

## EXECUTIVE SUMMARY

### A. INTRODUCTION

Formerly known as the Mindanao Institute of Technology (MIT), the University of Southern Mindanao (USM) as it is called today, was created through the efforts of the late Bai Hadja Matabay Plang and then Congressman Datu Salipada K. Pendatun, pursuant to Republic Act No. 763 on June 22, 1952. It was initially opened as a learning institution on October 1, 1954 through Republic Act No. 998 dated June 10, 1954. It was converted into a university on March 13, 1978 through Presidential Decree No. 1312 with a goal to assume greater and more expanded role in the development and training of appropriate manpower.

The USM is located in the Municipality of Kabacan, Province of Cotabato. It consists of the main campus in Kabacan, Cotabato, and the extension campus in Kidapawan City, the former North Cotabato College of Arts and Trades, which was integrated to the USM on January 31, 2000 through Republic Act No. 7722.

The University is headed by President Francisco Gil N. Garcia.

By its charter, USM is mandated to help accelerate the socio-economic development of Southern and Central Mindanao and to hasten the integration of Christians, Muslims and other cultural communities in the area through its four-fold functions of instruction, research, extension and production. USM envisions quality and relevant education for its clientele to be globally competitive, culture sensitive and morally responsive human resources for sustainable development. USM today is a Level IV Higher Education Institution, among 15 out of 112 State Universities and Colleges (SUCs) in the country that conferred this status.

### B. SCOPE OF AUDIT AND AUDIT METHODOLOGY

A financial audit was conducted on the accounts and operations of USM for the year 2018 with the aim of expressing an opinion on the fairness of presentation of the financial statements. The audit consisted of verification, reconciliation, analysis of accounts on a test basis and such other procedures deemed necessary. A compliance audit was also carried out to ascertain the propriety of disbursements, the reliability of financial reports and agency's compliance with government accounting and auditing rules and regulations. Likewise, an audit was conducted to assess whether plans, programs, projects and activities for the year were attained in an efficient, economical and effective manner.

### C. FINANCIAL HIGHLIGHTS

	2018	2017	Increase/(Decrease)
<b>Financial Position</b>			
Total Assets	1,057,838,253.83	985,362,849.68	72,475,404.15
Total Liabilities	153,375,979.49	192,724,666.89	(39,348,687.40)
Net Assets/Equity	904,462,274.34	792,638,182.79	111,824,091.55
<b>Financial Performance</b>			
Total Income	755,161,118.95	837,048,122.76	(81,887,003.81)
Total Expenses	644,332,464.04	669,378,976.75	(25,046,512.71)

	<b>2018</b>	<b>2017</b>	<b>Increase/(Decrease)</b>
Excess of Income over Expenses	110,828,654.91	167,669,146.01	(56,840,491.10)
<b>Sources and Appropriation of Funds</b>			
Allotment	672,592,624.00	641,031,313.00	31,561,311.00
Obligation	662,891,624.00	602,004,082.90	60,887,541.10
Balance	9,701,000.00	39,027,230.10	(29,326,230.10)

#### **D. OPERATIONAL HIGHLIGHTS**

Most of the targets set in the University's 2018 operational plan were achieved. During the year, four colleges were awarded ISO 9001: 2008 Certification namely: College of Human Ecology and Food Sciences, College of Business Development, Economics and Management, College of Education and College of Engineering and Computing and core processes were given recommendation for ISO 9001:2015 Certification. Two programs maintained their status as Centers for Development, to wit: College of Veterinary Medicine and Department of Biology in the College of Arts and Sciences while College of Agriculture maintained its status as Center for Excellence. In terms of program accreditation, 11 programs were Level III accredited (including the Kidapawan City Campus), 10 programs were Level II accredited while 10 programs were Level I accredited. For the programs offered by the Graduate School, 2 were Level III while 4 programs were in Level II. Of these, 4 undergraduate programs, 16 graduate programs are still under candidate status. In addition, the College of Agriculture Assessment Center is accredited by TESDA as an Assessment Center for 3 Qualifications, namely: Agricultural Crops Production ACP NC II, Pest Management (Vegetables) PM NC II, and Organic Agriculture Production OAP NC II. Accreditation for PM NC II and OAP NC II is ongoing.

For Academic Year (AY) 2018-2019, the college has a total enrolled students of 12,670 and 11,785 for 1<sup>st</sup> semester and 2<sup>nd</sup> semester, respectively which include enrollees from USM Main, USM Kidapawan City Campus and USM Buluan Extension. Also, a total of 990 and 938 enrollees for 1<sup>st</sup> semester and 2<sup>nd</sup> semester for secondary education, respectively which include USM Main and USM Kidapawan City Campus enrollees. A summary per program are shown below:

Degree Course	A.Y. 2018-2019	
	1 <sup>st</sup> Semester	2 <sup>nd</sup> Semester
Graduate Programs	1,177	904
Undergraduate Programs	11,493	10,881
<b>Total</b>	<b>12,670</b>	<b>11,785</b>
Senior High School	512	460
Junior High School	478	478
<b>Total</b>	<b>990</b>	<b>938</b>

#### **E. AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS**

The auditor rendered a modified opinion on the fairness of presentation of the financial statements of the USM for CY 2018, in view of the effects of the material exceptions observed in the course of the audit which are stated in the Independent Auditor's Report and discussed in detail under Part II of same report.

## **F. SUMMARY OF SIGNIFICANT OBSERVATIONS AND RECOMMENDATIONS**

The following are the significant audit observations with their corresponding recommendations:

1. The CY 2018 Financial Statements (FS) disclosed inconsistencies in the presentation of accounts rendering the information undependable and non-conforming to the qualitative characteristics of reliability and faithful presentation in the financial reporting.

**We recommended that management review its presentation of Financial Statements per fund ensuring that transactions and events are presented under the appropriate fund cluster. Likewise, reconcile all accounts across the different FS and effect necessary adjustments to ensure that account balances at year-end are accurately presented in the FS.**

2. Reliability of the year-end balances of Cash in Bank, LCCA and other affected accounts are doubtful and misstated due to (a) continued non-recording of transactions maintained under the External Research Fund resulting to understatement by ₱145,064,362.48; (b) unreconciled balances between book balances and BRS amounting to ₱2,480,737.10 as well as incomplete submission of BRS and (c) dormant and unnecessary account balances totalling to ₱3,156,744.40 were not remitted to National Treasury.

**We recommended that the management strictly require the Accounting Section to (a) immediately prepare and submit the bank reconciliation statements for all existing bank accounts. Henceforth, prepare BRS on a regular basis pursuant to Section 74 of PD 1445 and Section 7, Chapter 21, Volume I of the GAM; (b) make necessary adjustments for errors identified as valid reconciling items supported with relevant documents and provide the Audit Team with copies of the JEVS to facilitate verification; (c) record in the books the unreported balances maintained under the External Research Fund and Hospital Charges Account; (d) update/follow-up the closing of dormant/unnecessary accounts and adhere with the procedural guidelines set forth under COA Circular 2015-001 dated January 29, 2015 in reversing such accounts to the general fund; and (e) maintain subsidiary ledgers for all existing bank accounts for easy control and monitoring.**

3. Unrecorded promissory notes amounting to ₱4,210,195.61 by patients from calendar years 2002 to 2018 remained uncollected due to deficient collection system of the Hospital, resulting in accumulation of unpaid accounts and understatement of Other Receivables account.

**We recommended that management direct the: (a) Hospital Collecting Officer to prepare and submit on a monthly basis Status Report of Patients with Outstanding Balances (SRPOB); (b) The Billing Section (1)**

after receipt of the SRPOB, prepare immediately the Monthly Summary of Bills Rendered (MSBR), copy furnish the bookkeeper/Accountant for recording of the Receivables; (2) issue demand letters to patients or co-makers/guarantors with unsettled PNs; and (3) adopt effective collection measures for the unsettled PNs and future receivables and; (c) The Accountant to prepare subsidiary record for each patient and Journal Entry Voucher to take up adjustments for the noted discrepancies.

4. The accuracy and reliability of the reported balances of the Inventory Accounts totaling ₱24,225,401.69 as of year-end is doubtful in view of the variances noted between books and inventory report totaling ₱4,772,663.43 caused by (a) non-reconciliation between the Accounting and the Supply Officer's records and incomplete Report on Physical count of inventories; (b) non-preparation of individual ledgers/stock cards and other deficiencies noted, thus, affecting the fair presentation of the accounts in the financial statement.

**We recommended that management: (a) Instruct the Accounting and Supply Offices to comply strictly with the pertinent provisions of the GAM, Volume I on Inventories and on the maintenance of records to account for the unreconciled variances of ₱4,772,663.43 and to effect appropriate adjustments and; (b) Conduct a complete physical inventory of its inventories including reconciliation and submit the report on Physical Count of Inventories.**

5. The Property, Plant and Equipment accounts totaling ₱1,012,808,695.11 was doubtful due to non-maintenance of complete Property, Plant and Equipment Ledger Cards (PPELCs) by the Accounting Section and/or Property Cards (PCs) by the Supply Section, thus, affecting the fair presentation of the account in the Financial Statement.

**We recommended that management instruct the Accountant and Supply officer to comply strictly with the pertinent provisions of the GAM for NGAs, Volume I on PPE and on maintenance of records.**

#### **G. STATUS OF AUDIT SUSPENSIONS, DISALLOWANCES AND CHARGES**

The status of audit suspensions, disallowances and charges as of December 31, 2018 are summarized hereunder:

<b>Description</b>	<b>Disallowances</b>	<b>Suspension</b>	<b>Charges</b>	<b>Total</b>
Balances, Jan. 1, 2018	173,087.86	-	-	173,087.86
Issued	-	-	-	-
Total	-	-	-	-
Settled	-	-	-	-
Balance, Dec. 31, 2018	173,087.86	-	-	173,087.86

**H. STATUS OF IMPLEMENTATION BY THE AUDITEE OF PRIOR YEAR'S  
AUDIT RECOMMENDATION**

Of the fifteen prior years' audit recommendations contained in the CY 2017 Annual Audit Report, the status of implementation is as follows:

<b>Fully Implemented</b>	<b>3</b>
<b>Ongoing</b>	<b>2</b>
<b>Partially Implemented</b>	<b>5</b>
<b>Not Implemented</b>	<b>5</b>