

## **EXECUTIVE SUMMARY**

### **A. Introduction**

The Don Mariano Marcos Memorial State University (DMMMSU) started as a small agricultural school known as the La Union Agricultural School created by virtue of R.A. 2696 on June 18, 1960 and situated at Sapilang, Bacnotan, La Union. The school was later converted to an agricultural college and became the Don Mariano Marcos Memorial College of Agriculture (DMMMCA) by virtue of R. A. No. 5310. On December 10, 1974, by virtue of P.D. 615, the college was transformed into a state college named “Don Mariano Marcos Memorial State College” (DMMMSC). On April 12, 1979, with the issuance of P.D. 1617, the Balaoan School of Fisheries at Paraoir, Balaoan, La union was integrated into DMMMSC. On January 15, 1981, by virtue of P.D. 1778, DMMMSC became the Don Mariano Marcos Memorial State University (DMMMSU) integrating five (5) educational institutions in the Province of La union, namely: 1) DMMMSC in Sapilang, Bacnotan; 2) La Union School of Arts and Trades in San Fernando; 3) Southern Ilocos Polytechnic State College in Agoo which was composed of Southern La Union National High School in Agoo, Sto. Tomas College of Fisheries in Sto. Tomas and Rosario National Agriculture School in Rosario; 4) Community College of La Union in San Fernando; and 5) Sapilang Elementary School.

Initially, there were seven (7) campuses of the University: 1) Bacnotan Campus for the College of Agriculture and Forestry; 2) Balaoan Campus for the College of Fisheries; 3) San Fernando Campus for the College of Liberal Arts; 4) San Fernando Campus for the College of Engineering and Technology; 5) Agoo Campus for the College of Arts and Sciences; 6) Sto. Tomas Campus for the College of Fisheries; and 7) Rosario Campus for the College of Agriculture. In 1993, the University reorganized and established three (3) major campuses: the North La Union Campus at Bacnotan; the Mid La union Campus at San Fernando; and South La Union Campus at Agoo. In 1998, the University established the Graduate College and Open University System, both in San Fernando City. There are two national institutes established in the University by virtue of R.A. 7359 and R.A. 9151, the Sericulture Research and Development Institute and the National Apiculture Research, Training and Development Institute, respectively.

The University was tasked with the duty to provide advanced instruction in arts, agriculture, fishery, engineering, and natural sciences, as well as in other technological and professional fields, promote research and engage in extension work.

### **B. Financial Highlights**

Total Assets amounted to P321M; Liabilities amounted to P52M and Government Equity amounted to P269M. Total income during the year amounted to P386M and expenses amounted to P360M leaving an excess of income over expenditure in the amount of P26M.

## **C. Operational Highlights**

### **1. Instruction**

- Produced 1,886 graduates (undergraduate & graduate levels) for school year 2004-2005
- Caused the accreditation of most of its undergraduate and graduate programs
- Produced Board Examination Topnotchers in Licensure Examination in Master Electrician (Rank 1) and Board Examination for Fisheries Technologies (Ranks 10 and 11)

### **2. Research**

- Completed 90 researches
- Garnered/Received six (6) awards from the Civil Service Commission and ILARRDEC

### **3. Extension**

- Trained clientele numbering 5,012 on various commodity areas in partnership with a number of government and non-government entities
- Tested and adopted several extension teaching methodologies and strategies to reach out greater number of clientele in such concepts as Social Laboratory, Integrated Comprehensive and multi-Disciplinary Approach to Rural Development, Community Based Rural Development and the “Professor in Every Barangay”.

## **D. Scope of Audit**

The audit covered the financial operations of the Agency for the calendar year 2005. The objective of the audit was to ascertain the fairness of presentation and reliability of the agency’s financial position and results of operations in the financial statements. Financial and compliance audit was undertaken on a test basis.

## **E. Auditor’s Report**

The Auditor rendered an adverse opinion on the fairness of the presentation of the financial statements due to the material effects of the deficiencies noted as discussed in Part II of the report, the details of significant Observations and Recommendations.

## **F. Summary of Significant Observations and Recommendations**

- 1.** Payment of Collective Negotiation Agreement (CNA) Incentives amounting to P37,439,265.24 was not in accordance with the Department of Budget and Management (DBM) Circular No. 2006-1 dated February 1, 2006, hence not authorized, thereby affecting the legality and validity of the payments, which resulted to overstatement of expenses in the amount P15,721,265.24 and P21,718,000.00 for calendar years 2005 and 2004, respectively. ***We recommend***

*to top management of the University to refrain from paying any incentives without adhering strictly to the implementing guidelines issued by the DBM to ensure that rules and regulations are followed to safeguard government resources. Likewise, cause the refund of the unauthorized payment of CNA incentives.*

2. Verification and review of the consolidated financial statements of the University disclosed the following:
  - a. Accounts Receivables was understatement by P80,525.00 was due to an unrecorded income in the SLUC books. The account was not subjected to a provision for an Allowance for Doubtful Accounts for the year 2005 amounting to P189,656.08 in five (5) components of the University contrary to the provisions of Section 66, Volume I of the Manual on New Government Accounting System (NGAS) thereby understating bad debts expense. ***Require the concerned campuses/operating units of the University to adjust their books for the amount of P80,525.00 and set up the corresponding Allowance for Doubtful Accounts in the total amount of P189,656.08.***
  - b. The account Agricultural Supplies Inventories was not used by NLUC to record the receipt of agricultural supplies from DMMMSU Central Administration amounting to P128,540.00 thereby understating Inventory account and overstating operating expenses by the same amount. ***Require the NLUC Accountant to make adjustment in the books of accounts for the amount of P128,540.00 for fair presentation of the accounts “Agricultural Supplies Inventory” and “Agricultural Supplies Expense” in the financial statements.***

The balance of the Land account in the amount of P14,774,766.29 included lands in the books of North La Union Campus valued at zonal valuation, those of the other operating units/campuses remained at their assessed value hence, an inconsistency in the valuation. ***Require the Chief Administrative Officer of the Central Administration to cause early completion of land titling in all campuses and ensure the uniform and consistent valuation of their lands.***

- c. School buildings account was understated by an amount of P568,884.89 due to erroneous adjustment in SLUC. The total “Accumulated Depreciation” of P138,715,701.48 was fairly presented in the financial statements. ***Require the SLUC Accountant to effect the correcting journal entry in the books.***
- d. Accounts Payable was understated by the unrecorded amount of P178,750.00 in the books of accounts of DMMMSU Graduate College representing cost of accreditation expenses. ***Require the Graduate College Accountant to make adjustment in the books of accounts for the amount of P178,750.00 for fair presentation of the accounts “Accounts Payable” and “Other Maintenance & Operating Expenses” in the financial statements.***

- e. Other Business Income was understated by P80,525.00 due to error in recording income in SLUC records for Fund 161. ***Require the SLUC Accountant to adjust the books of accounts for the amount of P80,525.00 for fair presentation in the financial statements.***
  
  - f. Accounting treatment for cost of supplies purchased directly related to production of goods for sale was not uniformly practiced among the components of the University causing overstatement of operating expenses by P4,755,616.38. ***Require all concerned components of the University to adopt or use a uniform accounting treatment for the costs and purchases of supplies directly related to the production of goods or merchandise for sale. Require the NLUC Accountant to make adjustments in the affected accounts for the CY 2005 Cost of Goods Sold.***
3. The University centralized its Bids and Awards Committee (BAC) in the implementation of RA 9184 contrary to its existing decentralized fund management system, and thereby incurring unnecessary costs and delays in the acquisition of goods, works and services. ***Cause the adoption of a more responsive procurement system suited to the needs and existing organizational set up of the University in support to the “Government’s commitment of good governance”. Consider the organization of BACs at the campus/units’ level to avoid unnecessary incurrence of costs and delays.***

#### **G. Status of Implementation by the Auditee of Prior Years’ Audit Recommendations**

Only three (3) out of the eight (8) prior years audit recommendations remained unimplemented by Management thereby improving the contents of its financial reports, a step towards a more improved delivery of services in pursuit of its mandate.