

EXECUTIVE SUMMARY

A. Introduction

The Apayao State College, formerly known as Kalinga-Apayao School of Arts and Trade (KASAT), came into existence by virtue of Republic Act No. 8563. The Apayao State College is committed to continuously provide affordable quality education, research, extension and production through its two campuses: Malama and Luna.

As of December 31, 2019, the College had a total personnel complement of 287 composed of 112 regular plantilla positions, 27 casuals, 112 contracts of service and 36 job orders.

Pursuant to COA Resolution No. 2011-009 dated October 20, 2011 the integrated results and risk based audit methodology has been adopted in the audit of the accounts and operations of the College for the period ended December 31, 2019.

The audit was aimed at verifying the level of assurance that may be placed on management's assertions on the financial statements, ascertaining compliance with rules and regulations, checking the legality and propriety of the transactions, and determining whether financial resources were managed economically and efficiently.

B. Financial Highlights

The following are the College's assets, liabilities, equity, income and expenses, with comparative figures for CY2018:

	2019	2018	Increase (Decrease)	
			Amount	Percent
Assets	₱299,317,776.94	₱256,994,930.05	₱42,322,846.89	16.47
Liabilities	27,032,190.04	34,906,023.82	(7,873,833.78)	(22.56)
Net Assets/Equity	272,285,586.90	222,088,906.23	50,196,680.67	22.60
Income	177,314,857.58	194,807,772.74	(17,492,915.16)	(8.98)
Expenses	125,481,363.96	114,520,818.50	10,960,545.46	9.57
Surplus/Deficit	51,833,493.62	80,286,954.24	(28,453,460.62)	(35.44)

For CY 2019, the College had total appropriations of ₱188,573,854.40 of which ₱131,253,979.49 was obligated as of year-end, leaving a balance of ₱57,319,874.91. The details, with comparative figures for CY 2018, are presented below.

Particulars	2019	2018	Increase (Decrease)	
			Amount	Percent
<u>Appropriations</u>				
General Appropriations Act	₱140,611,682.99	₱172,721,134.00	₱(32,109,451.01)	(18.59)
Internally Generated	47,962,171.41	51,065,284.80	(3,103,113.39)	(6.08)

Particulars	2019	2018	Increase (Decrease)	
			Amount	Percent
Funds				
Total Appropriations	188,573,854.40	223,786,418.80	(35,212,564.40)	(15.73)
<u>Obligations</u>				
General Appropriations Act	113,104,209.76	150,780,861.88	(37,676,652.12)	(24.99)
Internally Generated Funds	18,149,769.73	20,668,673.48	(2,518,903.75)	(12.19)
Total Obligations	131,253,979.49	171,449,535.36	(40,195,555.87)	(23.44)
Appropriations Balance	57,319,874.91	52,336,883.44	4,982,991.47	9.52

C. Opinion of the Auditor on the Fairness of Presentation of the Financial Statements

We rendered a qualified opinion on the fairness of the presentation of the financial statements of the College for the year ended December 31, 2019 because:

1. Expenditures amounting to ₱3,530,247.12 chargeable against the Fund Transfers were not initially recognized under the appropriate expense/asset accounts but automatically debited as “Due to NGAs”, contrary to the prescribed accounting entries under Annex M of the Government Accounting Manual for National Government Agencies, Volume I.
2. Accounts Receivable balance is unreliable due to the presence of negative accounts amounting to ₱1,776,111.01;
3. Cost of Sales balance of ₱2,758,099.69 is unreliable due to the non-conduct of physical inventory and the absence of Subsidiary Ledger Cards (SLCs) and Stock Cards (SCs) pertaining to canteen operations; and
4. Income and Accounts Receivable were understated by ₱1,597,200.00 due to failure to record outstanding bills of debtors of the Income Generating Enterprises (IGEs) of the College.

D. Summary of Significant Observations and Recommendations

Other than the basis for the modified opinion on the financial statements, the following are the significant observations and recommendations:

1. The College did not terminate the Construction of BSHRM Building-Phase I with contract amount of ₱19,147,682.91 despite the incurrence of negative slippage of more than 10 percent in the completion of the works due to the contractor’s fault and despite the expiration of the contract time; resulting in prolonged non-utilization of the building.

We recommended that Management regularly monitor the commitment of the contractor as stated in its commitment letter, or should the contractor fail to undertake its commitment, terminate the contract and impose administrative sanctions against the defaulting contractor pursuant to Section 69 of the 2016 Revised IRR of RA 9184.

We also recommended that should the contract be terminated, Management shall follow the procedures for termination prescribed under Annex I, Item IV of the same Revised IRR of RA 9184.

2. Two (2) projects amounting to ₱15,525,458.94 were found deficient as of December 19, 2019, contrary to the report of the Infrastructure Development Director that the said projects were 100% completed, which could result in improper computation of the liquidated damages and non-imposition of appropriate sanctions to the erring contractors.

We recommended that Management require the Infrastructure Development Office to prepare an accurate report based on actual inspection conducted as basis of the Accounting Office in the computation of liquidated damages which should be deducted from the final billing of the contractor.

3. The project “Continuation of Multi-purpose Building” with contract amount of ₱1,761,439.03 was not in accordance with plans and specifications; thus, the structural integrity of the building was not ensured.

We recommended that Management request a Structural Engineer to conduct an inspection and evaluation on the building to determine the seriousness of the defects so that remedial measures, if any, could be undertaken by the contractor to ensure the structural integrity of the building. Should the defects remain unrectified, payments made to the contractor is disallowable in audit.

4. Failure of the agency to observe the guidelines on liquidation of cash advances set forth in COA Circular 97-002 resulted in unliquidated cash advances at the end of CY 2019 totaling ₱1,013,214.50. Such failure has put government funds to the risk of misuse in case the cash advance has not been utilized.

We recommended that Management:

- 4.1. issue demand letters for the immediate liquidation of outstanding cash advances which are due for liquidation in accordance with the provisions of COA Circular No. 97-002; and
 - 4.2. strictly monitor the submission of liquidation reports to ensure timely accounting thereof and to avoid undue accumulation of outstanding cash advances.
5. Total purchases of goods and services amounting to ₱1,733,453.04 were paid in cash thru reimbursement basis instead of direct payment to creditors contrary to the general principles of the imprest system while purchases totaling ₱659,630.04 which are above ₱15,000.00 per transaction were charged to the Petty Cash Fund, contrary to COA Circular No. 97-002.

We recommended that Management ensure that all payments must be made by check and that payments in small amounts be made through the petty cash fund in accordance with COA Circular 97-002.

6. Reimbursements amounting to ₱506,730.00 were not completely and properly documented contrary to Section 4.6 of P.D. 1445, thereby casting doubts on the propriety and reliability of the disbursements.

We recommended the submission of the lacking documents to enable the audit team make a decision in audit.

We also recommended that the Accountant thoroughly review the supporting documents before certifying on the completeness of supporting documents and propriety of amounts claimed.

7. The agency failed to return the unused balance of the fund transferred by the Department of Agriculture-Regional Field Office-Cordillera Administrative Region amounting to ₱609,150.00 contrary to Section 6.7 of COA Circular No. 94-013 dated December 13, 1994, thereby tying up government funds which could have been used for other priority programs of the Department of Agriculture.

We recommended that the:

- 7.1. Project Coordinator of the Apayao State College coordinate with the Project Coordinator of the DA-CAR to properly establish the remaining undelivered coffee seedlings; and
 - 7.2. Accountant reconcile with the DA-CAR Accountant to properly establish the accountability of the ASC taking into consideration the propagated Coffee Arabica and to return the unused balance to properly liquidate the funds received.
8. Honoraria amounting to ₱161,132.80 was paid to employees assigned to special projects/undertakings which are part of the regular functions of the agency and charged the expenditure to the funds transferred by the source agencies, contrary to Section 9 of COA Circular No. 94-013 dated December 13, 1994 and DBM Budget Circular 2007-02 dated October 17, 2007, rendering the disbursements disallowable in audit.

We have recommended that Management:

- 8.1. stop granting honoraria to College personnel assigned to special projects/undertakings which are among the regular and permanent functions of the College.
- 8.2. stop charging honoraria from fund transfers since it is contrary to the limitations set forth under COA Circular 94-013.

9. Required reports for the implementation of Inter-Agency Transferred Funds were not timely submitted and/or not submitted to the Source/Funding Agencies contrary to the terms and agreements in their respective Memorandum of Agreements (MOA) resulting in discrepancies on the account balances between the Source and Implementing Agencies in any particular period.

We have recommended that Management through the Project Management Team of Inter-Agency Transferred Funds:

- 9.1. to reconcile with the records of the Source Agency and settle the discrepancies between the reciprocal accounts; and
 - 9.2. to timely submit the required reports to Source/Funding Agencies as required in their respective Memorandum of Agreements and Chapter 6, Section 63(f) of the Government Accounting Manual (GAM) for NGAs Volume I.
10. Lack of close monitoring, supervision and enforcement of measures and sanctions on the contractors of seven (7) contracts with a total amount of ₱75,400,328.42 resulted in delay or non-completion of the projects within the contract period contrary to Section 2 of Presidential Decree No. 1445, and Annex I of the Revised Implementing Rules and Regulation (IRR) of Republic Act No. 9184; thus, depriving intended users the benefit from the use of the projects.

We recommended the following:

- 10.1. That Management immediately evaluate which requests for extension should be granted following strictly the provisions of the 2016 IRR of RA No. 9184, specifically on the timeliness of request and the reason/s given for such request;
- 10.2. That should the contracts be terminated, Management shall follow the procedures for termination prescribed under Annex I item IV of the 2016 Revised IRR of RA 9184; and
- 10.3. That Management impose sanctions to the defaulting contractors such as blacklisting and forfeiture of the performance security, as prescribed under Section 69 of the same IRR.

E. Summary of Total Suspensions, Disallowances and Charges

As of December 31, 2019, the College had 3,240,615.05 in unsettled disallowances and ₱545,513.25 in unsettled suspensions.

F. Implementation of Prior Years' Audit Recommendations

Of the 51 prior years' audit recommendations, 25 were fully implemented, 16 were partially implemented and 10 were not implemented