidate his cash advance within the prescribed*

*period shall constitute a valid cause for the withholding of his salary and the instruction of other sanctions as provided for under paragraphs 9.2 and 9.3 hereof.*

*Section 5.7 – When cash advance is no longer needed or has not been used for a period of two (2) months, it must be returned to or refunded immediately to the collecting officer.*

*Section 5.8 – All cash advances shall be fully liquidated at the end of each year. Except for the petty cash fund, the Accountable Officer (AO) shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt.*

*Section 5.9 – At the start of the ensuing year, a new cash advance may be granted, provided that a list of expenses against the previous cash advance is submitted. However, when no liquidation of the previous cash advance is received on or before January 20, the Accountant shall cause the withholding of the AO's salary.*

Further, Section 8 of the same circular provides that, it shall be the responsibility of the Head of the Agency to ensure that proper granting, utilization and liquidation of all cash advances are in accordance with these rules and regulations.

A review of the financial report disclosed that the unsettled cash advances of Disbursing Officers and Special Disbursing Officers as of December 31, 2015 is ₱ 11,892,092.12. Although, the amount is ₱ 11,478,290.28 or 49.11 % lower from last year balance of ₱ 23,370,382.40, this previous year audit finding is reiterated due to its materiality. The account is equal to 3.46 % of the total assets.

Had these cash advances been liquidated immediately, proper accounting of expenses and accurate determination of assets could have been undertaken. In addition, the non-liquidation of these cash advances within the timeframe prescribed under COA Circular No.97-002 exposed government funds to possible misuse or loss.

***Recommendation:***

- ***Demand from the concerned accountable officers the immediate liquidation of the cash advances; and***
- ***Direct the College Cashier to withhold the salaries of the concerned accountable officers who failed to liquidate their obligations within thirty (30) upon receipt of the demand letter.***



### **Unnecessary grant of traveling allowance**

3. ***Unnecessary grant of local travels to several personnel of the College which is not in accordance with Section 1.a.2 of Administrative Order No. 103 series of 2004 and Updated Guidelines for the Prevention and Disallowance of Unnecessary Expenditures under COA Circular No. 2012-003 dated October 29, 2012.***

Section 1.a.2 of Administrative Order No. 103 series of 2004 provides for the “*suspension of all local travels, unless urgently necessary and allowed by the Secretary or the Head of the SUC, GOCC, GFI, or OGCE.*”

COA Circular No. 2012-003 dated October 29, 2012 defines Unnecessary Expenditures as “*those which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service...not essential or that which can be dispensed with without loss or damage to property...*”

We have noted in audit that local travels were granted even to personnel holding security positions and non-plantilla positions (job-orders and contractuels) and those whose attendance to trainings, seminars and conferences does not warrant its urgency and exigency of the service and can be dispensed with without causing loss or damage to the government.

#### ***Recommendation:***

***We recommend that the College adhere to the provisions of Administrative Order 103 s. of 2004 and COA Circular 2012-003. Limit the grant of travel to officials and employees whose attendance to trainings, seminars and conferences is urgently needed.***

### **Failure to conduct physical inventory of Inventories and PPEs**

4. ***The College failed to conduct physical inventory and to submit the inventory report in Calendar Year 2015 as required under Section 490 of Government Accounting and Auditing Manual, Volume I, thus the validity, existence and correctness of the Supplies Inventory and Property, Plant and Equipment accounts with book value of ₱ 9,135,517.63 and ₱ 223,644,489.71, respectively, could not be ascertained affecting the fair presentation of the accounts in the financial statements.***

Section 490 Of Government Accounting and Auditing Manual, Volume I, provides that:

“For effective control of government property, “*Chiefs of Agencies are required to take a physical inventory of all the equipment and supplies belonging to their respective offices at least once a year, unless otherwise determined by the COA*

*Chairman in specific cases. Such inventory shall be made as of December 31 and submitted to the Auditor not later than January 31 of each year, unless extended by the Chairman, Commission on Audit.xxx.”*

Further, Section 43, Volume I of the Manual on the New Government Accounting Systems provides that:

*For check and balance, the Property and Supply Office/Unit shall maintain Property Cards (PC) for property, plant and equipment, and Stock Cards (SC) for inventories. The balance in quantity per PC and SC should always reconcile with the ledger cards of the Accounting Unit.*

It was observed that the College was not able to conduct physical count of its inventory and PPEs as of December 31, 2015 and failed to submit the Report on the Physical Count of Inventories (RPCI) and the Report on Physical Count of Property, Plant and Equipment (RCPPE) which were due on January 31, 2016. Examination of their records showed that Property Cards and Stock Cards were not maintained by the Property and Supply Officer thus reconciliation with accounting records could not be undertaken.

The failure to conduct physical inventory and to submit the RPCI and RCPPE and the absence of the Property Cards and Stock Cards prevented the auditor in validating the existence and condition of the PPEs and Office Supplies Inventory, casting doubt on the validity and accuracy of the account balances in the financial statement.

This audit observation has been repeatedly reported in the previous years’ audit report. It seems the Chancellor does not regard with importance the conduct of a regular physical count of the PPEs and Inventories of the College. And we are inclined to conclude that there is no effective control of government property in the Agency rendering the integrity of property custodianship questionable.

Considering the PPE and supplies inventory accounts constitute 67.80 % of the total assets of the Agency, the fairness of the presentation of the financial statement is materially affected.

***Recommendation:***

***We reiterate our recommendation for the Agency to conduct periodic physical inventory of its property, plant and equipment and supplies and a report thereon be immediately prepared and submitted to the Auditor not later than January 31 of each year. Items that are beyond economic repair shall be properly disposed and dropped from the books. The Property and Supplies Office/Unit should maintain Property Cards.***

**No depreciation provided on PPEs**

5. ***Depreciation was not provided by the agency for its Property, Plant and Equipment with acquisition cost of ₱ 270,345,395.32, hence, assets and net income for the year was overstated by about ₱ 18,603,011.27.***

The New Government Accounting System, Volume I provides:

***“Section 67. Depreciation for Property, Plant and Equipment.*** *The costs of property, plant and equipment are allocated to the periods benefited through the provision of accumulated depreciation. Depreciation is the systematic and gradual allocation of the depreciable amount of asset over its useful life...”*

***“Section 68. Method of Depreciation.*** *Depreciation shall be computed using the Straight Line Method. Depreciation shall start on the second month from purchase. A residual value equivalent to ten percent of the cost shall be set. Annual depreciation is computed as follows:*

$$\text{Annual Depreciation} = \frac{\text{Asset Cost less Estimated Residual/Salvage Value}}{\text{Estimated Useful Life}}$$

*Asset Cost* - Purchase or Acquired Value of the Asset

*Estimated Salvage Value* - 10% of the asset cost

*Estimated Useful Life* - Estimated number of years the asset shall be used as determined by the Commission on Audit

We have noted in our audit that the Agency did not provide depreciation for some of its depreciable property, plant and equipment. This is due to the absence of Property Cards and PPE Subsidiary ledgers, which should have been maintained by the Property and Supply Officer and the Accountant, respectively.

The annual depreciation on these PPEs based on the estimated useful life prescribed under COA Circular No. 2003-007 dated December 11, 2003 is computed as follows:

Kind of PPE	Acquisition Cost	Depreciable Cost (Acquisition Cost Less 10% Residual Value)	Estimated Useful life (Years)	Annual Depreciation
School Buildings	197,505,740.29	177,755,166.26	20	8,887,758.31
Other Structures	2,143,628.00	1,929,265.20	20	96,463.26
Machinery	7,019,794.30	6,317,814.87	10	631,781.49
Office Equipment	8,665,642.41	7,799,078.17	5	1,559,815.63

Information and Communication Equipment	14,784,128.19	13,305,715.37	5	2,661,143.07
Marine and Fishery Equipment	3,201,065.86	2,880,959.27	10	288,095.93
Communication Equipment	423,605.55	381,245.00	10	38,124.50
Firefighting Equipment and Accessories	802,000.00	721,800.00	7	103,114.29
Medical Equipment	179,598.00	161,638.20	10	16,163.82
Sports Equipment	773,805.00	696,424.50	10	69,642.45
Other Machinery and Equipment	2,355,086.64	2,119,577.98	10	211,957.80
Motor Vehicles	8,437,357.55	7,593,621.80	7	1,084,803.11
Watercrafts	5,460,830.90	4,914,747.81	10	491,474.78
Furniture and Fixtures	9,823,193.86	8,840,874.47	10	884,087.45
Books	4,207,368.27	3,786,631.44	5	757,326.29
Other Property, Plant & Equipment	4,562,550.50	4,106,295.45	5	821,259.09
TOTAL	270,345,395.32	243,310,855.79		18,603,011.27

The failure of the agency to provide the appropriate depreciation expense account for its PPEs resulted in the overstatement of the reported assets and net income for the year-ended December 31, 2015.

***Recommendation:***

***Direct the Accountant and the Property and Supply Officer to exert effort to secure the documents necessary to reconstruct the PPE accounts so that depreciation for the current and previous years maybe computed to arrive at the correct valuation of the property, plant and equipment. In case the necessary data could no longer be secured after exhausting all possible means, we recommend that appraisal of the PPEs be considered in order to establish the correct book values.***

## **PART III**

### **STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS**

## STATUS OF IMPLEMENTATION OF PRIOR YEAR'S RECOMMENDATIONS

The Agency failed to implement all of the twelve (12) unimplemented audit recommendations contained in Prior Year's Annual Audit Report. Four (4) of these are reiterated in the current report as they affect the fair presentation of the financial statements.

Audit Observation	Ref	Management Action	Reason for Partial/Non-Implementation
<p><i>1. The College failed to conduct physical inventory and to submit the inventory report in Calendar Year 2014 as required under Section 490 of Government Accounting and Auditing Manual, Volume I, thus the validity, propriety and existence of the Office Supplies Inventory and Property, Plant and Equipment accounts with book value of ₱ 9,135,517.63 and ₱ 201,094.401.30, respectively, could not be ascertained affecting the fair presentation of the accounts in the financial statements.</i></p> <p>We reiterate our recommendation for the Agency to conduct periodic physical inventory of its property, plant and equipment and a report thereon be immediately prepared and submitted to the Auditor not later than January 31 of each year. Items that are beyond economic repair shall be properly disposed and dropped from the books. The Property and Supplies Office/Unit should maintain Property Cards.</p>	<p>Pages 15-16 of AAR CY 2014</p>		<p><i>Not implemented. Reiterated as Finding # 4.</i></p>
<p><i>2. Depreciation was not provided by the agency for its Property, Plant and Equipment with acquisition cost of ₱ 52,250,752.86, hence, assets and net income for the year was overstated by about ₱ 7,033,205.00.</i></p> <p>Direct the Accountant and the Property and Supply Officer to exert effort to secure the documents necessary to reconstruct the PPE accounts so that depreciation for the current and previous years maybe computed to arrive at the correct valuation of the property, plant and equipment. In case the necessary data could no longer be secured after exhausting all possible means, we recommend that</p>	<p>Pages 16-17 of AAR CY 2014</p>		<p><i>Not implemented. Reiterated as Finding # 5.</i></p>

Audit Observation	Ref	Management Action	Reason for Partial/Non-Implementation
appraisal of the PPEs be considered in order to establish the correct book values.			
<p><i>3. Management's laxity in the enforcement of Section 16 of Executive Order No. 248, as amended, and its implementing rules and regulations provided in COA Circular No. 97-002 on cash advances granted for travel and special purpose/time bound undertaking, resulted in the accumulation of un-liquidated cash advances of ₱ 7,704,626.47 of which ₱ 4,841,338.67 are above one year and ₱ 2,149,556.80 are above 30 days but less than a year, thus sizeable amount of current operating expenses are unrecorded.</i></p> <p>We recommend the following measures:</p> <ul style="list-style-type: none"> <li>• The Office of the Accountant should maintain up-to-date individual subsidiary ledgers for Due from Officers and Employees. This will facilitate monitoring of cash advances;</li> <li>• The Chancellor should refrain from approving Travel Order when notice is received from the Accountant that previous travel was not yet liquidated;</li> <li>• Do not entertain request for consideration as this would set bad precedence; and</li> <li>• Enforce withholding of salary of non-compliant personnel.</li> </ul>	<p>Pages 18-19 of AAR CY 2014</p>		<p><i>Not implemented. Reiterated as Finding # 1.</i></p>
<p><i>4. Cash advances granted to regular and special disbursing officers of ₱ 23,370,382.40 for the payment of salaries and wages and other personnel benefits were allowed to remain not liquidated at the end of the year contrary to the provisions of Section 89 of PD 1445 and COA Circular No. 97-002 thus, expenses for personal services for the year were not recorded. This resulted in the overstatement of the net income and overstatement of the receivable accounts. Further, it exposed the funds to the risk of misuse and loss.</i></p>	<p>Pages 19-21 of AAR CY 2014</p>		<p><i>Not implemented. Reiterated as Finding # 2.</i></p>

Audit Observation	Ref	Management Action	Reason for Partial/Non-Implementation
<p>The accounting office, being the internal audit unit of the agency, should see to it that previous cash advances are fully settled prior to the granting of new cash advance.</p> <p>Demand from the concerned accountable officers the immediate liquidation of the cash advances. Direct the College Cashier to withhold the salaries of the concerned accountable officers who failed to liquidate their obligations within thirty (30) upon receipt of the demand letter.</p>			
<p><i>5. The amount of ₱ 5,387,845.93 from Special Trust Fund was disbursed without an approved special budget as required under Republic Act 8292 and COA Circular No. 2000-02 dated April 4, 2000, rendering the expenditures as unauthorized.</i></p> <p>Refrain from disbursing from the special trust fund without a special budget duly approved by the Board of Regents pursuant to RA 8292 and COA Circular No. 2000-02.</p>	<p>Pages 21-22 of AAR CY 2014</p>		<p><i>Not implemented.</i></p>
<p><i>6. The accuracy of Cash in Bank account with an aggregate amount of ₱ 49,893,705.91 as of December 31, 2013 could not be ascertained due to delayed submission of Bank Reconciliation Statement, non-maintenance of the necessary subsidiary ledgers for the bank account and non-recording of reconciling items contrary to Section 74 of PD 1445.</i></p> <p>Management should require the Accounting personnel to prepare and submit regularly, within the prescribed period the BRS in compliance with Section 2.1.4 of COA Circular No. 92-125A Coordinate closely with the depository bank by requesting them to deliver promptly the monthly bank statements so that the accounting personnel can prepare the BRS on time.</p>	<p>Pages 13-14 of AAR CY 2013</p>		<p><i>Not implemented.</i></p>



Audit Observation	Ref	Management Action	Reason for Partial/Non-Implementation
<p><i>7. The post-audit of office and other supplies in the total amount of ₱ 1,379,082.50 showed that none had been procured from the Procurement Service of the Department of Budget and management (DBM) contrary the provisions of Administrative Order No. 17 dated July 28, 2011.</i></p> <p>The College should procure commonly used goods, supplies and materials from the Procurement Service in compliance with Administrative Order No. 17, series of 2011.</p>	<p>Pages 17-18 of AAR CY 2013</p>		<p><i>Not implemented.</i></p>
<p><i>8. Purchases of office and other supplies during the year were directly issued to end users and charged to the expense account without coursing through the inventory account. Stock Cards and Supplies Ledger Cards were not maintained. These are contrary to the provisions of Section 43, volume I of the NGAS Manual.</i></p> <p>The Agency should adopt the perpetual inventory method in recording purchase of supplies and materials. The Agency Head should direct the Accountant to maintain records as required by the NGAS Manual to ensure that the correct amount of inventory and expenses accounts are taken up in the books.</p>	<p>Pages 18-19 of AAR CY 2013</p>		<p><i>Not implemented.</i></p>
<p><i>9. The College failed to submit copies of the purchase orders to the Office of the Auditor within five (5) working days upon approval/perfection, in violation of the provisions of COA Circular No. 2009-001 dated February 12, 2009. This precluded the Auditor to conduct timely review of contracts, inspection of project and purchases, and communicate to management defects/deficiencies noted.</i></p> <p>The College should submit copies of contracts and purchase orders to the Office of the Auditor within five (5) days after approval or perfection thereof to ensure the timely evaluation of contracts and inspection of project and purchases in compliance with COA Circular 2009-001.</p>	<p>Page 19-20 of AAR 2013</p>		<p><i>Not implemented.</i></p>

Audit Observation	Ref	Management Action	Reason for Partial/Non-Implementation
<p><i>10. Account payables due to GOCC and BIR has unreconciled balances and remained unremitted as of December 31, 2013 with the total amount of ₱ 2,958,185.37.</i></p> <p>Management should create a committee to undertake the reconciliation of unremitted premiums due to GOCC and the BIR and to hasten the negotiation on interest due. Thereafter, they should come up with a commitment on how to remit the long outstanding premiums. However, those officials responsible for not remitting the mandatory contribution should be made answerable for their actions and appropriate charges should be filed.</p>	<p>Pages 20-21 of AAR CY 2013</p>		<p><i>Not implemented.</i></p>
<p><i>11. Delayed submission of the paid Disbursement vouchers/payrolls/receipts for post audit contrary to the provisions of Sections 43, Par. 4, 100 and 107 of PD 1445, otherwise known as The government Auditing Code of the Philippines.</i></p> <p>Management should observe the timely submission of the required reports and documents, pursuant to existing laws, rules and regulations.</p>	<p>Pages 21-22 of AAR CY 2013</p>		<p><i>Not implemented.</i></p>
<p><i>12. The required 5% specific allocation for Gender and Development (GAD) in the Annual Budget of the College was not implemented, however various activities were claimed GAD related programs.</i></p> <p>Strict compliance of the 5 % allocation for GAD programs in their Annual Budget as provided under existing laws, rules and regulations.</p>	<p>Page 22 of AAR CY 2013</p>		<p><i>Not implemented.</i></p>

## **PART IV – ANNEXES**