

## EXECUTIVE SUMMARY

### A. Introduction

The University is first an institution of higher learning fully chartered in 1974 by virtue of Republic Act No. 4576, “An Act Converting the Pampanga National Agricultural School in Magalang, Pampanga into Pampanga Agricultural College (PAC)”, and complemented by Republic Act No. 8292 also known as the “Higher Education Modernization Act of 1997”. On January 13, 2015, PAC was formally granted a university status based on pure merits following the confirmation of the Commission on Higher Education (CHED) en Banc Resolution No. 006-2015. The resolution was in pursuance to Republic Act 10605 entitled “An Act Converting the Pampanga Agricultural College (PAC) in the Municipality of Magalang, Province of Pampanga into a State University to be known as the Pampanga State Agricultural University(PSAU), approved by His Excellency President Benigno S. Aquino III on June 11, 2012. PSAU is mandated to offer agriculture and allied fields. It operates a single campus, which lies at the western slope of the majestic Mt. Arayat in the municipality of Magalang, Pampanga. It is about 15 kilometers east of Angeles City.

### B. Financial Highlights

The following comparative data shows the financial condition, results of operations, and sources and application of funds of PSAU for the years 2018 and 2017:

	Amount in Million Pesos			
	2018	2017	Inc. (Decrease)	
			Amount	%
Financial Condition				
Assets	708.50	540.26	168.24	31.14
Liabilities	147.09	97.80	49.29	50.40
Accumulated Surplus/(Deficit)	561.41	442.46	118.95	26.88
Results of Operations				
Revenue and Assistance/Subsidy	489.77	386.42	103.35	26.75
Expenses	357.83	270.46	87.37	32.30
Surplus/(Deficit) for the period	131.94	115.96	15.98	13.78

## **C. Scope of Audit**

The audit covered the financial transactions and operations of PSAU for the year-ended December 31, 2018. We conducted our audit in accordance with Philippine Public Sector Standards on Auditing and we believe that it provided a reasonable basis for the audit results. The objectives of the audit were to (a) ascertain the level of assurance that may be placed on management's assertions on the financial statements; (b) recommend agency improvement opportunities; and (c) determine the extent of implementation of prior year's audit recommendations. The thrust areas identified in the audit instructions were audited on sampling basis and the findings are incorporated in Part II of the report, as follows:

### **1. Financial Audit**

#### *Audit of Financial Statements:*

- a. Cash and Cash Equivalents
- b. Inventories
- c. Property, Plant and Equipment
- d. Inter-Agency Payables

### **2. Compliance Audit**

- a. Enforcement of timely submission of financial statements, reports and supporting documents such as paid vouchers and official receipts.
- b. Enforcement of COA issuances on immediate liquidation and settlement of outstanding cash advances under, among others, COA Circular No. 2012-004, COA Memorandum No. 2015-072, COA Memorandum No. 2004-014, giving priority to recent transactions that can be fully documented.
- c. Expanded Students' Grants-in-Aid Program for Poverty Alleviation (ESGP-PA) and TulongDunong Program
- d. Compliance by the agencies with their obligations under the MOA covering funds transferred to them by other government agencies.
- e. Compliance with R.A. No. 9184
- f. Compliance with R.A. No. 8291 (The GSIS Act of 1997)
- g. Programs and projects related to Gender and Development
- h. Compliance with tax laws and regulations
- i. Compliance with R.A. No. 9679 (Pag-IBIG)

## **D. Independent Auditor's Report**

We rendered a qualified opinion on the fairness of presentation of the financial statements of the University due to the following infractions:

1. The accuracy, completeness, existence and valuation of Inventory accounts with carrying amount of ₱15,307,184.59 as of December 31, 2018 were unreliable due to (a) non-conduct of the physical count of inventories; (b) disparity of ₱14,527,722.24 of the balances between the Accounting and Supply/Property records; (c) perishable items of ₱6,780,677.63 were already consumed but still carried in the Merchandise Inventory account; and (d) failure of the Accounting and Supply/Property Office to maintain the required Supply Ledger Cards and Stock Cards, respectively. (*Observation No. 1*)

We recommended that the University President (a) instruct (i) Supply Officer to conduct the physical count of inventories and prepare the Report on the Physical Count of Inventories (RPCI) for all inventory accounts on a per item basis; and (ii) both the Accounting and Supply offices to reconcile their records and identify the causes for the disparity noted in audit, and to effect the necessary adjustments; (b) Supply Office personnel to regularly prepare and submit the Monthly Report of Supplies and Materials Issued (RSMI) to the Accounting Office to serve as basis in the derecognition of all items issued including the perishable items carried in Merchandise Inventory account; and (c) Concerned officials to address the need for additional manpower who will be in charge with the preparation and maintenance the required accounting and property records particularly the Supplies Ledger Cards and the Stock Cards.

2. Non-maintenance of Subsidiary Ledgers (SL) in prescribed form for all accounts precluded the audit team from conducting review and analysis of the details composing the control accounts, thus, rendering doubt on the accuracy of the account balances in the financial statements as of December 31, 2018. In addition, disbursement vouchers, bank reconciliation statements, financial reports, contracts, purchase orders were not submitted within the prescribed period, thus, preventing the Audit Team from undertaking a timely, complete and objective review of the transactions. (*Observation No. 2*)

We recommended that the University President (a) instruct the (i) Accountant to prepare subsidiary ledgers in prescribed form in order to support the accuracy of the account balances appearing in the financial statements; and (ii) Accountant, Disbursing Officers, and other responsible officials to submit to the Audit Team the disbursement vouchers and supporting documents and financial reports within the deadline set by laws and regulations; and (b) require the Bids and Awards Committee (BAC) to submit copies of Contracts and Purchase Orders and all the documents forming part thereof considered necessary in the auditorial review and in the technical evaluation of the same, within five days from dates of execution and issuance, respectively. Likewise, direct the concerned officials and Department Heads to regularly monitor the performance of the present personnel complement involved in the preparation and submission of subject reports and documents, and to consider evaluating the manpower requirements of the concerned offices to determine if there is a need to hire additional competent personnel.

## **E. Summary of Other Significant Audit Observations and Recommendations**

Summarized below are the other significant audit observations noted during the audit and the corresponding recommendations:

1. The total balances of the Inter-Agency Payables accounts as of December 31, 2018 were unreliable due to abnormal balances of Due to Government Service Insurance System (GSIS) amounting to ₱(2,227,179.64), which indicates errors in recording of the related transactions. **(Observation No. 3)**

We recommended and the University President agreed to instruct the University Accountant to exert extra effort in conducting an in-depth review/analysis of the account Due to GSIS, to determine the causes of abnormal balances and draw the necessary adjustments thereon.

2. The University paid overtime services to its officials and employees totaling to ₱939,666.21, of which ₱552,875.93 was erroneously charged to honoraria, hence, such disbursement may be considered irregular. **(Observation No.4)**

We recommended and the University President agreed to strictly observe pertinent laws, rules and regulations governing the payment of overtime of overtime services as well as the proper disbursements thereof and to instruct the concerned school officials and employees to: (a) explain/justify the reasons for the grant of overtime pay instead of compensatory overtime credit (COC)/compensatory time-off (CTO); (b) submit overtime work program and quantified overtime accomplishment duly signed by the employees and their immediate supervisors; and (c) for those officials holding positions higher than division chief or equivalent levels, explain the reasons why they should not be disallowed in audit.

3. The collections and the related disbursements of ₱1,297,800.00 pertaining to tutorial, comprehensive examination, proposal and final defense fees, handled by a job order employee who is not bonded, were not officially receipted and recorded in the books of the University, thus, exposing the public funds to risk of loss and misuse. **(Observation No. 5)**

We recommended and the University President agreed to strictly observe pertinent laws, rules and regulations governing the collection of subject fees as well as the proper disbursements thereof to strengthen the University's internal control system thereon, and instruct the concerned graduate school officials and employees to (a) fully account for the collections of tutorial services, comprehensive examinations, proposal and final defense fees and remit to the University Cashier, the unexpended balance thereof, if any; (b) desist from doing collecting functions; (c) require the students/examinees to pay directly to the University Cashier/Collecting Officer; and (d) furnish the Office of the University Registrar, Office of the University President and other concerned offices of all the documents/data pertaining to the conduct of tutorial services, comprehensive

examinations and defense of thesis for monitoring purposes and the Accountant to check the accuracy and completeness of collected fees and reported collections and deposits.

4. The University granted hazard pay to its public health workers (PHWs) amounting to ₱259,919.50 and ₱334,017.60 in CY 2017 and CY 2018, respectively, without any legal basis, hence, such disbursement may be considered as irregular expenditure. (*Observation No. 6*)

We recommended and the University President agreed to strictly observe pertinent laws, rules and regulations governing the payment of hazard pay as well as the proper disbursements thereof and to instruct the concerned school officials and employees to (a) explain/justify the reasons why the payment of hazard pay should not be disallowed in audit; and (b) secure the required certification from the Secretary of Health to support succeeding payment of subject claims, otherwise, payment of said hazard pay should be stopped in order to avoid audit disallowance.

5. The University had partial compliance in implementing the Expanded Modified Direct Payment Scheme (ExMDPS) For Accounts Payable to Creditors/Payees of all National Government Agencies (NGAs) which defeated the purposes/objectives of more transparent, accountable and efficient payment system. (*Observation No. 7*)

We recommended and the University President agreed to instruct the Director for Finance thru the Cashier to (a) adopt ExMDPS for payment of Accounts Payable Due to Creditors/Payees and limit the use of MDS checks to payments of Other Payables which cannot be conveniently nor practicably paid using ADA; (b) Encourage or advise the University's creditors/payees to open a Current or Savings Account (CA/SA) with any branch of their authorized Modified Disbursement System, Government Servicing Banks (MDS-GSB). For creditors/payees, where opening of a CA/SA with MDS-GSBs is not feasible or is difficult due to company policy, the Management shall advise them to open an account with any banks included in the List of Participating Banks in Electronic Peso Clearing System (EPCS); and (c) Coordinate with creditors/payees to ensure the submission of official receipts evidencing the payments made by the University.

6. Of the University's appropriation for the year amounting to ₱387,309,000.00, only ₱14,620,000.00 or 3.77% was budgeted to support Gender and Development Programs (GAD) programs, activities and projects. (*Observation No. 8*)

We recommended and the Management agreed to continue to focus on gender issues, design more training programs toward women empowerment and gender equality and pursue programs/projects intended thereto, and that an amount equivalent to 5% of the total appropriation shall be allotted to cover expenses of the said purposes.

#### **F. Summary of Total Suspensions, Disallowances and Charges at year-end**

The University had an outstanding audit disallowances amounting to ₱721,516.88 as of December 31, 2018. The disallowances are under appeal.

## **G. Status of Implementation of Prior Year's Unimplemented Audit Recommendations**

Of the 39 recommendations embodied in the Annual Audit Report of 2018, 19 were fully implemented, 11 were partially implemented, while the other nine were not implemented.