

EXECUTIVE SUMMARY

INTRODUCTION

The University of the Philippines (UP) was established on June 18, 1908 by Republic Act No. 1870 to provide advanced instruction in literature, philosophy, the sciences and arts, and to give professional and technical trainings to every qualified student regardless of age, sex, nationality, religious belief, or political affiliation.

The first three academic units organized were the Colleges of Fine Arts, Medicine and Surgery, and Agriculture. Throughout its history, UP played a leading role in responding to the needs of the nation, stressing academic excellence and quality learning. This role finds expression in the University's principal functions: instruction, research and community service.

By the passage of RA No. 9500 known as "The University of the Philippines Charter of 2008", UP was declared the National University.

UP now has seven constituent campuses based in Quezon City, Laguna, Manila, Visayas, Mindanao, the Open University and Baguio.

- UP Diliman (UPD) located at the 493-hectare flagship campus in Quezon City. It offers arts and sciences programs as well as professional programs such as engineering, law and accounting. It also has a campus in San Fernando, Pampanga. It was declared a constituent university (CU) on April 23, 1982 and started its operations as CU in April 26 of the same year.
- UP Los Baños (UPLB) located at the foot of Mt. Makiling, started out as the College of Agriculture in 1909. It is one of the first units to be organized after UP's founding in 1908. The College evolved into a separate Constituent University in 1972.
- UP Manila (UPM) on Taft Avenue, is the country's center of excellence in the health sciences, including health professional education, training and research. Originally established on December 1, 1905 as the Philippine Medical School and later called as the UP College of Medicine and Surgery in June 10, 1907. It was renamed UP Manila in 1983.
- UP Visayas (UPV) with campuses in Iloilo City, Miag-ao, Cebu and Tacloban, was formally established as a Constituent University in the UP System in 1979. The Campus is noted for its College of Fisheries.
- UP Mindanao (UPMin) located at the 240-hectare campus at Bago Oshiro in Davao, was created under Republic Act No. 7889. A resolution of the Board of Regents adopted UP Mindanao as the sixth member of the UP System on March 23, 1995. Its main campus is located in Davao proper and in Mintal, Davao City.

- UP Baguio (UPB), is located in Northern Luzon. It was formally established as the 7th Constituent University of the UP System as approved by the BOR in its meeting on December 2, 2002. With UP Baguio as the hub of many cultural activities in Northern Luzon, it has contributed to the development of the arts and the nurturing of the region's cultural heritage.
- UP Open University (UPOU), housed in a building on a 20-hectare lot within UPLB, evolved from the UP Distance Education Program. Its creation was approved by the Board of Regents on February 23, 1995 as the fifth constituent university of the UP System.

The Board of Regents is the highest policy-making body of the University of the Philippines System (UPS), which is composed of 12 members, as follows:

- | | | |
|---------------|---|--|
| Chairman | - | Chairman, Commission on Higher Education |
| Vice-Chairman | - | President, University of the Philippines |
| Regents | - | Chairman, Senate Committee on Education |
| | - | Chairman, House Committee on Education |
| | - | President, UP Alumni Association |
| | - | Faculty Regent |
| | - | Student Regent |
| | - | Five Regents appointed by the President of the Philippines |

The Executive Officers of the UPS Central Administration is headed by the University President who is assisted by five Vice-Presidents and a University Secretary.

As of December 31, 2009, the UPS had a total personnel complement of 10,673, of which 4,345 are faculty members and 6,328 are Administrative and Research and Extension Program Staff (REPS).

FINANCIAL HIGHLIGHTS

A. Financial Condition:

	2009	2008	Increase (Decrease)
Total Assets	₱ 36,328,461,037.68	₱33,211,687,025.08	₱3,116,774,012.60
Total Liabilities	13,125,151,108.05	10,236,382,681.03	2,888,768,427.02
Government Equity	23,203,309,929.63	22,975,304,344.05	228,005,585.58

B. Sources and Application/Utilization of Funds:

	2009	2008	Increase (Decrease)
SOURCES:			
Subsidy from National Government	₱6,089,418,130.04	₱5,744,143,563.40	₱345,274,566.64
Other Income	<u>1,447,695,767.66</u>	<u>1,475,231,681.84</u>	<u>(27,535,914.18)</u>
TOTAL	₱7,537,113,897.70	₱7,219,375,245.24	₱317,738,652.46
APPLICATION:			
Personnel Services	₱5,258,680,588.62	₱4,805,934,939.08	₱452,745,649.54
MOOE	2,036,779,875.59	2,139,489,091.49	(102,709,215.90)
Financial Expenses	<u>26,886,454.75</u>	<u>28,515,238.50</u>	<u>(1,628,783.75)</u>
TOTAL	₱7,322,346,918.96	₱6,973,939,269.07	₱348,407,649.86
Excess Income over Expense	<u>₱214,466,978.74</u>	<u>₱245,435,976.17</u>	<u>₱(30,968,997.43)</u>

SCOPE OF AUDIT

Our audit covered the accounts and operations of the University of the Philippines System, comprising of seven constituents campuses, for Calendar Year 2009.

STATE AUDITOR'S REPORT

The Auditor rendered a qualified opinion on the fairness of the presentation of financial statements of the University as of December 31, 2009, in view of the material exceptions observed in the course of the audit.

SUMMARY OF SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

Below are the audit team's significant observations and the corresponding recommendations:

1. The UH, as a special project under the UP System Administration, continues to operate as a separate and distinct entity since 1983 and the results of its financial position and operations, which reflected a gross income of ₱30.46 million in 2009, remained undisclosed/unreported in the System's books of accounts thus, affecting the fair presentation of the University System's consolidated financial statements. (Paragraphs 1-11)

We reiterate our previous recommendation that management require the BOO to submit the financial reports of the UH operations for consolidation in the books of the University System. Further, the UH monthly/year-end financial reports and supporting documents required under government

rules and regulations should be submitted regularly to the Commission on Audit (COA) for audit purposes.

2. The manner by which the UP System, through its formulated guidelines, addressed the existence of conflict of interest of its officials who are at the same time officers of the UP-affiliated foundations, as well as the absence of an independent oversight office to monitor the transactions entered into by these foundations, appears inadequate to substantially resolve the issue on transparency required in public governance. (Paragraphs 18-28)

We therefore reiterate our previous recommendation that Management formalize an arrangement through a Memorandum of Agreement with these Foundations by defining the functions and responsibilities of both parties, including how to account and share for the income/revenues earned from its operation. Moreover, a policy or guidelines must be established to set the limits and boundaries with respect to the role or participation of the UP employees and officers to any of these Foundations. Financial transactions entered into by these Foundations for and in behalf of the University must be accounted and reported to the UP System management and be subjected to the COA review, verification and audit.

3. The implementation of the UP Diliman ERDT program disclosed 127 unfilled scholarship slots, 20 incidents of voluntary and involuntary termination of scholarship grants and idle funds of ₱151.65 million which, if not closely monitored, may result to the non-attainment of the program's objective to address the problem on lack of highly trained research scientists and engineers. (Paragraphs 65-78)

We recommended that management closely supervise and monitor the scholars in order to guide and assess early on their capability to cope with the rigid requirements of the study to institute proper measures to prevent the untimely termination of the scholarship contract. Further, slots must be expediently filled up if still possible, or else return the unexpended or idle funds to the source Agency.

4. Laxity in the control and monitoring of receivable accounts increased the risk that the ₱230.97 million receivable accounts of the five UP Campuses may become doubtful, hence may deplete financial resources to finance programs and projects. (Paragraphs 79-91)

We recommended that management implement the following corrective measures, thus:

- **Verify actual status of long outstanding accounts and institute appropriate actions or recovery measures for their collections. Assess those accounts where collection is no longer possible, after exhausting all**

the remedies available and exerting diligent efforts to collect, to consider the possible write-off of these accounts.

- **Require the Billing Section and/or concerned medical/laboratory unit to carefully ensure that the correct rate is charged for medical and/or laboratory services rendered to patients and require the responsible cost centers to submit the hospital charges/charge slips to the Billing Section immediately.**
 - **Stop deducting from Hospital bills charges not covered by approved Guarantee Letters from the funding entities and send demand letters to patients/funding institutions with long outstanding unpaid accounts to the Hospital.**
 - **Exert extra efforts to collect the financial obligations of the Reneging Fellows, which could be used by the University in the implementation of other related programs and send demand letters to the reneging fellows and/or their families at their latest known addresses requiring them to settle their obligations.**
 - **Review the operation of the BMS and prepare the Lease Contracts for each lessee in order that proper sanctions could be imposed in case of any breach of contract that may be committed by the parties involved to protect the interest of the University.**
5. The 102 UPV in-house Research Projects worth ₱16.56 million were not completed before the expiration of the contracts due to the absence of, or laxity of the management to impose sanctions against the erring proponents thus, defeating the purposes of the researches and compromising the UP's objective of strengthening its position as the leading research and development university in the country. Moreover, publications of the outputs in the abstract publication and in the UPV Journals were not fully attained as only ten out of the 80 Research Projects that started in January 2002 costing ₱11.26 million were completed in CY 2009 thus, depriving the beneficiaries of the benefits that could be provided by these research projects. (Paragraphs 92-101)

We recommended that the UPV, through the OVCRE, to strictly implement and closely monitor the research projects to ensure timely completion, submission and dissemination of research outputs to target beneficiaries through regular publication; and that the legal sanctions stipulated in the contracts be accordingly imposed.

6. The Cash in bank balances of the UP Diliman and Manila were understated by ₱15.66 million due to the non-restoration of the cash equivalent of unreleased checks amounting to ₱14.43 million required under GAFMIS Circular Letter No.

2002-001 and the unrecorded ₱1.23 million on-line collections of the G6PD Confirmatory Test. (Paragraphs 109-115)

We recommend that management:

- **Comply strictly with GAFMIS Circular No. 2002-001 on the restoration of the cash equivalent of the unreleased checks and the recognition of payable/liability accounts.**
- **Execute a MOA with the collecting banks regarding on-line collections to facilitate submission of bank financial reports to the University for the timely and periodic recording of transactions in the books.**

7. The balances of Cash in Bank Local Currency-Current and Savings Accounts (LCCA & LCSA) of P152.48 million of the UP Manila and Visayas and Foreign Currency Account of \$187,674.61 of the UP Manila were misstated due to unreconciled differences between the books and bank balances amounting to ₱131.90 million and \$104,809.07 respectively, due to the failure of the Accounting Division to prepare/update the bank reconciliation statements (BRS). (Paragraphs 116-126)

We recommended that management of the UP PGH and UPV require their respective Accounting Divisions to prepare a regular BRS of all Cash in Bank accounts to provide valid support to the balances reflected in the financial statements.

8. Lapses in internal control on the granting/liquidation of cash advances were observed in all of the UP campuses of which a total of ₱21.77 million unliquidated cash advances have been long outstanding for two years or more contrary to COA Circular No.97-002 dated February 10, 1997. (Paragraphs 136-160)

We recommended that management strictly observe the governing rules in the granting, utilization, and liquidation of cash advances.

9. Procedural lapses in the recording and control of inventories such as non-observance of Perpetual Inventory method and non reconciliation of the accounting and property records in the UP Los Baños, Open University and Mindanao cast doubts on the validity of the ₱46.70 million inventories and related expense accounts. (Paragraphs 172-176)

We recommended that management require:

- **The Chief Accountant and the Property Officer to fully implement the Perpetual Inventory Method of recording inventory items;**

- **The Property Officer to maintain Stock Card of each inventory item which should always be reconciled with the Accounting records in accordance with Sec. 43 of the NGAS manual;**
 - **The Property Officer to see to it that semi-annual physical count of inventory be conducted and the Report of Physical Count of Inventories are prepared, using the prescribed form in accordance with Sec. 65 of the NGAS manual Vol. II; and**
 - **The Chief Accountant and the Property Officer to see to it that reconciliation of balances of the RCPI and the general ledger accounts are made to ensure fair presentation of account balances in the financial statements.**
10. The PPE accounts of the nine UP offices/campuses totalling ₱6.96 billion is of doubtful validity with a negative variance of least ₱506.09 million existing between the books and the Physical Inventory Reports, which was attributed to unrecorded reconciling items, incomplete or lack of inventory reports, and the absence of regular reconciliation of property and accounting reports/records. (Paragraphs 185-210)

We recommended that management:

- **Reconcile the discrepancy noted in the books and property records and effect the necessary adjustments in the books.**
 - **Conduct regular physical count and perform regular reconciliation of accounts and records.**
 - **Memorandum Receipt of Property must be regularly updated and it must be acknowledged by the person directly accountable.**
 - **Require the Office of the Legal Services to determine the liability of the Accountable Officers for the lost assets for appropriate recording of the replacement costs in the books of accounts and for possible salary deductions.**
11. Recognition of payables was not based on actual claims for goods delivered or service rendered, as ₱68.43 million listed as payables in three UP offices/campuses were not found to be valid claims supported by sufficient evidence, contrary to Section 46 Par. 2 of PD 1177, and likewise overstating the expense and liability accounts at year-end by the same amount. (Paragraphs 211-221)

We recommended that management:

- **Strict compliance with Section 46 Par. 2 of PD 1177 should be observed, any future violation relative thereto must be dealt with in accordance with sanctions expressly provided under the said law.**
- **Observe the Accounting Principle of the Proper Matching of Cost against Revenues, for the fair presentation of Financial Statements.**
- **Statement (List) of Payables must indicate the nature of transaction and the Creditor must be clearly identified.**

12. Other Payables account of UP-Manila, Los Baños and Cebu campuses totalling ₱2.81 billion was overstated by ₱686.50 million due to error in recording income collections, misclassification of accounts, inadequate documentation and absence of SL, rendering the account balance unreliable. (Paragraphs 222-229)

We recommended that management require the Accounting Office to prepare the necessary adjusting entries to correct the balances of the Other Payables and other affected accounts and prepare/update the SLs thereof.

13. The UP Visayas-Iloilo, Tacloban, Baguio and Open University incurred expenses totaling ₱10.96 million, which either lacks the appropriate legal basis or in excess of allotments, contrary to Section 28, Volume I, NGAS Manual, thus overstating the expense account of the same amount. (Paragraphs 230-240)

We recommended that management:

- **Temporary appointments of personnel to special projects be issued only by duly authorized appointing officer/s of the University; and require the project staff to refund the salaries and honoraria paid to them for the period August 1, 2008 to October 31, 2008, otherwise, the person responsible for the illegal and unauthorized improper payment thereof, be held jointly and severally liable therefore.**
- **Scholarship coordinator to review the guidelines before granting privileges to scholars; and scholar/grantee to refund the transportation allowance or require the Accountant to deduct the amount from other claims/entitlements of the scholar.**
- **Management to secure authority from the Office of the President for the purchase of motor vehicle and to require the Supplier to post a Surety bond.**
- **To prevent accumulation of the disallowed amount, management may consider to discontinue with the granting of RATA to the concerned**

Division Chiefs until the release of the final decision of the COA Commission Proper.

- **To secure authority for exemption to Budget Circular No. 2003-5 to make the payments legal and stop the granting of RATA to officials and employees who are not among those enumerated in the above-cited provisions of law.**

14. The Electricity Expenses account of ₱6.32 of the UP System appeared is understated by ₱3.10 million as only ₱1.52 million was certified to accounts payable from the unpaid charges of ₱4.62 million due to inadequate monitoring and control of MERALCO bills of which processing and payment were allocated by office. (Paragraphs 241-248)

We recommended that management:

- **Reconcile and make the necessary adjustment on the discrepancy between the certified MERALCO payable and the unpaid accounts appearing in the monthly billing statement; and**
- **Consider the centralized payment of MERALCO bill rather than preparing individual voucher by office to avoid unnecessary delay and to facilitate monitoring of electricity expenses.**

15. The Items in Transit account balance of ₱550.50 million of the UP Diliman and Los Baños cannot be relied upon as it includes long outstanding and undocumented charges amounting to ₱242.48 million. (Paragraphs 249-260)

We recommended that management:

- **Maintain a subsidiary ledger of Items in Transit account to facilitate monitoring and adjustments of the account;**
- **Review the charges to the account and prepare a Journal Entry Voucher to effect the necessary adjustment in the books; and**
- **Observe the rules provided under NGAS on the appropriate use of the subject account.**
- **Submit the list of the Items in Transit to determine correct classification of the items for adjustment in the books.**

16. The UP Diliman manner of recording income realized but not yet collected from its auxiliary and income generating activities did not conform with the accrual method of accounting for income due to the practice of recording it to Other Deferred Credits account instead of an appropriate Income account thus,

overstating and understating respectively these aforementioned accounts by at least ₱17.59 million as of December 31, 2009. (Paragraphs 261-273)

We recommended that the UP Diliman management require the Accounting Office to prepare a Journal Entry Voucher to adjust the identified erroneous credit made to Other Deferred Credits account, and to henceforth comply strictly with the prescribed government accounting system.

17. The six UP units/campuses failed to allocate at least 5% of their CY 2009 approved budget for the GAD Program resulting to inadequate promotion of gender-responsive governance to address gender issues and concerns of their constituents/sectors as required under Section 29 of the General Provisions of RA 9524 and Joint Circular No. 2004- 1. (Paragraphs 53-57)

We recommended that management strictly comply with the existing GAD rules and regulations.

STATUS OF IMPLEMENTATION BY MANAGEMENT OF PRIOR YEARS' AUDIT RECOMMENDATIONS

The status of implementation of prior years' recommendations is shown below:

Of the 17 CY 2008 prior year's recommendations embodied in the 2008 Consolidated Annual Audit Report of the University of the Philippines, 1 was fully implemented, 12 were partially implemented and 4 were not implemented at all. CY 2007 has still 7 partially implemented and 1 not implemented recommendations, while the CY 2006 has still 4 partially implemented and 2 not implemented recommendations. The details of these are discussed in Part III of this report. Some of the unimplemented recommendations are reiterated in this year's report.

Status	Number	Percentage
Fully Implemented	1	3.23%
Partially Implemented	23	74.19%
Not Implemented	7	22.58%
Total	31	100.00%