

AUDIT OBSERVATIONS AND RECOMMENDATIONS

The observations and recommendations herein discussed include those reported in the Management Letters issued to 12 Area Centers (ACs).

FINANCIAL AND COMPLIANCE AUDIT

Philippine Accounting Standards (PAS) 1, Par. 15 of Philippine Financial Reporting Standards (PFRS) provides that – *Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework.*

1. **The balances of the Property and Equipment (PE) accounts with a total cost of P108.314 billion are unreliable due to the unreconciled discrepancy of P105.066 billion between the accounting records and the Report on the Physical Count of Property, Plant and Equipment (RPCPPE); and recognition of PE in the books amounting to P60.876 billion using inaccurate appraised values. Moreover, their existence was not fully established due to conduct of incomplete inventory taking.**

Unreconciled total discrepancy of P105.066 billion

- 1.1 Section 490 of the Government Accounting and Auditing Manual (GAAM), Volume 1 provides that, “physical stock-taking is an indispensable procedure for checking the integrity of property custodianship. In all cases, the physical inventory taking which is required semi-annually or annually should be regarded with importance.
- 1.2 Section 491 of GAAM, Volume I provides that *all discrepancies between physical and book inventories must be investigated and cleared immediately. If necessary, written explanations shall be required from persons responsible.*
- 1.3 Item 1, Paragraph V of COA Circular No. 80-124 dated January 18, 1980, provides that a committee shall be formed to take charge of the physical inventory-taking, consisting of two or more employees designated by the head of the agency including the property/administrative officer or custodian depending on the extent of his accountability. A representative of the Auditor shall witness the inventory-taking.
- 1.4 Further, item 4 of the same paragraph provides that all inventory reports shall be prepared on the prescribed form (General Form No. 41-A) and certified correct by the committee in charge thereof, noted by the Auditor and approved by the head of the agency. The reports shall be properly reconciled with accounting and inventory records.

1.5 As of December 31, 2017, the consolidated balances of PE accounts amounted to P108,313,591,238. However, the CAAP-HO and the other ACs failed to conduct a complete physical count of their entire PE to check the integrity and establish the existence of the recorded properties of the Authority.

1.6 Comparison of the book balance of PE accounts and the Supply Division's property report, which is the RPCPPE, revealed a net variance amounting to P105.066 billion as of December 31, 2017, as shown below:

Account	Per GL	Per RPCPPE	Discrepancy
Land	P 47,085,347,022	P -	P 47,085,347,022
Land Improvements	23,844,777,460	-	23,844,777,460
Airport Systems	22,561,285,351	-	22,561,285,351
Buildings	2,227,195,234	-	2,227,195,234
Other Structures	5,955,169,706	-	5,955,169,706
Furniture and Equipment	6,638,781,651	2,959,900,884	3,678,880,767
Other Property, Plant and Equipment	1,034,813	287,397,093	(286,362,280)
TOTAL	P108,313,591,237	P 3,247,297,977	P 105,066,293,260

1.7 The result of the physical inventory of PE as reported in the RPCPPE should substantiate the correctness of the recorded PE in the GL and any discrepancies noted should be investigated, resolved and reconciled with the accounting and property records which the CAAP failed to undertake.

1.8 Moreover, the Accounting Division does not maintain the required Property and Equipment Ledger Cards (PELC) which should contain the details of the PE. Hence, the Audit Team was not able to ascertain the existence of the recorded PE due to absence of details except for Land and Buildings amounting to P47,085,347,022 and P2,227,195,234, respectively, as of December 31, 2017, that are supported with Transfer Certificates of Title and are being used for the operations of CAAP. On the other hand, we noted that the Supply Division does not maintain Property Cards (PC) per category of PE to monitor the additions/acquisitions/deductions/disposals of properties. Maintenance of the said PC would have facilitated the reconciliation of the property records with the accounting records.

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1.9 Thus, correctness of the PE accounts with a total cost of P108,313,591,238 as of December 31, 2017 could not be ascertained due to the existence of unreconciled balances between the accounting and property records.

Recognition of PE in the books amounting to P60.876 billion using inaccurate appraised values

1.10 Paragraph 34 of PAS 16 provides that *the frequency of revaluations depends upon the changes in fair values of the items of property, plant and equipment being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is required. Some items of property, plant and equipment experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of property, plant and equipment with only insignificant changes in fair*

value. Instead, it may be necessary to revalue the item only every three or five years.

1.11 In CY 2010, CAAP entered into a Work Agreement with Intech Property Appraisal, Inc. (INTECH) for the appraisal of its properties at various airports and facilities nationwide. In the Terms of Reference (TOR) attached to the Work Agreement dated November 7, 2009, the project provides the following objectives, to wit:

- a. Determine the actual inventory of the assets which are presently owned and/or in possession of the CAAP;
- b. Determine the market value of the assets which are presently owned and/or in possession with the CAAP;
- c. Come up with complete listing of the actual inventory of the assets owned and/or in possession of CAAP;
- d. Come up with the summary of all these assets mentioned above, together with its corresponding assessed and prevailing market value; and
- e. Come up with the total monetary value of assets mentioned in the preceding items.

1.12 Results of the appraisal made were contained in 96 Appraisal Reports with various dates. The then COA-CAAP Audit Team requested the COA Technical Service Unit (TSU) to review and evaluate the Appraisal Reports of 5 airports submitted by INTECH, namely:

- a. Davao (F. Bangoy) International Airport, Davao City;
- b. General Santos (GenSan) City International Airport, General Santos City;
- c. Puerto Princesa Airport, Puerto Princesa City;
- d. Iloilo International Airport, Iloilo City; and
- e. Lumbia Domestic Airport, Cagayan de Oro City.

1.13 The results of the appraisal review made by the TSU disclosed that on the appraisal of buildings and land improvements, INTECH appraised only the buildings but did not include the equipment inside the buildings. Details of the deficiencies of the Appraisal Reports on airports concerned are as follows:

Airport	Equipment/Land Improvements excluded in the Appraisal
Davao (F. Bangoy) International Airport	Machineries and equipment approximately 35 per cent of the total cost of building and improvements.
General Santos (GenSan) City	Airport road network

Airport	Equipment/Land Improvements excluded in the Appraisal
International Airport	Fire trucks Electric power plants Pump house equipment Substations Switch gears/panel boards Localizer equipment VOR equipment Tower control equipment Air conditioning units Perimeter fence, new cyclone wire on GI steel pipes (east area, center portion approximately 1,000 linear meters) Perimeter fence, barb wire, old (at west to south area approximately 4,520 liner meters), etc. Security fence
Puerto Princessa Airport	Fire Station Equipment such as Fire Trucks and Fire Water Storage Tank Passenger Terminal Building Equipment such as PAUs, AHUs, Elevators, Escalators, Baggage handling System, X-Ray Machines, and CCTV Control Tower and Operation Building Equipment Navigational Facility Equipment for: Communication (VHF Transmitters and Receivers) Navigation (DVOR, Localizer and Gilde Slope Equipment) MET (Celometer, Wind, Humidity & Temperature Sensors including Digital barometer) AFL (Airfield Lighting) Systems (PALS, SALS & PAPI)
Iloilo International Airport	Sewerage Treatment Plant Fire Station Equipment such as Fire Trucks and Fire Water Storage Tank Electric Central Plant Equipment such as Generators, CCRs and UPSs Mechanical Central Plant Equipment such as Aircooled Water Chillers, Fire Pumps, Water Distribution Pumps, Primary and Secondary Pumps Passenger Terminal Building Equipment such as PAUs, AHUs, Elevators, Escalators, Baggage handling System, X-Ray Machines, CCTV and Passenger Boarding Bridge Control Tower and Operation Building Equipment Navigation Facility Equipment for: Communication (VHF Transmitters and Receivers) Navigation (DVOR, Localizer and Glide Slope Equipment) Underground Service Link connecting the control tower, VOR, Passenger Terminal and Central Plant
Lumbia Domestic Airport	Fire Station Equipment such as Fire Trucks and Fire Water Storage Tank Plant Equipment such as Generators, CCRs and UPSs Mechanical Equipment such as Fire Pumps, Water Distribution Pumps, Primary and Secondary Pumps Control Tower and Operation Building Equipment Navigation Facility Equipment for: Communication (VHF Transmitters and Receivers) Navigation (DVOR, Localizer and Glide Slope Equipment)

Airport	Equipment/Land Improvements excluded in the Appraisal
	MET (Ceilometer, Wind, Humidity and Temperature Sensors including Digital barometer AFL (Airfield Lighting) System (PALS, SALS and PAPI)

1.14 In addition, several other deficiencies were also noted in the Appraisal Reports, details are shown below:

Airport	Findings
Davao (F. Bangoy) International Airport	<p>There were three (3) buildings that were not included in the Appraisal Report as follows: One (1) storey building – Old Flight Service Station One (1) storey building – Old Power House Building One (1) storey building – Old Receiver Building</p> <p>Moreover, the Stock Room and Kitchen were included in the appraisal report, when in fact, they were non-existent.</p>
General Santos (GenSan) City International Airport	<p>The land where the airport is situated is not yet registered in the Register of Deeds of the Land Registration Authority of General Santos City. Verification from the records in the Community Environment and Natural Resources Office (CENRO) at Bauyan, General Santos City showed that then Air Transportation Office (ATO), now CAAP applied for land registration but was not yet given due course pending compliance with some requirements due to the adverse claims of ancestral/indigenous people on some portions of the land reservations.</p> <p>The perimeter fence, especially in the north and northeastern sides, is not along the property line but is a few meters deep inside the property area, thus, does not indicate the true boundary of the property of CAAP. As per computation (based on actual inspection), the old perimeter fence (cyclone wire on GL steel pipes on the north and northeastern portion of the property) is only approximately 2,600 linear meters by 1.8 meter high or a total of 4,680 sq. m. The computations done by INTECH reflected an area of 49,135 sq. m. or a difference of 44,455 sq.m. from the COA computed area.</p> <p>Computation of the Reproduction Cost New of the old perimeter fence based on the above area is shown below:</p> <p>COA: 4,680 sq.m. x P2,546 = P11,915,280 INTECH: 49,135 sq.m x P1,800 = P88,443,000 Difference: P76,527,720</p>
Puerto Princesa Airport and Lumbia Domestic Airport (Cagayan De Oro)	<p>There is a tunnel connecting the Passenger Terminal Building to the VOR, Glide Slope, and Localizer Buildings. The said tunnel serves as an emergency facility connecting the said areas and it is where the electrical and mechanical facilities are laid, which were not also considered in the appraisal made by INTECH.</p>

- 1.15 The above observations were embodied in the Annual Audit Report on the CAAP for the year ended December 31, 2011. Due to the non-inclusion of various assets in the appraisal conducted and the inclusion of non-existent assets or those which are not in the name of the Authority, the Appraisal Reports did not reflect the correct and actual value of the properties located in various airports. Hence, Management did not record in its books the results of the appraisal made by INTECH.
- 1.16 In the audit of CY 2017 transactions of CAAP, we noted that the Equity account balance increased from P13,654,895,926 in 2016 to P86,512,107,394.
- 1.17 Our verification disclosed that the above-mentioned increase in Equity was primarily due to the recognition of the market value of PE amounting to P60,876,010,567 based on the Appraisal Report prepared by INTECH in 2010.
- 1.18 Note 2 to the Financial Statements disclosed that CAAP adopted the PFRSs in 2017. As a result of this initial adoption, there were items recognized, derecognized, re-measured, and reclassified. This obliged Management to recognize the above-mentioned assets. The recognition thereof was in accordance with PFRSs, however, the amounts recognized were based on the Appraisal Reports found to be inaccurate, hence, the valuation indicated therein is unreliable. Due to the recording of the market value of PE using inaccurate appraised values, the balances of the Equity, Retained Earnings and PE accounts as of December 31, 2017 are unreliable.
- 1.19 Recognition of the appraised values of the PE thus, resulted in the Authority's Equity exceeding its authorized capital of P50 billion. Under RA 9497, *CAAP has an authorized capital stock of P50 billion which shall be fully subscribed by the Republic of the Philippines.*
- 1.20 In view of the foregoing, we recommended and Management agreed to:
 - a. Create an Inventory Committee to conduct physical inventory of all property and equipment of the Authority to ascertain their existence and actual conditions;
 - b. Reconcile any discrepancy found in the accounting and property records; and
 - c. Request for the increase of the Authority's capital, if warranted.

Unreliable balance of Accounts Receivable account

2. Balances of Accounts Receivable (AR) account in the General Ledger (GL) and the Subsidiary Ledger (SL) of the Head Office and in the ACs are unreconciled showing a net variance of P100.696 million.

- 2.1 Verification of the AR balance per GL and per Aging Schedule (SL) disclosed a net variance of P100.696 million.

	GL	SL	Variance (in Millions)
Head Office	P1,919.072	P1,780.508	P138.564
AC I	26.191	27.643	(1.452)
AC VI	729.348	739.424	(10.076)
AC VIII	113.717	140.057	(26.340)
Total ACs			P(37.868)
Total			P100.696

2.2 Section 111(2) of Presidential Decree (PD) No. 1445 states that the highest standards of honesty, objectivity and consistency shall be observed in the keeping of accounts to safeguard against inaccurate or misleading information, whereas, Section 114 of the same PD provides that the general ledger is where all financial transactions are recorded and that subsidiary records shall be kept where necessary.

2.3 Paragraph 15 of PAS 1 states that:

xxx. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in the financial statements that achieve a fair presentation.

2.4 The discrepancy between the GL and SL balances departs from the provisions of Sections 111(2) and 114 of PD No. 1445 and Paragraph 15 of PAS 1, thereby, casting doubt on the accuracy and reliability of the account balance as of December 31, 2017.

2.5 Inquiry revealed that the Accounting Division is still in the process of reconciling the differences since this account includes transactions prior to the creation of CAAP in 2008 and there was no proper turn-over of all the supporting documents of Air Transportation Office (ATO) accounts. It can be noted that this has always been the ultimate reason given by the Accounting Division for non-reconciliation of discrepancies but there is no proof that reconciliation is being done.

2.6 On the other hand, it is also worthy to note that there are ARs with negative/abnormal balances amounting to P132.002 million and P1.634 million in the Head Office (HO) and the ACs, respectively:

Particulars	Amount in Millions
Negative balances in the SL:	
Head Office – Current	P123.256
– Past Due	8.746
Total Head Office	P132.002
AC VI	1.255
AC VIII	0.379
Total ACs	P 1.634
Total	P133.636

2.7 These ARs with negative/abnormal balances are 95 per cent past due accounts that pertain to overpayments due to the following instances:

- a. Various airline operators with non-scheduled flights are required to pay Air Navigational Charges (ANCs) in advance based on the estimated computation by the Flight Safety Inspectorate Service (FSIS) - Operations but when billing statements are prepared, the charges are less than the amounts actually paid; and
- b. ANCs paid in advance but flights were subsequently cancelled.

2.8 However, it was informed that there was no reconciliation made between the overpayments and the billed amounts due to lack of manpower.

2.9 It is imperative therefore, that the Accounting Division should take appropriate action to identify negative/abnormal balances and make the necessary adjustments.

2.10 This is a reiteration of the previous audit observations embodied in the prior years' Annual Audit Reports on the CAAP and Management has been committing to assign additional personnel to assist in reconciling the differences but none was assigned as of this date.

2.11 We recommended that Management instruct the Chief Accountant to:

- a. Exert utmost efforts to reconcile the differences between the SL and GL balances by assigning additional personnel to locate all the necessary documents; and
- b. Assign a dedicated staff to identify the abnormal balances of the AR and effect the adjusting entries.

2.12 **Management Comment:**

The Chief Accountant in the HO informed that they already sent 41 demand letters in CY 2017 and have been coordinating with Airline Carriers (ArCs) for reconciliation and settlement of their respective accounts. Likewise, the Authority has been exerting efforts to reconcile the differences between SL and GL balances. Beginning CY 2017, separate aging of accounts receivable for CAAP and ATO were prepared for easy reconciliation and monitoring of accounts. On the other hand, verification of the abnormal balances due to overpayments is already on going and adjustment shall be made accordingly.

Unliquidated and Unreconciled Inter-Agency Receivables

3. The non-liquidation of funds transferred to various agencies of the government resulted in the long-outstanding year-end balances of the “Due from” accounts amounting to P64.157 million, of which P18.834 million pertains to the undocumented account of the then Air Transportation Office (ATO). Moreover, the unreconciled differences between the accounting records and results of confirmation totaled P23.793 million.

3.1 The accounting standards for the grant and liquidation of fund transfer are:

a. Sections 4.1, 4.6 and 5.4 of COA Circular No. 94-013 dated December 13, 1994 provide the following-

- *The Source Agency (SA) shall enter into an agreement with the Implementing Agency (IA) for the undertaking by the latter of the project of the former. The Agreement shall provide for the requirements for project implementation and reporting.*
- *Within ten days after the end of each month/end of the agreed period for the project, the IA shall submit the Report of Checks Issued (RCI) and the Report of Disbursement (RD) to report the utilization of the funds. Only actual project expenses shall be reported. The reports shall be approved by the Head of the IA.*
- *The SA shall require the IA to submit the reports and furnish the IA with a copy of the journal voucher taking up the expenditures. Upon receipt of the copy of the Certificate of Settlement and Balances (CSB) and the Credit Notice (CN) issued by the IA Auditor, the Accountant shall draw a journal voucher restoring back the amount previously credited for any disallowance. He shall furnish the IA with a copy of the JV.*

b. Section 5.6 and 5.9 of COA Circular No. 2016-005 dated December 19, 2016 state the following:

- *Dormant Unliquidated Fund Transfers - advances granted by the source entity to implementing entity for the implementation of programs/projects which remained non-moving for 10 years and where settlement could no longer be ascertained.*
- *Write-off of Dormant Accounts - the process of derecognizing the asset account and the corresponding allowance for impairment from the books of accounts and transferring the same to the Registry of Accounts Written Off (RAWO). This does not mean condoning/extinguishing the obligation of the accountable officer/debtor.*

c. Under paragraph 58 of PAS 39, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired.

Furthermore, paragraph 59 of PAS 39 enumerates loss events which depict objective evidences of a financial asset's impairment. Moreover, the entity is not constrained to these enumerated loss events in its own assessment of whether its financial assets are actually impaired. If thereafter, an objective evidence that an impairment loss on financial assets is found to be existing, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate compounded at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account and such loss shall be recognized in profit or loss.

- 3.2 Of the balance of fund transfers of CAAP as of December 31, 2017 amounting to P64,156,766 which remained unliquidated for more than five (5) years, P18,834,118 pertained to the undocumented and non-moving account of the then ATO and transferred to CAAP in 2008.
- 3.3 The funds were transferred to NGAs/GOCCs/LGUs from 2006 to 2016 and it is presumed that the projects/supplies/equipment were already completed and delivered, thus, the amounts should have been liquidated/settled. The failure to compel the implementing agencies to submit the liquidation reports after the project completion precluded the evaluation of fund utilization as well as determination of the status of project implementation.
- 3.4 Confirmations were sent to 6 concerned agencies, 5 of which replied. Comparison of the subsidiary ledger (SL) balances with the confirmation replies showed a discrepancy of P23,793,371, details presented as follows:

Account	Balances		Difference	Remarks
	SL	Confirmation Reply		
Due from NGAs-				
Procurement Services	P36,455,517	P17,874,022	P18,581,496	
Land Transportation Office	2,362	-	2,362	
National Printing Office	85,720	3,684,607	3,598,887	
Due from GOCCs-				
National Housing Authority	3,768,878	5,299,505	1,530,626	
Philippine Postal Corporation	80,000	-	80,000	
Due from LGUs-				
Provincial Government of Misamis Oriental	4,930,171			No reply from the Chief Accountant and COA on the confirmation letters
TOTAL	P45,322,648	P26,858,134	P23,793,371	

- 3.5 This difference is equivalent to 52 per cent of the total outstanding fund transfer of P45,322,648.

- 3.6 On the other hand, it is worthy to note that, despite the dormancy and undocumented account of the then ATO, management failed to provide allowance for impairment for the receivables in the total amount of P18,834,118 or request for write off, thus, overvaluing the receivables presented in the financial statements.
- 3.7 Likewise, the non-liquidation of the funds transferred resulted in the overstatement of the receivable account and understatement of the related PE and Retained Earnings accounts.
- 3.8 We recommended and Management agreed to instruct the Chief Accountant to:
- a. Collaborate closely with the concerned agencies to resolve the unreconciled differences in the fund transfers balances and adjust accordingly the affected accounts;
 - b. Effectively enforce the liquidation of outstanding balance of the Provincial Government of Misamis Oriental including the refund of any unspent balance;
 - c. Provide allowance for impairment on undocumented and unlocated ATO accounts; and
 - d. Coordinate with former ATO Accounting officials for the documentation of undocumented and non-moving accounts and record all actions taken thereof.

Various completed projects not reclassified to appropriate asset accounts

4. The Construction In Progress (CIP) account of the HO and AC V included completed projects amounting to P679.421 million and P4.247 million, respectively, which are not classified to appropriate PE account.

- 4.1 The CIP accounts descriptions under the Revised Chart of Accounts for Government Corporations which became effective on January 1, 2016 require assets under construction or development to be reclassified to their appropriate PE accounts upon completion.
- 4.2 Examination of the CIP accounts of the HO and AC V as of December 31, 2017 disclosed that completed projects with a total cost of P679,420,536 and P4,246,895, respectively, were not reclassified to appropriate PE accounts.
- 4.3 The non-reclassification of the completed CIP to appropriate PE accounts resulted in the overstatement of the CIP accounts and understatement of the appropriate PE accounts as of year-end. Depreciation expense and the related Accumulated Depreciation of the PE accounts are also understated. The Chief Accountant (HO) explained that they were not able to verify the status of the projects and transfer the completed projects to appropriate accounts due to time constraints. On the other hand, the Officer-in-Charge, Accounting Division (AC V) informed that the CIP account will be adjusted to its appropriate PE accounts upon final payment of the project.

4.4 We recommended and Management agreed to direct the Chief Accountant to prepare the necessary adjusting entries for the reclassification of the completed projects from CIP accounts to appropriate PE accounts and to recognize the corresponding depreciation and accumulated depreciation for the completed projects.

5. Various transactions in the HO amounting to P236.124 million were erroneously recorded under CIP-Buildings and Other Structures account, contrary to COA Circular No. 2015-010.

5.1 COA Circular No. 2015-010 dated December 1, 2015 requires the adoption of the Revised Chart of Accounts (RCA) for Government Corporations effective January 1, 2016. The CIP – Buildings and Other Structures (1 06 99 030) is described as:

This account is used to recognize the accumulated cost or other appropriate value of buildings and other structures which are still in the process of construction or acquisition. Credit this account for reclassification to the appropriate Buildings and Other Structures account upon completion.

5.2 Analysis of the CIP-Buildings and Other Structures account of the HO disclosed that there were transactions amounting to P236,123,676 that were erroneously included in this account. Transactions such as Purchase and Installation of Doppler VHF Omni Directional Radio Range and Distance Measuring Equipment for various airports and Supply, Delivery, Installation and Commissioning of IP PABX System totaling to P164,104,013 were erroneously recorded under CIP-Buildings and Other Structures instead of Information and Communication Equipment. Transactions in connection with the Supply and Commissioning of CCTV system for APEC airports amounting to P44,838,990 were also recorded under this CIP account instead of Military, Police and Security Equipment. Partial delivery and installation of equipment should be recorded under the appropriate equipment accounts and should not form part of CIP account. Moreover, several infrastructure projects totaling to P27,180,672 were erroneously recorded under this account instead of CIP-Infrastructure Assets.

5.3 The misclassification of the transactions resulted in the overstatement of the CIP-Buildings and Other Structures account by P236,123,676 and understatement of Information and Communication Technology Equipment, Military, Police and Security Equipment and CIP-Infrastructure Assets accounts by P164,104,013, P44,838,990 and P27,180,672, respectively.

5.4 We recommended and Management agreed to direct the Chief Accountant to prepare the necessary adjusting entries to reclassify transactions under the CIP-Buildings and Other Structures accounts to their appropriate PE accounts.

6. The cost of two completed projects amounting to P1.125 million and unidentified disbursements amounting to P0.489 million remain in the CIP-Infrastructure Assets account.

- 6.1 Analysis disclosed that two of the projects which were recorded under the CIP-Infrastructure Assets account were identified, as the Casiguran Development Project and New Aviation Safety Building at CAAP Compound amounting to P891,399 and P234,520, respectively. These completed projects were adjusted/debited to their appropriate PE accounts and credited to the CIP-Infrastructure Assets account. Likewise, the corresponding depreciation expense and accumulated depreciation were recognized. However, the adjustments were posted in the GL as credit to CIP-Buildings and Other Structures instead of CIP-Infrastructure Assets.
- 6.2 The erroneous recording in the books resulted in the understatement of the CIP-Buildings and Other Structure account and overstatement of the CIP-Infrastructure Assets account by same amount of P1,125,919. The remaining balance of the CIP-Infrastructure account amounting to P489,279 pertains to unidentified disbursements which lack supporting documents, thus the validity and accuracy of the account could not be ascertained.
- 6.3 We recommended and Management agreed to direct the Chief Accountant to effect the correct adjusting entries and exert extra effort to produce/locate the documents pertaining to the unidentified disbursements amounting to P489,279 for adjustment in the books.

7. The Authority failed to impose liquidated damages amounting to P1.165 million and P0.311 million at the HO and AC IX, respectively, for the delay incurred by the contractors.

- 7.1 Section 8.1 of Annex E of the Revised Implementing Rules and Regulations (RIRR) of Republic Act (RA) 9184 provides that where the contractor refuses or fails to satisfactorily complete the work within the specified contract time, plus any time extension duly granted and is hereby in default under the contract, the contractor shall pay the procuring entity for liquidated damages, and not by way of penalty, an amount, as provided in the conditions of contract, equal to at least one tenth (1/10) of one per cent of the cost of the unperformed portion of the works for every day of delay.
- 7.2 Verification of the Progress Billings and the Contract Time Reports of the HO's infrastructure project - Completion/Improvement of Laoag Terminal Building disclosed the following discrepancies:
 - a. The reported revised expiration date due to suspension was on December 25, 2016, when it should have been on November 10, 2016;
 - b. The reported calendar days used to date was 217 days, when it should have been 260 days; and
 - c. No contract time report attached for the month of April 2016.

- 7.3 The reported remaining calendar days for the month of May 2016 is greater than that of March 2016. The reported remaining calendar days for the month of May 2016 is 98 days while for the month of March 2016 is 69 days only. There was no approved request for time extension.
- 7.4 Further examination of the progress billings of infrastructure project showed that the implementation of the project has exceeded the specified contract time, however the Authority has not imposed liquidated damages against the contractor. As at November 30, 2016, the project was 92.83 per cent completed. The project should have been completed on November 10, 2016, but as of date, no third and final progress billings have been received hence, the project has incurred 473 days of delay. The cost of the unperformed portion of the works amounts to P2,463,843. The estimated liquidated damages payable by the contractor amounts to P1,165,398.
- 7.5 In AC IX, the total liquidated damages for the on-going various projects amounted to P310,793, details as shown below:

Project	Amount of Liquidated Damages
Rehabilitation of Tower Power House and Water System-ZIA	P 54,015
Construction of Communal Toilet-Pagadian Airport	108,474
Construction of Perimeter Fence for FSS Bldg – Pagadian Airport	35,820
Construction of communal toilet-Dipolog Airport	85,394
Overhaul of 1 unit Perkins Engine – ZIA	27,090
TOTAL	P310,793

- Liquidated Damages (LD) = 1/10 of 1% of the cost of the unperformed portion of the works x no. of days delayed

- 7.6 Review of documents supporting the payments showed that there were no requests for extension of time from the contractors before the expected date of completion and no approved extension of time was issued by the Head of the Procuring Entity to support the non-imposition of liquidated damages for every day of delay.
- 7.7 Section 8.4 of Annex E of the RIRR of RA 9184 states that in case the delay in the completion of the work exceeds a time duration equivalent to 10 per cent of the specified contract time plus any time extension duly granted to the contractor, the procuring entity concerned may rescind the contract, forfeit the contractor's performance security and takeover the prosecution of the project or award the same to a qualified contractor through negotiated contract.
- 7.8 Moreover, Section 127 of PD No. 1445 provides that "*Administrative disciplinary action. Subject to rules and regulations as may be approved by the President (Prime Minister), any unjustified failure by the public officer concerned to comply with any requirement imposed in this Code shall constitute neglect of duty and shall be a ground for administrative disciplinary action against the said public officer who, upon being found guilty thereof after hearing, shall be meted out such penalty as is commensurate with the degree of his guilt in accordance with Civil Service Law.*"

- 7.9 Delay in the completion of all the above-stated projects of AC IX exceeded 10 per cent of the specified contract time, hence Management could have rescinded the contract, forfeited the contractor's performance security and awarded said projects to another contractor through negotiated contract.
- 7.10 The non-imposition of liquidated damages was due to poor monitoring of status of infrastructure projects by Management and lack of coordination with the Accounting Unit by the Project-In-Charge. The contractors were not penalized for the inefficient performance of the projects.
- 7.11 We recommended and Management agreed to direct the Chief Accountant to:
- a. Submit an explanation why the Authority has not imposed the liquidated damages against the contractor due to the delay incurred in the completion of the infrastructure projects and strictly comply with Section 8.1 of Annex E of the RIRR of RA 9184 and impose sanction against personnel concerned as provided under Section 127 of PD No. 1445 on Administrative Disciplinary action;
 - b. Require the contractor to immediately pay the estimated liquidated damages and/or deduct the amount from the final payment for the project to the contractor; and
 - c. Direct the Project-In-Charge to strictly monitor status of infrastructure projects and coordinate with the Accounting Unit regarding delays in project completion.
- 7.12 Moreover, the Management of AC IX should consider rescinding contracts that exceeds 10 per cent of the specified contract time and forfeit contractor's performance security.
- 7.13 **Management Comment:**
- The Management in AC IX explained that due to the exigency of the projects, they became lenient in the imposition of liquidated damages. However, Management called the attention of the contractor in a letter dated March 6, 2017. Management will inform the contractor regarding their lapses and henceforth will strictly monitor all infrastructure projects.
- 7.14 **Auditor's Rejoinder:**
- The Audit Team in AC IX, however, insisted that Management not only inform the contractor but ensure that the liquidated damages amounting to P310,793 are collected/recovered.

8. The Advances to Contractors account includes long outstanding advances totaling P1.605 million in connection with projects that are no longer on-going and had been terminated.

8.1 Annex E of the RIRR of RA 9184 provides, among others, the following:

3.1 The procuring entity shall, upon a written request of the contractor which shall be submitted as a contract document, make an advance payment to the contractor in an amount not exceeding fifteen per cent (15%) of the total contract price, to be made in lump sum or, at the most, two installments according to a schedule specified in the Instructions to Bidders and other relevant Tender Documents.

3.2 The advance payment shall be made only upon the submission to and acceptance by the procuring entity of an irrevocable standby letter of credit of equivalent value from a commercial bank, a bank guarantee or a surety bond callable upon demand, issued by a surety or insurance company duly licensed by the Insurance Commission and confirmed by the procuring entity.

3.3 The advance payment shall be repaid by the contractor by deducting fifteen per cent (15%) from his periodic progress payments a percentage equal to the percentage of the total contract price used for the advance payment.

3.4 The contractor may reduce his standby letter of credit or guarantee instrument by the amounts refunded by the Monthly Certificates in the advance payment.

8.2 Analysis of the account showed that there were long outstanding advances, relating to ATO projects and terminated contract, which remain unrecouped as of December 31, 2017. Details of these advance payments are as follows:

Project	Contractor	Advances to Contractor as at Dec. 31, 2017	Date of Payment of 15% Mobilization	Check No.
Repair of VFR room and other floor levels at Control Tower Building, NAIA	Bentidel Ent & Developer	P218,467	July 2005	1497705
Repair/Improvement of NDB Station Phase 2 project at Rosario, Cavite	Bridgestone Construction Company	43,407	Dec 2007	1521628
System development of Auto AES	Mannasoft Technology Corporation	33,000	Jan 2002	1455012
Improvement of 1 st and 4 th floor of main building	AQA Global Construction Inc.	1,309,920	Contract was terminated in the middle of the construction	
TOTAL		P1,604,794		

- 8.3 Based on the Management Letter on the terminal Audit of then ATO - HO for the period January 1 to June 30, 2008, the Air Navigation Service (ANS) and Airport Maintenance Section (AMS) informed the Audit Team that the above-mentioned ATO projects were no longer on-going.
- 8.4 In addition, the advance payment to AQA Global Construction Inc. amounting to P1,309,920 for the project on the improvement of 1st and 4th floor CAAP main building and other surrounding buildings remains unrecouped as of this date despite the termination of the contract in the middle of the construction in December 2014.
- 8.5 The non-recovery of the advances to contractors deprived the Authority of funds that can be used for operations or for other projects that could bring economic benefit to stakeholders.
- 8.6 We recommended and Management agreed to direct the Chief Accountant to exert extra effort in verifying the balances of the unrecovered/unrecouped advances to contractors and prepare adjustments as applicable and send demand letters to the contractors concerned to refund the unrecouped amount for the terminated/completed projects.
- 9. Double recording on the recognition of the Advances to Contractors for the 15 per cent mobilization fee to J.C. Albason Builders & Supply, thus, overstating the account by P1.230 million.**
- 9.1 Further examination of the Advances to Contractors account disclosed that payment for the 15 per cent mobilization fee to J.C. Albason Builders & Supply for the rehabilitation of the Flight Standard Inspectorate Service (FSIS) building at CAAP Compound amounting to P1,230,310 was recorded twice. The said transaction was recorded initially in the Check Disbursement Journal in December 2017 as debit to Advances to Contractors and credit to Cash in Bank. However, review of the account as of December 31, 2017 showed that the same transaction was again debited to Advances to Contractors account and credited to Accounts Payable.
- 9.2 The double recording of the transaction resulted in the overstatement of the Advances to Contractors and the Accounts Payable accounts by P1,230,310.
- 9.3 We recommended and Management agreed to direct the Chief Accountant to prepare adjusting entry to reverse the double recording to Advances to Contractors account and the recognition of the payable for the 15 per cent advance payment made for the rehabilitation of FSIS Building at CAAP compound.

Unliquidated/unreconciled Advances to Officers and Employees

10. Of the total Advances to Officers and Employees account balance of P12.569 million as of year-end, P11.234 million or 89.38 per cent which are due and demandable were not liquidated as of year-end, contrary to the provisions of COA Circular No. 96-004; Executive Order (EO) No. 248, as amended by EO 298; and Section 89 of PD 1445.

10.1 The *Advances to Officers and Employees* account is used to recognize amount advanced to officers and employees for official travel. The account is credited for liquidation of advances.

10.2 Section 89 of PD 1445 provides that:

A cash advance shall be reported on as soon as the purpose for which it was given has been served. No additional cash advance shall be allowed to any official or employee unless the previous cash advance given to him is first settled or a proper accounting thereof is made.

10.3 The *Accountable officer shall liquidate his cash advance for official travel within sixty (60) days after return to the Philippines in the case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel*, as provided for in EO 248, as amended by EO 298, and COA Circular No. 96-004.

10.4 Cash advances granted for foreign and local travels recorded under account *Advances to Officers and Employees* has a balance of P12,569,580 as of December 31, 2017. The aging of the accounts is shown in the table below:

Nature	Amount (12.28.17)	Not Yet Due	No. of days Past Due					
			Less than 30 days	31-90 days	91-365 days	Over 1 year	Over 2 years	3 Years & above
Foreign	P10,250,542	P1,335,106	1,006,875	3,672,297	468,934	672,302	676,945	2,418,084
Local	2,319,038	0	0	31,247	214,116	98,787	100,378	1,874,510
Sub-total		1,335,106	1,006,875	3,703,544	683,050	771,089	777,323	4,292,594
Total	12,569,580	1,335,106			11,234,475 (89.38%)			
Percentage	100%	10.62%	8.01%	29.46%	5.43%	6.13%	6.18%	34.15%

10.5 From the table presented, it can be noted that P4,292,594 or 34.15 per cent of the total amount remained unliquidated for more than three (3) years. The failure to fully liquidate cash advances in accordance with the laws, rules and regulations resulted in the misstatement of traveling expenses in the period these were actually incurred as well as the overstatement of assets and Retained Earnings accounts. Non-liquidation of cash advances also casts doubts on whether the purpose of the cash advances has been completed.

10.6 The Audit Team sent 61 demand letters to 192 personnel with unliquidated cash advances. It is worthy to note that those who were sent demand letters replied that they have either submitted their liquidation or refunded the amounts they received in cash or thru bonus or salary deduction.

10.7 Section 3 of COA Circular No. 96-004 dated April 19, 1996 provides that:

The Accountant shall be responsible in the monitoring of the grant and liquidation of the advances for travel. He shall send within 10 days before the expiration of the 30 or 60 days period prescribed under Section 14 of EO 298, a written reminder duly signed by the Agency head or his authorized representative, enjoining the official or employee concerned to liquidate his travel cash advance. In case of failure to liquidate the cash advance within the prescribed period, delete the name of the official or employee from subsequent payrolls until such time that the travel cash advance has been fully liquidated.

10.8 The existence of the past due accounts shows Management's failure to strictly enforce the provisions of applicable laws, rules and regulations on the grant and liquidation of cash advances.

10.9 It was also noted that abnormal balances amounting to P328,147 remained unadjusted as of December 31, 2017.

10.10 This is a reiteration of audit observations embodied in the prior years' Annual Reports of CAAP.

10.11 We recommended and Management agreed to:

- a. Revisit its practices in the grant, utilization and liquidation of cash advances and henceforth stop the practice of granting additional cash advance/s to accountable officers and employees unless their previous cash advances have been fully accounted for/liquidated. In addition, direct the Chief Accountant to make analysis on the abnormal balances and effect the necessary adjusting entries; and
- b. Instruct the Chief Accountant to strictly implement Authority Order No. 266-17 dated November 9, 2017 to enforce settlement of long outstanding/unliquidated CAs including imposition of sanctions against accountable officers and employees who continue to neglect their obligations in accordance with the provision of COA Circular No 96-004, EO 248, as amended by EO 298 and Section 89 of PD 1445.

11. The balance of the Accounts Payable account in the HO as of December 31, 2017 amounting to P371.878 million is unreliable due to the inclusion of balances totaling P14.038 million that have been outstanding for periods ranging from more than 2 to 18 years; and erroneous entry resulting in the understatement of the account balance by P3.944 million.

Accounts Payable (AP) totaling P14,038,686 have been outstanding for periods ranging from more than 2 to 18 years.

- 11.1 Paragraph 3.1 of DBM and COA Joint Circular No 99-6 dated November 13, 1999 provides that- *All documented A/Ps of all funds which have remained outstanding for two (2) years, shall be reverted to the Cumulative Results of Operations – Unappropriated (CROU), except on-going capital outlays projects.*
- 11.2 Paragraph 3.3 of the same Joint Circular also provides that- *All undocumented A/Ps regardless of the year they were incurred, shall be immediately reverted to the CROU.*
- 11.3 Verification of the transactions recorded in the Schedule of Accounts Payable account as of December 31, 2017 showed that it includes the amount of P14,038,686 which have been outstanding for periods ranging from more than 2 to 18 years.
- 11.4 Considering that these have been outstanding for more than 2 years and no valid claims have been filed with the Authority, these should be adjusted pursuant to the provisions of DBM and COA Joint Circular No. 99-6.

Erroneous entry resulted in the understatement of the Accounts Payable account by P3.944 million.

- 11.5 Verification of transactions pertaining to the improvement of Passenger Terminal Building of Tacloban Airport project showed that only P3,808,281 was set up as payable instead of P7,752,702, hence resulting in the understatement of the Accounts Payable account by P3,944,421.
- 11.6 The payable pertaining to the accomplishment for the project for the period October 24, 2017 to January 1, 2018 should be set up in full as of year end.
- 11.7 We recommended and Management agreed to instruct the Chief Accountant to:
 - a. Prepare the necessary adjusting journal entry to revert to CROU the AP balances which have remained in the books for 2 years and more and no actual claims have been filed pursuant to the aforementioned regulations; and
 - b. Effect the necessary adjusting entry to correct the errors in the AP and other corresponding accounts.

12. The Authority granted the CAAP Employees Multi-Purpose Cooperative (CEMPC) the privilege to occupy an available space and to use all utilities for free in excess of the privilege granted in Article 62 (2) of RA 9520.

12.1 Article 62 (2) of RA 9520 or the Philippine Cooperative Code of 2008 states that:

“Cooperatives organized among government employees, notwithstanding any law or regulation to the contrary, *shall enjoy the free use of any available space in their agency, whether owned or rented by the Government*” (emphasis supplied)

12.2 The lease agreement between the Authority and CEMPC provides that the leasing/occupancy of the canteen facility shall be free from payment of rental fees, electricity and water charges for the consideration of CEMPC to undertake the canteen operation servicing CAAP employees, customers and clients. Furthermore, CAAP will not earn any amount of income for the use of the Canteen building and would shoulder all utilities expenses for the benefit of the CEMPC.

12.3 The Canteen building was constructed and finished on September 20, 2013 at a cost of P4,375,503. Verification disclosed that in July 2015, CEMPC started to occupy the CAAP canteen building but the contract of lease was signed only in June 2016, one (1) year after its operation. The Cooperative was provided with free use of the canteen facilities, water dispenser, gas stove, tables and chairs as well as free electricity and water consumption as provided in the Contract.

12.4 The privilege of a cooperative under Article 62 (2) of RA 9520 is limited only to the enjoyment of the free use of any available space in an agency. Thus, the lease provision stating that CAAP would shoulder all utilities for the CEMPC is not in accordance with the cited provision of law.

12.5 We recommended and Management agreed to direct-

- a. The Chief Accountant to send bill and collect the cost of utilities consumed by the CEMPC; and
- b. The Property Officer to install sub-meters for power and water supply.

13. Luneta Advertising, Inc. continue to occupy the leased premises without a contract.

13.1 Article 1305 of the Civil Code of the Philippines defines contract as a meeting of minds between two persons whereby one binds himself, with respect to the other, to give something or to render some service.

13.2 In a lease agreement, it guarantees the lessee the right to the use of the property and it serves as the authority of the lessor to assess and collect the regular payments from the lessee for a specific period. It also protects both parties and the leased property should any problem arise.

- 13.3 Verification disclosed that Luneta Advertising, Inc., lessee, is occupying a space inside the property of CAAP, lessor, for its billboard's advertising purposes without a corresponding contract of lease. For CY 2017, CAAP collected the amount of P65,000.00 a month from the lessee as rent based on the Temporary Permit (TP) issued on September 1, 2015.
- 13.4 Due to the absence of the contract of lease, the rights of both parties are not protected in case of disputes and litigation.
- 13.5 We recommended and Management agreed to direct the Enforcement and Legal Service Division to expedite the execution of the lease contract of Luneta Advertising, Inc. After which, copy of the contract and all the documents forming part thereof shall be submitted to the Auditor within five working days from the execution, for auditorial and legal review.

14. Remittances from AEROTHAI amounting to \$1.804 million or P84.140 million from May 2015 to November 2017 were recorded as Miscellaneous Income without the necessary supporting documents, thus, verification of its correctness cannot be done.

- 14.1 Qualitative Characteristic (QC) No. 4 of the Conceptual Framework for Financial Reporting provides that for financial information to be useful, it must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.
- 14.2 In QC 26, verifiability helps assures users that information faithfully represents the economic phenomena it purports to represent.
- 14.3 Moreover, in QC29, timeliness means having information available to decision-makers in time to be capable of influencing their decisions.
- 14.4 Additionally, in the preparation of the financial statements (FS), completeness is one of Management's assertion which means that all transactions that were supposed to be recorded have been recognized in the FS.
- 14.5 Section 5 of the Agreement for the Operation and Maintenance of VHF Air-Ground Data Link Stations at Sites in the Philippines between CAAP and AEROTHAI provides that CAAP's monthly revenue share for the Remote Ground Stations (RGSs) enumerated in the Agreement will be 33.3 per cent of the total revenues generated per month less the following:
 - a. all trainings, meetings and conferences to be attended by Air Navigation Systems (ANS) Specialists or any authorized official/s of the CAAP that concerns the AEROTHAI's existing RGSs shall be paid in advance by AEROTHAI and shall be deducted from the CAAP's revenue share;
 - b. the upgrade of Equipment that need to be replaced in order to assure the normal operations of the RGS equipment shall be provided by AEROTHAI, its costs/funding/ payment thereof including but not limited to duties, taxes,

freight and insurance shall be initially borne by AEROTHAI and shall be deducted from CAAP's revenue share; and

- c. any taxes, fees including wire transfer fee and duties, if any, as required by laws and imposed by any relevant authorities.

14.6 Addendum No. 1 of the Agreement also provides that the term of payment of the revenue share will be on a quarterly basis commencing on March 31, 2015.

14.7 Verification disclosed that AEROTHAI made the following remittances from May 2015 to November 2017:

OR No.	OR Date	in USD	Forex Rate	Amount in PhP
0409166	11/05/2015	277,429.39	44.690	P12,398,319
0409170	11/05/2015	277,429.39	44.690	12,398,319
0409228	18/05/2015	350,400.88	44.512	15,597,044
0690875	20/10/2015	79,873.91	46.089	3,681,309
0690869	14/10/2015	78,915.79	45.983	3,628,785
0954799	15/01/2016	70,320.20	47.679	3,352,797
1022078	28/04/2016	75,954.96	46.787	3,553,705
1074852	25/07/2016	84,217.33	47.193	3,974,468
1125872	05/01/2017	95,927.41	49.730	4,770,662
1159204	26/01/2017	93,937.03	49.846	4,682,385
1254879	10/04/2017	97,995.63	50.165	4,916,049
1394773	27/11/2017	107,206.94	50.51	5,415,022
1394774	27/11/2017	114,257.20	50.51	5,771,132
1,803,866.06				P84,139,996

14.8 However, the correctness and completeness of the remittances made by AEROTHAI could not be verified due to the lack of documents to support the remittances. Furthermore, the remittances were not made in a timely manner and not in accordance with the term of payment of the revenue share which should have been on a quarterly basis commencing on March 31, 2015. The Agreement, on the other hand, does not provide for penalties for late remittances.

14.9 We recommended and Management agreed to request from the AEROTHAI the following documents to support the remittances made by AEROTHAI:

Part of the Remittance	Supporting Documents
33.3 per cent of the total revenues generated per month	Monthly Revenue Statement of the RGSs included in the Agreement, certified correct by AEROTHAI
all trainings, meetings and conferences to be attended by Air Navigation Systems (ANS) Specialists or any authorized official/s of the CAAP that concerns the AEROTHAI's existing RGSs	List of Trainings attended by the authorized CAAP officials and personnel including the duration of training, venue and names of attendees and documents pertinent to the payments made.
any taxes, fees including wire transfer fee and duties	Official Receipts for taxes and fees and remittance advice from banks for the wire transfer fees and duties and bank charges

14.10 We further recommended and Management agreed to revisit the MOA and/or issue an addendum to include provisions for the submission of the above-mentioned documents every time remittances are made and consider the imposition of penalties in case of late remittances in order to enforce the timely remittances which should be made quarterly.

15. Interest from deposits in CAAP's depository banks amounting to P89.194 million as of December 31, 2017 were not remitted to the Bureau of the Treasury (BTr), contrary to Section 5.3.2, Department of Finance (DOF) Circular No. 01, s. 2017 dated May 11, 2017.

15.1 *Section 5.3.2 of DOF Circular No. 01-2017-*

All interest income earned by deposits of NGAs/GOCCs shall be remitted quarterly to the National Treasury, unless expressly provided by law that interest earnings of the account shall accrue to the fund for which the account was opened or maintained. The NGA/GOCC shall furnish the bank a copy of the certification of the exemption from automatic remittance of interest income, which may be granted by the BTr/DOF upon confirmation of the legal basis submitted by the NGA/GOCC.

15.2 Verification disclosed that the recorded Interest Income in the books of the Authority in the amount of P89,194,442 as of December 31, 2017 were not remitted to the National Treasury, contrary to the above-mentioned DOF Circular.

15.3 We recommended that Management furnish COA a copy of the DOF approved certificate of exemption from automatic remittance of interest income otherwise remit interest income due the National Treasury or set up a liability to BTr account for interest income earned.

15.4 Management Comment:

Management sent a letter request to DOF dated January 5, 2018 for exemption from automatic remittance of interest income. The DOF in its reply letter dated January 24, 2018 informed CAAP that the implementation of Section 2, 5.3.2 to GOCCs is deferred pending issuance by the BTr of the corresponding Implementing Guidelines. Thus, the Chief Accountant relied in the deferment as they do not have the basis for recognizing a liability in favor of the National Treasury.

15.5 Auditor’s Rejoinder:

We reiterated that it is imperative to set up a liability in favor of the BTr pursuant to the provision of the Circular until such time that the BTr issues the Implementing Guidelines and until CAAP secures DOF approved certificate of exemption from automatic remittance of interest income. Verification showed that as of December 31, 2017, the Authority has not yet set up the liability in favor of the BTr.

16. The Authority applied the 12 per cent Value Added Tax (VAT) on the Approved Budget for the Contract (ABC) instead of five per cent as provided under DPWH Department Order No. 197, series of 2016 dated October 7, 2016 re: Revised Guidelines in the Preparation of ABC.

- 16.1 The Value-Added Tax (VAT) rate of 12 per cent applied by the Authority in the preparation of the Program of Work (POW)/ABC for eighteen infrastructure contracts entered into for the period October 14, 2016 to May 30, 2017 is not in accordance with the provisions of DPWH Department Order (DO) No. 197, series of 2016 dated October 7, 2016.
- 16.2 Item B.5 of the said DO requires that VAT Component shall be five per cent of the Estimated Direct Cost (EDC), Overhead, Contingencies and Miscellaneous expenses (OCM) and Profit.
- 16.3 Review of the contracts with a total ABC of P180,606,620 disclosed that the Authority applied 12 per cent VAT rate on the total of the Direct and Indirect Costs instead of the five per cent as prescribed in the DO thus exceeding the authorized rate by seven per cent, details as shown below:

	PROJECT NAME	ABC	7% Excess VAT
1	Continuation of Asphalt Overlay of Taxiway and Upgrading of Runway and Taxiway Shoulders at Plaridel Airport	P9,933,604	P695,352
2	Concreting of Apron and Taxiway at Iba Airport	13,778,750	964,512
3	Proposed Administration Building at Sangley Airport	4,858,962	340,127
4	Asphalt Overlay of Runway at Sangley Airport	40,761,490	2,853,304
5	Proposed Construction of Two (2) Bay Fire Station at Sangley Airport	3,914,638	274,025

	PROJECT NAME	ABC	7% Excess VAT
6	Repair and Repainting of other Building Facilities (Passenger Terminal Building) at Davao International Airport	7,810,507	546,736
7	Asphalt Overlay of Damaged Taxiway Bravo and Portion of Apron of Old Terminal Building at Davao International Airport	3,934,912	275,444
8	Improvement of 5th Floor CAAP Administration Building	11,241,599	786,912
9	Development of Borongan Airport	24,985,496	1,748,985
10	Construction of Two (2) Bay Fire Station Building at Vigan Airport	4,288,578	300,200
11	Construction of One (1) Bay Fire Station Building at Lingayen Airport	3,369,590	235,871
12	Construction of Two (2) Bay Fire Station Building at Calapan Airport	3,458,754	242,113
13	Construction of Administration Building at Camiguin Airport	5,215,327	365,073
14	Construction of Perimeter Fence at Ubay Airport	8,907,765	623,544
15	Renovation and Improvement of CAAP Facilities at Clark International Airport	7,701,506	539,105
16	Construction of One (1) Bay Fire Station Building at Maasin Airport	3,404,935	238,345
17	Continuation of Improvement of Perimeter Fence at Masbate Airport	4,976,262	348,338
18	Construction of GAD Center at Zamboanga International Airport	18,063,945	1,264,476
	Total	P180,606,620	P12,642,463

16.4 As a result, the excess of seven per cent VAT would increase tax applied on direct and indirect costs and total amount of the ABC. Likewise, the contractors' computation on the detailed cost estimates for the submitted bids were also overstated by seven per cent.

16.5 We recommended that Management instruct the Chief Accountant to deduct the seven per cent excess VAT from the billings of the contractors.

16.6 Management Comment:

The Aerodrome Development and Management Service (ADMS) of CAAP said that they were caught unaware on the issuance of the latest DPWH DO and the changes it contains in the preparation of the ABC for infrastructure projects. Thus, the prepared and approved Programs of Work and consequent bidding documents for ADMS infrastructure projects from October 8, 2016 to October 11, 2017 contained a VAT of 12 per cent instead of five per cent as prescribed in DPWH Order No. 197. The ADMS only implemented the five per cent VAT on infrastructure projects after obtaining copy of the DO last October 2017. Nevertheless, it is emphasized that neither the DOTr nor the CAAP is mandated or obliged to follow any issued DPWH DO for the guidelines in the preparation of

the ABC as this was not disseminated to other government offices and Departments for them to follow.

16.7 Auditor's Rejoinder:

The Audit Team would like to stress that fiscal autonomy in the exercise of CAAP's mandate should always be aligned with existing rules and regulations issued by other government regulating bodies such as the DPWH and BIR for uniformity and consistency in the proper implementation of government projects. Although CAAP is an independent regulatory body with quasi-judicial and quasi-legislative powers having corporate attributes attached to the DOTr for policy coordination, it is still mandated to observe, follow and monitor current issuances of these authorities to keep abreast with the rules to be followed and observed in the industry, specifically in this case of government infrastructure projects.

Hence, we stand in our recommendation that the Authority should deduct or recover the seven per cent excess VAT from the concerned contractors.

Insurance of government property with Government Service Insurance System (GSIS)

17. Non-submission of a complete Inventory of Physical Assets of the Authority to GSIS resulted in non-coverage of some insurable properties under the Insurance and Bonding Risks with the General Insurance Fund of the GSIS, as required under RA 656 known as the "Property Insurance Law", as amended by PD 245 dated July 13, 1973, thereby exposing various CAAP properties to risks of not being indemnified for any damages or losses due to any fortuitous events such as fire, earthquake, typhoon and/or flood.

- 17.1 Section 2 of RA 656 provides that "in order to indemnify or compensate the Government as defined in this Act for any damage to, or loss of its properties due to fire, earthquake, storm, or other casualty, there is hereby established the "Property Insurance Fund, which shall consist of all moneys resulting from the liquidation of the insurance constituted in section three hundred forty of the Revised Administrative Code and from premium of other incomes."
- 17.2 Section 5 of RA 656 further provides that "every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which, however, shall not exceed the premiums charged by private insurance companies: x xx."
- 17.3 Verification of the insurance policies paid by the Authority disclosed that there were various properties of the Authority which were not insured with the GSIS, contrary to RA 656.
- 17.4 As at December 31, 2017, the Authority's properties with market values of P10,117,707,958 were insured under the fire industrial all risk insurance and the sabotage and terrorism insurance for a premium amounting to P11,119,361 and P1,241,443, respectively. During the year, additional nine (9) airports with market values of P102,007,833 were insured under the Fire Industrial All Risk

insurance and Airport Liability Insurance. Out of the 82 airports, only 77 were covered with a total sum insured of P5,500,000,000 under the Airport Liability Insurance for a premium of P11,000,000. Records show that the remaining 5 airports are still not insured with the GSIS airport liability insurance, details are as follows:

No.	AC	Airports/Office/ Facilities	Classification	Location
1	AC VI	Godofredo P. Ramos Airport (Caticlan)	Principal Class 2	Malay, Aklan
2	AC IX	Cag. De Sulu	Community	Mapun, Cag. De Sulu, Zambo. Del Sur
3	AC X	Ipil	Community	Ipil, Zambo. Del Sur
4		Malabang (ARMM)	Community	Malabang, Lanao Del Sur
5		Wao	Community	Wao, Lanao Del Sur

- 17.5 Moreover, the total amount of insurable properties of the Authority could not be determined due to the non-submission of a complete Physical Inventory Report for CY 2017 of all insurable property and equipment.
- 17.6 The failure of the Management to insure the subject property results in the risk of non-recovery of the value of the property in case of loss/damage due to fortuitous events.
- 17.7 This is a reiteration of the previous audit observations embodied in the prior year's AAR of the CAAP.
- 17.8 We recommended and Management agreed to revisit RA No. 656 and instruct the Property Officer to prepare and submit inventory reports of all insurable property to GSIS to ensure that all insurable assets and property are adequately covered/insured with the General Insurance Fund of the GSIS to properly protect the government property in the event of serious loss due to fire, earthquake, typhoon and/or flood.

Consultancy Services

18. Deficiencies were noted relative to Contracts of Service which were not in accordance with DBM Circular No. 2017-09, Revised IRR of RA 9184 and COA Circular No. 2012-003.

18.1 Accomplishments are not aligned to the obligations under the contract

- 18.1.1 We compared the accomplishments of the consultant vis-à-vis his obligations stipulated in the Contract of Service (COS).

Obligations of the Second Party per Contract of Service effective February 1 to June 30, 2017	Accomplishments for the months of February, March, April, May and June
<ol style="list-style-type: none"> 1. Shall implement Quality and other Procedures/Manuals and ensure annual reviews of procedures/manuals are conducted 2. Shall coordinate and review all documentations required under ICAO and other international standards 3. Shall review all manuals and documents to ensure they meet the overall objectives of the CAAP and its regulatory role 4. Shall manage documents and data control system and provide statistical reports as part of decision support system 5. Shall initiate and maintain continuous improvement programs in respect of all regulatory services provided by FSIS to ensure they meet the various international and ICAO standards 6. Shall assist in training and development of inspectorate staff 7. Shall undertake internal audit of FSIS and organize management reviews 8. Shall manage the customer feedback process (complaints, surveys) and ensure necessary corrective/preventive and improvement actions are implemented 9. Shall manage the Mandatory Occurrence Report (MOR) process and associated databases 10. Shall manage the implementation of ISO compliance matters and coordinate the ISO review process 11. Shall conduct annual reviews of FSIS Citizens Charter and produce semiannual measurement reports 12. Shall manage the FSIS document control system to ensure the current versions are available, accessible and used by front line staff 13. Shall monitor the Audit Quality Database (AQD) system update by inspectorate staff and provide statistical reports as part of decision support system 14. Shall coordinate with MISD for the updating of Intranet and CAAP Website 15. Shall generate new ideas leading to quality, productivity or improved work conditions 	<ol style="list-style-type: none"> 1. Assisted and coordinated the preparations for the recently concluded ICAO Coordinated Validation Mission (ICVM) <ul style="list-style-type: none"> ✓ Initiated the conduct of mock audit ✓ Participated in the entry and exit briefing ✓ Presented updates/preliminary results to CAAP Board 2. Attended Advanced Master in Aviation Safety Management 3. Participated in the contingency preparations for the Tagaytay radar outage 4. Participated in meetings regarding preparation for the turn-over of CNS ATM 5. Participated in the deliberations of the Personnel Selection Board, Personnel Development Committee and Ad Hoc Review Committee 6. Attended ICAO Seminar on Carbon Off-setting and reduction Scheme for International Aviation (CORSIA) 7. Attended meetings of the Change Management Team regarding RATPLAN 8. Participated in strategic planning 9. Drafted EO creating the Air Accident Investigation Bureau under the DOTR 10. Participated in Management Meetings 11. Participated in various stakeholder's meeting 12. Reviewed/checked documents for signature of the DG 13. Prepared various letters and memorandum circulars for signature of the DG.

18.1.2 The comparison in the table shows that the consultant was not able to significantly accomplish his obligations under the contract. Nevertheless, he was paid by the Authority the total contract price amounting to P375,000.

18.2 Hiring of consultants was done without public bidding.

18.2.1 Section 1.0 of DBM Circular Letter No. 2017-09 dated May 16, 2017 re Clarification on the Guidelines on the Procurement of Consulting Services states that *“The procurement of consulting services, either through an Individual Consultant or a Consultancy Firm, is covered by the provisions of Republic Act (RA) No. 9184 and its 2016 Revised Implementing Rules and Regulations (IRR).”*

18.2.2 Section 2 of the Revised IRR of Republic Act No. 9184, otherwise known as the “Government Procurement Reform Act” provides that *“it is the policy of the GoP that procurement of Goods, Infrastructure Projects and Consulting Services shall be competitive and transparent, and therefore shall undergo competitive bidding, except as provided in Rule XVI of this IRR.”*

18.2.3 Inquiry with the concerned personnel revealed that the hiring of CAAP consultants were not done through competitive bidding. An end-user who needs the services of a consultant would submit a recommendation to the Director General for the hiring of a particular individual which was done through negotiated procurement.

18.2.4 Section 48.1 of the Revised IRR provides that the procuring entity may resort to any of the alternative methods of procurement provided in the Revised IRR but the procuring entity shall ensure that the most advantageous price for the Government is obtained.

18.2.5 Moreover, Section 53 of the Revised IRR also provides that:

Section 53. Negotiated Procurement-

Negotiated Procurement is a method of procurement of Goods, Infrastructure Projects and Consulting services, whereby the Procuring Entity directly negotiates a contract with a technically, legally and financially capable supplier, contractor or consultant in any of the following cases:

53.7. Highly Technical Consultants. In the case of individual consultants hired to do work that is (i) highly technical or proprietary; or (ii) primarily confidential or policy determining, where trust and confidence are the primary consideration for the hiring of the consultant: Provided, however, That the term of the individual consultants shall, at the most, be on a six-month basis, renewable at the option of the appointing HoPE, but in no case shall exceed the term of the latter.

18.2.6 Cost of service of consultants ranges from P35,000 to P75,000 per month.

18.2.7 Based on the review of contracts vis-à-vis the accomplishment reports of the Consultants, i.e. Financial Management Audit Consultant and the two Procurement and Supply Consultants, their work could not be considered highly technical, proprietary, primarily confidential or policy determining where trust and confidence are the primary consideration for their hiring. As such, the hiring of said consultants without the benefit of public bidding is not justifiable. The requirement that the procuring entity obtain the most advantageous price in hiring them was not assured.

18.3 Various COS include provision for entitlement of the COS personnel to benefits, bonuses and other emoluments.

18.3.1 COA Circular No. 2012-003 dated October 29, 2012 re Updated Guidelines for the Prevention and Disallowance of Irregular, Unnecessary, Excessive, Extravagant and Unconscionable Expenditures (IUEEU) defines "irregular expenditure" as expenditure incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in laws. Irregular expenditures are incurred if funds are disbursed without conforming to prescribed usages and rules of discipline.

18.3.2 Section 9.0 of the said circular enumerates the Supreme Court Decisions on IUEEU expenditures which include the grant of Christmas bonuses, cash gift and other fringe benefits to consultants and to members of the Board who are not salaried officials of the government as they are not considered employees of the hiring agency (COA Decision No. 2006-030 dated April 11, 2006; BCDA vs. COA, G.R. No. 178160 dated February 26, 2009). (underscoring supplied)

18.3.3 We noted that various COS include the following provisions:

III. SPECIAL PROVISIONS

1. xxx
2. *The SECOND PARTY may be entitled to the benefits, productivity, cash bonuses and other emoluments due to the regular and temporary employee as may be approved by CAAP Board;*
3. *The Second Party affirms and confirms that he is not an employee of the First Party, and no employer-employee relationship is created between the First and Second Parties; xxx"*

18.3.4 It can be gleaned from Section III.3 above that there is no employer-employee relationship between CAAP and the COS personnel. Hence, the inclusion of Section III.2 is not in harmony with COA Circular No. 2012-003. Said provision may be used by the COS personnel to file their claims from CAAP on such benefits thereby exposing Management to legal risks and incurrence of irregular expenses considering that any disbursement relative thereto will be disallowed in audit.

18.3.5 It is worth mentioning that as of this writing, we did not find any document showing payment of benefits, productivity, cash bonuses and other emoluments to Service Contractor/s.

18.4 We recommended that Management:

- a. Ensure that the provisions stipulated in the COS, except those pertaining to benefits or emoluments for which only regular employees are entitled to, are fully complied with;
- b. Adhere to the provisions of Revised IRR of RA 9184 in all its procurement activities;
- c. Delete the provision relative to the entitlement of the Consultants to the benefits, productivity, cash bonuses and other emoluments due to the regular and temporary employee as may be approved by CAAP Board; and
- d. Revisit all the individual consultancy/service contracts and evaluate the need for their renewal in line with the existing laws and regulations.

18.5 **Management Comment:**

While the accomplishment report does not exactly state the accomplishments in strict accordance with the obligations in the contract, the accomplishments of a consultant are attributes and/or are necessarily related to the terms of the contract. CAAP shall advise subsequently hired consultants to strictly adhere to the wordings of their contracts in processing their accomplishment reports.

On the hiring of consultants without public bidding, CAAP notes of the COA's observation however, the contracts of the Financial Management and Audit Consultant and the two Procurement and Supply Consultants are not consultancy contracts but rather COS for non-General Support Services, which are not within the scope of RA 9184 and its implementing rules.

18.6 **Auditor's Rejoinder:**

Consultants are paid in the performance of the services required from them as stipulated in the contract. Therefore, CAAP officials must ensure that the Accomplishment Reports submitted by Consultants reflect what they have actually done or achieved in a particular period, not just the mere adherence to the wordings of their contracts.

With regard to the hiring of consultants without public bidding, the observation stemmed from the results of the review of the COS and the corresponding accomplishments and payments to “consultants” who performed tasks that are regularly done and can be performed by organic employees, not the tasks of a consultant which should have been highly technical and advisory in nature. Designating the position “Consultant” in the COS and the obligations of the said consultants are misleading and created doubt as to Management’s intent in hiring them. Even the payments to them were recorded in the books under Consultancy Services. Hence, the Audit Team issued two AOMs pointing out to Management that the hiring of consultants were not in accordance with prevailing rules and regulations.

Management admitted that these personnel were hired and expected to render personnel services for non-General Support Services, not as Consultants, therefore, they shall not be entitled to the compensation paid to Consultants.

We maintain our position that Management revisit all the individual consultancy/service contracts including the compensation scheme, and evaluate the need for their renewal in line with the existing laws and regulations.

INTEGRATION OF DOMESTIC PASSENGER SERVICE CHARGE (DPSC)

Currently, Airline Carriers (ArCs) are responsible for all DPSCs from the time of collection up to remittance to CAAP. The ArCs shall remit the collected DPSCs which is net of the 3.5 per cent service charge through a CAAP bank account or through payment either in Cash or Check on or before the 15th or the end of the succeeding month of collection and submit the Remittance Report for the covering remittance period. However, this process encroaches upon laws, COA regulations and PAS.

19. Deficiencies were noted on the Integration of the DPSC at the Point of Sale of airline tickets under CAAP Memorandum Circular (MC) No. 022-17, series of 2017, as follows:

- 19.1 **The Circular does not specifically define who are referred to in the statement “other authorized by law and the Office of the President”.**
 - 19.1.1 The Locally-Recognized Exempted Passenger is defined in Item 3.11 as the officials and employees of CAAP who are on Official Travel or other authorized by law and the Office of the President. However, neither the instances which constitute “Official Travel” nor the “other authorized by law and the Office of the President” are specifically defined in the MC.
 - 19.1.2 The Authority should clearly define the Locally-Recognized Exempted Passengers so that there would be no room for mistake or misinterpretation and those who assert the exemption will be well guided.

19.2 The remittances of the DPSCs are not made daily or within the next banking day, net of service charge and do not include collections for unflown and cancelled flights.

19.2.1 Section 134 of the Government Accounting and Auditing Manual (GAAM), Volume 1 provides that:

Unless otherwise allowed by law or competent authority, collections of local government units and government-owned or controlled corporations shall be deposited intact with authorized depositories daily or not later than the next banking day.

19.2.2 Section 65 (1) of PD 1445 provides that:

Unless otherwise specifically provided by law, all income accruing to the agencies by virtue of the provisions of law, orders and regulations shall be deposited in the National Treasury or in any duly authorized government depository, and shall accrue to the unappropriated surplus of the General Fund of the Government.

19.2.3 Item 4.6 of the CAAP MC No. 022-17, series of 2017 which states that the DPSC collected by the ArC is to be regarded as monies held in trust on behalf of CAAP. In addition, item 6.2 of the MC provides that the due date of the remittance for the DPSC collections from the 1st to the 15th day of the month shall be on or before the 15th of the succeeding month. The DPSC collections from the 16th day to the end of the month shall be remitted on or before the end of the succeeding month.

19.2.4 Prior to the issuance of the Circular, the DPSCs are cash collected from departing passengers, deposited daily or the next banking day in CAAP's depository bank and recognized in the books as outright income at real time with less paper works and income channels (ArCs/agents). However, with the integration of the DPSC at the point of sale in cash or credit of airline ticket of departing passengers who are subject to the payment of DPSC, collection of DPSC for the 1st half of the month would be remitted on or before the 15th day of the following month while collection of the 2nd half of the month would be remitted on or before the end of the following month. The collection, therefore will be deferred for 30 days in the ArCs' accounts before reaching CAAP's coffer, which is not in accordance with Section 134 of GAAM, Volume I.

19.2.5 With the "holding period" of one month, verification of the DPSC remittance reports for the period September 15 to December 31, 2017 showed that an estimated interest income amounting to P443,162.00 could have been earned by the Authority had the collections been deposited daily or not later than the next banking day. Moreover, the Authority is deprived of its right over the funds which are rightfully its asset immediately after the DPSC are paid by the passengers to the ArCs, due to the provision establishing a holding period of approximately a month after the DPSC are collected by the ArCs.

19.2.6 Likewise, the DPSCs are remitted net of 3.5 per cent service charge and do not include unflown and cancelled flights. It is emphasized that the ArCs are only collecting agents of the Authority, hence, all their DPSC collections shall accrue to the government whether flown, unflown and cancelled flights pursuant to Section 65 (1) of PD 1445.

19.3 The Service Fee (SF) was offset from the DPSC collections, contrary to Philippine Accounting Standards (PAS) 1.

19.3.1 PAS 1 provides that:

An entity shall not offset assets and liabilities or income and expenses, unless required or permitted by an IFRS.

19.3.2 Item 6.11 of the MC states that “All monies from DPSC collection based on flown non-exempt passengers must be remitted to the CAAP net of service fee.”

19.3.3 Item 9.2 of the same MC further provides that the Service Fee (SF) of 3.5 per cent due to the ArC shall be deducted from the total proceeds due the CAAP.

19.3.4 The SF being deducted from the monthly remittances of the ArCs to CAAP constitutes offsetting. The SFs are claims that should be billed separately by the ArC and are not to be deducted from the total collections to be remitted to CAAP. Consequently, payments should be made by CAAP to ArCs net of withholding taxes as CAAP is an Authorized Withholding Agent of the Bureau of Internal Revenue (BIR) and the income of SF is subject to withholding tax.

19.4 Submission of documents, considered as integral part of the Remittance Report of ArCs, are to be done by the ArCs only upon written request from CAAP and/or COA.

19.4.1 Section 28 of PD 1445 states that:

The Commission shall have authority to examine books, papers, and documents filed by individuals and corporations with, and which are in the custody of, government offices in connection with government revenue collection operations, for the sole purpose of ascertaining that all funds determined by the appropriate agencies as collectible and due the government have actually been collected, except as otherwise provided in the Internal Revenue Code of 1977.

19.4.2 Item 10.3 of the MC states that:

Other documents and data which are necessary in the confirmation of Collection and Remittance of the DPSC shall be made available anytime upon a written request by the duly authorized representative of the CAAP and/or COA, to wit:

- a. *Flight Manifest*; and
- b. *Flight Summary for the day*

19.4.3 The Remittance Report is forwarded to the Accounting Division with Details of remittance and Summary of Exempted Passengers. However, the Flight Manifest and Flight Summary of the Day should be submitted as supporting documents without need of a written request to validate the number of flights and the total passenger load. These should be made as an integral part of the Remittance Report and should be submitted monthly, without need of a written request, for audit/verification purposes.

19.5 **MC No. 022-17, series of 2017 does not specify the “acceptable exemption documents” that may be presented for claiming a refund.**

19.5.1 Section 4 (6) of P.D. 1445 provides that:

Claims against government funds shall be *supported with complete documentation*.

19.5.2 Item 8.3 (a) of the MC lists the requirements for claiming a refund. One of the requirements is to surrender the original copy of acceptable exemption documents. However, the Circular does not further provide for the “acceptable exemption documents” that may be presented for claiming a refund. Refunds entail disbursement of government funds, thus the requirements needed to claim it should be specifically provided to comply with the requirement in Section 4 (6) of PD 1445 that claims against government fund shall be supported with complete documentation. Likewise, the MC does not indicate that the refund should be made by CAAP and not by the Arcs.

19.6 **Comparison of the total number of paying passengers and the validated number of outgoing passengers per AC disclosed under remittance of DPSC by the Arcs totaling P6.984 million and non-imposition of the 18 per cent per annum penalty on the same amounting to P0.265 million.**

19.6.1 Section 6.6 of CAAP MC No. 022-17, series of 2017 states that:

In case the declaration by the Air Carrier of the amount to be remitted to CAAP is less than the amount due, the penalty shall be eighteen per cent (18%) per annum on the difference.

19.6.2 Validation of the total number of paying passengers in the Remittance Reports submitted against loading sheets, Airlines Daily Summary Report of Outgoing Passengers (ADSRP) disclosed under remittance of DPSC totaling P6,983,705 and non-imposition of the 18 per cent per annum penalty on the noted difference totaling P264,884, as shown in the table below:

Total No. of Paying Passengers	Validated No. of Outgoing passengers per AC	Difference in Passengers	Understatement of Terminal Fees	18% per annum Penalty as of Dec. 31, 2017
272,132	315,442	43,310	P6,983,705	P264,884

19.7 We recommended that Management instruct the Legal Service Division to revisit/enhance/amend the policy guidelines on the integration of DPSC to include the following:

- a. Specifically identify who are those mentioned as “locally-recognized exempted passengers”;
- b. Make arrangements with the ArCs to cause the full deposit of all DPSC (flown, unflown and cancelled flights) collected by them on a daily basis or not later than the next banking day to a bank account to be opened by the Authority with an Authorized Government Depository Bank (AGDB) for the purpose;
- c. Remittance of the DPSCs at gross amount and submission by the ArCs of the corresponding statement of account for the service fee to ensure proper approval of payment of expense;
- d. Submission of the Flight Manifest and the Flight Summary without the need of a written request and make these documents mandatory and integral part of the Remittance Report and Details of Remittance; and
- e. Specify the “acceptable exemption documents” that may be presented to CAAP for claiming a refund and ensure that these claims are supported with complete documentation.

19.8 Moreover, instruct the Chief Accountant to validate the number of passengers in the remittance reports with the number of passengers who have flown, unflown and cancelled flights and compute the 18 per cent penalty per annum, if applicable, and cause the collection of the under remittance of DPSC and penalty thereon in the amounts of P6,983,705 and P264,884, respectively.

19.9 Management Comments:

- a. Management explained that the locally exempted passenger, is defined as the employees of CAAP who are on official travel with duly approved travel order or any government employee who is by specific provisions of a law is exempted from the payment of DPSC.
- b. Management will consider the recommendation of COA and the possible amendment of the implementing rules and regulations on the subject of collection of DPSC. To address the holding period, the Authority will undertake necessary steps. As recommended, a depository bank will be needed for timely recognition of the DPSC.

- c. Management will aim to collect 100 per cent of the DPSC. Thereafter, the Authority will recognize a liability to the ArCs for the service fee of 3.5 per cent.
- d. Management explained that it is not feasible to identify those who bought tickets with DPSC but eventually were either unflown or cancelled the flights. However, they can validate the accuracy of the DPSC of the passengers who have actually flown as shown in the Remittance Report through the manifesto/load sheets being submitted by the ArCs where the passenger count is shown.

19.10 Auditor's Rejoinder:

The Audit Team will monitor Management's actions on the possible amendment of the MC as well as the Memorandum of Agreement (MOA) between CAAP and the ArCs, taking into consideration the specific, defined and clear instructions on DPSC in order to protect the interest of the government as well as the riding public.

CAAP being the principal owner of the DPSC has the right to manage all the collections made by ArCs as well as its disbursements. The ArCs are merely deputized collecting agents of CAAP earning 3.5 per cent commission/service fee for their services. However, the MOA bestowed the right to ArCs to manage the collections and refunds of all flown, unflown and cancelled flights to the disadvantage of CAAP and the government.

Further, the MOA treats DPSCs collected from unflown and cancelled flights as belonging to ArCs giving them the opportunity to earn substantial amount of income aside from the 3.5 per cent service fee.

REVENUE AUDIT

Income From Communication Facilities

20. The Authority could have earned an additional P45.847 million in total revenues for CYs 2016 and 2017 had the Authority based the computation of the Air Navigational Charges (ANCs) on CAAP Circular No. 03-11, Series of 2011 dated April 11, 2011.

- 20.1 The ANCs are levied to airline companies for the use of the services and communication facilities provided by various airports in 12 ACs.
- 20.2 Section 2, Part III of CAAP Circular No.03-11, Series of 2011 provides the formula for the computation of Operational Charges for Overflight and Domestic Commercial and Domestic General Aviation Flights, as follows:

Section 2. Overflight –

A charge in U.S. Dollar or its peso equivalent at the time of payment based on the derived formula for calculating Air Navigation Charges (ANC) which is equal to the Distance (D) flown by an aircraft in kilometer divided by 100 hundred (100) and multiplied by its weight factor (W).

$$\text{ANC (US\$)} = D/100 \times W$$

20.3 Further, Section 4 of Part III of the same CAAP Circular provides-

Section 4. Domestic Commercial (Scheduled/Non-scheduled) and Domestic General Aviation Flights –

*Each flight at any airport in the Philippines, a charge equivalent to one half (1/2) of the charge computed based on the derived formula of Sec. 2 of this part shall be imposed. Unless otherwise provided, **charges for Domestic Commercial (Scheduled/Non-scheduled) and Domestic General Aviation Flights, however, shall not be less than Four Hundred Pesos (Php400.00).***

- 20.4 In the HO, ACs I, VII and VIII, the actual distances flown significantly differ from the distances used by the Billing Section in computing for the ANC. The formula as provided under the Circular was not followed.
- 20.5 Moreover, the Billing Section uniformly used weight factor seven (7) or less than twenty (20) tonnes which is applicable only to general aviation flights. Domestic commercial flights like Airbus 321 and 320 of PAL and Airbus 319 and 320 of Cebu Pacific Air averages 50 to 100 tonnes or equivalent Weight Factor (W) of 20.
- 20.6 Lastly, some charges billed to various ArCs are less than the minimum of P400.00 provided in the guidelines.
- 20.7 In AC XII, re-computation of the ANC as reflected in the billing statement sent by CAAP AC for Butuan and Tandag Airports to the ArCs for the month of December 2016 disclosed that the US dollar exchange rate for December 2015 of P47.166 from the BSP reference exchange rate bulletin was used instead of the exchange rate of P49.813 for December 2016.
- 20.8 In view of the deficiencies in the computation, the recorded ANC/Income from Communication Facilities and the corresponding Accounts Receivable are understated by P45.847 million:

Particulars	Amount of Understatement	Period Covered
Head Office	P40,416,732	April to Dec. 2016 and January to May 2017
AC I	644,207	January to September 2017
AC II	894,221	January to April 2017
AC VII	1,530,665	January to December 2016
AC VIII	2,246,853	April to Dec. 2016 and January to June 2017
AC XII	114,528	January to December 2017
Total	P45,847,206	

20.9 A walkthrough on the procedures involved in the assessment of ANC/operational charges disclosed that the raw data from the aircraft operations logbook/report is encoded manually by a Job Order employee assigned in the Billing Section to compute for the total operational charges. This procedure is prone to errors.

20.10 We recommended and Management agreed to instruct the Billing Section of the Accounting Division to:

- a. Send the corresponding supplemental billing to the concerned ArCs for the remittances of deficiencies in the billing statement previously issued; and
- b. Henceforth, use the actual distance flown, correct weight factors and all pertinent provisions in CAAP Circular No. 03-11 dated April 11, 2011, subject to the distance cap provided in Board Resolution No. 2013-003 dated January 18, 2013.

21. Delay in the preparation and sending out of billing statements caused by the breakdown of the Billing and Collection Information System (BACIS) since year 2011 resulted in non-accrual of income which is not in accord with Paragraph 28 of PAS 1 and Paragraph 4.47 and 4.49 of the Conceptual Framework for Financial Reporting.

21.1 Paragraph 28 of PAS 1 provides that “When the accrual basis of accounting is used, an entity recognizes items as assets, liabilities, equity, income and expenses (the elements of financial statements) when they satisfy the definitions and recognition criteria for those elements in the Framework.”

21.2 Paragraph 4.47 and 4.49 of the Conceptual Framework for Financial Reporting provides that “xx recognition of income occurs simultaneously with the recognition of increases in assets and decreases in liabilities” and “recognition of expenses occurs simultaneously with the recognition of an increase in liabilities or a decrease in assets.”

21.3 During the audit of sample billing statements, we observed that there were flights that are not billed on the month that these occurred. Details are shown below.

Month Income Earned	Date Billing Statements were Prepared, Mailed, Delivered and Picked up	Delay (in weeks)
January 1-15, 2017	March 7, 2017	7
January 16-31, 2017	March 24, 2017	7
February 1-15, 2017	April 11, 2017	8
February 16-28, 2017	April 11, 2017	6
March 1-15, 2017	April 25, 2017	9
March 16-31, 2017	May 17, 2017	7
April 1-15, 2017	June 14, 2017	9
April 16-30, 2017	June 16, 2017	7
May 1-15, 2017	July 4, 2017	7
May 16-31, 2017	July 21, 2017	7
June 1-15, 2017	August 4, 2017	6
June 16-30, 2017	August 18, 2017	6
July 1-15, 2017	August 30, 2017	6
July 16-31, 2017	October 2, 2017	8
August 1-15, 2017	September 27, 2017	6
August 16-31, 2017	October 10, 2017	5
September 1-15, 2017	November 7, 2017	7
September 16-30, 2017	November 22, 2017	7
October 1-15, 2017	December 1, 2017	6
October 16-31, 2017	January 9, 2018	9
November 1-15, 2017	January 18, 2018	8
November 16-30, 2017	February 7, 2018	9
December 1-15, 2017	February 26, 2017	8
December 16-31, 2017		
Average Delay		7.17

- 21.4 Verification of the Billing Statements disclosed the following deficiencies that led to the delays in the recognition and collection of income:
- a. The Authority does not have a policy which provides that flights are to be billed at transaction date thus, resulting in delays in the preparation and sending out of billing statements to clients; and
 - b. It takes the Billing Section five to nine weeks from the date of flights to bill ArCs, thus resulting in non-recognition of revenue at the time of transaction.
- 21.5 The recognition of the income is not simultaneously made with the increase or decrease in assets and liabilities. Moreover, the recording of ANC for prior year's flights as current year income is erroneous and is not in accordance with the accrual method of accounting.
- 21.6 Inquiry disclosed that the delays were brought about by the breakdown of the BACIS since the year 2011. The automation of the billing process was then pronounced to be included upon operation of the Communication Navigation Surveillance-Air Traffic Management (CNS-ATM) system. However, according to

the Air Traffic Service (ATS) Chief, the existing Licensing Agreement of the CNS-ATM has to be reopened for the purpose of accommodating the link proposal.

- 21.7 The delay in the preparation and sending out of billing statements deprives the Authority of funds from income it had already earned because collection cannot be effected. Hence, actual collection is lower than the expected collection and income that is earned for the month is not recorded in the books on the period it was earned.
- 21.8 Moreover, the Authority cannot effectively and efficiently impose the interest of one per cent per month or a fraction thereof, compounded monthly, that is imposable upon failure of the ArCs to settle their bills on due date or 30 calendar days upon receipt of the billing statement since the billing statements are not issued regularly or on a timely basis.
- 21.9 We recommended that Management:
- a. Hasten the implementation of our previous year's recommendation which is to adopt an effective billing and collection system that includes full automation of billing data and integrates the source units (ANS and ACs), the Accounting Division (assessment and preparation of billing statements) and the Administrative Section (delivery) to ensure accurate assessment, prompt issuance of billing statements and timely and correct recognition of revenues;
 - b. Adjust the Income from Communication Facilities and Prior Year Adjustments – Retained Earnings accordingly; and
 - c. Impose the interest of one per cent per month or a fraction thereof, compounded monthly on the defaulting ArCs for their failure to settle their bills on due date pursuant to the Terms of Payment in the Billing Statements.

21.10 Management Comment:

Management commented that they are exerting best efforts to facilitate the preparation and sending out of billing statements. During the exit conference, the Chief Accountant informed that they are now in the process of computing the unbilled ANCs. And to address the issue, the Authority is in the process of implementing the computerization not only on the Billing System but also including Procurement, Supply, Management and Accounting System.

21.11 Auditor's Rejoinder:

The Audit Team requests for a concrete timeline for the progress of the project – BACIS so that we may identify the causes of the delay in implementing our prior years' audit recommendation. Furthermore, kindly furnish us the policy formulated by the Enforcement and Legal Service (ELS) on the implementation of the penalty clause for late payments, if any.

Likewise, the billing statements should be immediately issued so as to collect funds of the government from income that were already earned.

VALUE FOR MONEY AUDIT

22. Poor procurement planning for various infrastructure projects and equipment and repairs of venues in the HO and other ACs resulted in unutilized/idle/unmaintained assets and may further result in the non-attainment of the objectives/commitment to its stakeholders and wastage of government funds and resources.

22.1 The objectives of the construction of the Gender and Development (GAD) Training Center and Communal Toilet amounting to P10.399 million and P2.454 million, respectively, may not be fully achieved due to the inappropriateness of its design, structure and location.

22.1.1 Republic Act (RA) 9710 or the Magna Carta for Women states that “*The State shall endeavor to develop plans, policies, programs, measures, and mechanisms to address discrimination and inequality in the economic, political, social, and cultural life of women and men.*” as one of the State’s declaration of policy.”

22.1.2 Furthermore, Section 24 (b) of the said RA states that *The State shall ensure gender-sensitive training and seminars.*

22.1.3 Section 2 of PD 1445, otherwise known as the State Audit Code of the Philippines, provides that-

It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. The responsibility to take care that such policy is faithfully adhered to rests directly with the chief or head of the government agency concerned.

22.1.4 Likewise, Section 7.1 of RA 9184 requires that all procurement shall be meticulously and judiciously planned by the Procuring Entity.

22.1.5 In line with the GAD program of the government, CAAP implemented the construction of the GAD Center in Tagaytay City and Communal Toilet in Legazpi City. For CY 2017, these completed GAD projects were assessed to determine the efficiency and effectiveness of implementation with due consideration to their being able to address gender issues and concerns. The projects shall be designed appropriately and implemented based on the mandate of the CAAP, RA 7192, gender equality agenda of the government and other GAD-related legislation, policies, and commitments.

GAD Training Center

22.1.6 In its 2014 Annual GAD Plan and Budget, CAAP identified the provision of GAD Center for HO at Tagaytay City with a budget of P35 million. Under the Organization Focused Project, the establishment of the

Center was to have a permanent place to hold GAD Technical Working Group (TWG) meetings, seminars, conferences and counselling. Likewise, the Center will provide a safe haven for men and women of CAAP who temporarily suffer emotional stress and other forms of violence and at the same time serve as library of GAD materials and resources. Moreover, it aims to cut expenses for the venue and accommodation of CAAP officials and employees to such trainings which are usually attended by 30 to 40 participants.

- 22.1.7 However, the construction of the Center which had a contract cost of P10,399,411 was only started in April 2016 and was reportedly completed in November 2016. Inspection of the Center conducted on March 8, 2018 showed that it is still bare with four rooms each measuring 20 sq. mtrs. on the second floor and an open space on the third floor. Each room can accommodate four people if two double deck beds will be installed or a total of 16 people. Likewise, the Center is too small to install furniture, fixtures and equipment for trainings and seminars.
- 22.1.8 It was also gathered that the list of furniture and equipment which are still to be procured are not appropriate for the size and structure of the Center.
- 22.1.9 Inquiry revealed that the original plan of constructing a three storey GAD Center which can house up to 50 people did not push through because of the existence of the RADAR system of CAAP within the compound. Hence, even if the Center will be fully furnished, it cannot serve as a venue for the conduct of trainings/seminars related to GAD or other activities of CAAP due to the limited space. The continuous non-utilization of the building will result in the non-achievement of the purpose for which it was planned.
- 22.1.10 It was informed that in order to remedy the problem and make the GAD Center operational, they will propose for the rehabilitation/renovation of the old staff house located at the side to accommodate more or less thirty people.

GAD Communal Toilet – Legazpi City

- 22.1.11 On the other hand, in AC V, a Communal Toilet was constructed at Legazpi Airport with a contract cost of P2,453,761. The project was started on January 9, 2017 and was completed on April 4, 2017.
- 22.1.12 The GAD Communal Toilet was constructed to comply with the requirements of GAD Awareness and Sensitivity under RA 9710 or the Magna Carta of Women and Executive Order No. 273 or the Philippine Plan for Gender Responsive Development as well as Batas Pambansa Blg. 344 or the Accessibility Law to Enhance Mobility of Disabled Persons. The project was intended to cater to the personal necessities of the public and stakeholders sending off and fetching arriving plane passengers.

22.1.13 However, inspection conducted by the Audit Team of the project disclosed the following:

- a. The GAD Communal Toilet at Legazpi Airport was located far from the Waiting Area, for those fetching arriving passengers, and the parking area, for those sending off passengers. The facility is likewise not readily discernible as a communal toilet by the people and passengers who enter the terminal premises.
- b. There is an existing communal toilet within the premises of Legazpi Airport which, unlike the newly constructed one, is accessible to the Waiting and Parking areas. We learned that the existing communal toilet was constructed sometime in April 2014 or merely a few years ago, and is still very functional. However, though quite presentable, this is not properly maintained and lacks toilet accessories and a visible signage.
- c. Our inquiry with the person in charge of maintaining the GAD Communal Toilet revealed that the newly constructed Communal Toilet is oftentimes locked, meaning that the same is seldom used. This was also confirmed by security guards posted near the GAD Communal Toilet who said that the same is often closed and seldom opened to the public.
- d. The area where the GAD Communal Toilet is constructed gets flooded during rainy days, thus, it could not conveniently serve its purpose.

22.1.14 The passengers and accompanying persons prefer to use the existing communal toilet because of its accessibility. Thus, the construction of the new GAD Communal Toilet could be considered unnecessary.

22.1.15 Review and verification of the documents related to the Contract disclosed that there were three suspension orders issued by the Project In-Charge during the implementation of the project, as follows:

Suspension Order No.	Date of Issue	Date of Resumption	REASON
1	01/10/2017	01/17/2017	Finalization and approval of the location of the project
2	01/31/2017	02/05/2017	Due to the request for inspection and relocation of electricity and telephone lines crossing along the project site
3	03/12/2017	03/26/2017	Due to consideration for delivery of fixtures

22.1.16 The three suspension orders indicate poor planning and detailed engineering activities which are required to be undertaken before an infrastructure project is implemented pursuant to Annex A of the 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184.

- 22.1.17 Item 1 of the above-mentioned Annex A provides that detailed engineering shall proceed only on the basis of the feasibility or preliminary engineering study made which establishes the technical viability of the project and conformance to land use and zoning guidelines prescribed by existing laws. The findings contained in the feasibility study, if undertaken for the project, shall be examined. xxx. The detailed engineering activities include, among others: a) survey and b) site investigation.
- 22.1.18 Had the Aerodrome Development Management Service (ADMS) – CAAP HO, in coordination with the Management of AC V conducted a thorough Survey and Site Investigation before proceeding to the other detailed engineering activities, the problems encountered in the implementation of the project which necessitated the issuance of suspension orders, such as the location of the project and the relocation of electricity and telephone lines and the flooding in the area on rainy days, would have been avoided. Management could have also considered foregoing the project considering the existence of an equally useful and more accessible communal toilet that only needs improvement. The P2,453,761 funds could have been used for other purposes beneficial to the Legazpi Airport’s clientele and would not have been wasted.
- 22.1.19 We noted that a two-man Inspectorate Team from ADMS-CAAP HO conducted ocular inspection of the project on August 25, 2017 and observed two deficiencies in the implementation of the project, such as rust formation in the tubular steel louver and the uneven grouted joints between wall tiles and ceiling. These were recommended for rectification by the Contractor, as stated in the Technical Inspection/Evaluation Report dated August 28, 2017. Another Technical Validation Report, dated September 25, 2017, duly signed by the same Inspectorate Team from ADMS-HO, stated that the defects noted in the previous inspection were already rectified/corrected by the Contractor as of September 15, 2017. However, the Audit Team observed during its inspection on February 7, 2018, that there were still rust formations in the tubular steel louver, marks on the ceiling caused by leaks from the roofing and sagging of the cubicle door in the ladies comfort room. We would like to emphasize that the one year defects liability period for the project has not yet lapsed and rectifications for the defects noted could still be required from the Contractor at his own expense.
- 22.1.20 The Audit Team’s inspection was, however, limited only to the visible portions of the project and does not include the determination of whether the implementation of the project is in accordance with the Plans and Specifications which is beyond the Audit Team’s technical expertise and is better left for the COA technical personnel.

22.1.21 We recommended that Management:

- a. Judiciously plan and evaluate future project proposals to ensure that the project would be beneficial to CAAP and other government agencies;
- b. Expedite the purchase of appropriate furniture, fixtures and equipment for the GAD Training Center that are fitting to its design and structure;
- c. Pursue the rehabilitation of the old staff house to accommodate the participants to GAD trainings and other activities of CAAP;
- d. Comply with the required detailed engineering activities for every infrastructure project included in the Annual Procurement Plan;
- e. Inform immediately the contractor of the defects discovered and require him to undertake repair or forfeit the performance security, when applicable; and
- f. Assign an employee to properly maintain the property.

22.1.22 **Management Comment:**

As to the GAD Center in Tagaytay City, Management assured that it will implement the recommendations of COA especially the GAD related projects, in order to benefit the organization and strengthen the value for money of every project.

In AC V, it was explained that the location of the communal toilet was based on the fact that the parking area for tricycles at the airport before the construction was located near the area. Management committed to address the proper maintenance of the toilet and proper signage shall be provided.

22.1.23 **Auditor's Rejoinder:**

The Audit Team in AC V commented that the constructed project can no longer serve the purpose since the parking area for the tricycles was transferred near the old existing toilet. In the meantime, immediate coordination with the contractor should be done for the repairs of the defects discovered.

22.2 **The amount of P13.370 million was spent for the purchase of several equipment in various ACs that remain idle/unused and the repair of infrastructure that are unnecessary.**

22.2.1 Section 17.6 of the Revised IRR of RA 9184 provides that no bidding and award of contract for infrastructure projects shall be made unless the detailed engineering investigations, surveys and designs, for the project have been sufficiently carried out and duly approved in

accordance with the standards and specifications prescribed by the Head of the Procuring Entity concerned or his duly authorized representative, pursuant to the recommendation of the end-user or implementing unit and in accordance with the provisions of Annex "A" of said IRR.

- 22.2.2 Annex A 1-2 of the Revised IRR of RA 9184 also states that detailed engineering shall proceed only on the basis of the feasibility or preliminary study made which establishes the technical viability of the project and conformance to land use and zoning guidelines prescribed by existing laws. The findings contained in the feasibility study, if undertaken for the project, shall be examined. If, in the course of this exercise, it is found that changes would be desirable in the design standards of principal features, as proposed, specific recommendations for such changes shall be supported by detailed justifications, including their effects on the cost, and (if necessary) the economic justification.
- 22.2.3 Schedule of activities to be undertaken during detailed Engineering for the procurement of infrastructure projects are also enumerated under Annex A of the 2016 Revised IRR of RA 9184.
- 22.2.4 Listed below are the equipment purchased and repairs undertaken in CY 2017 totaling P13,370,351 with noted deficiencies:

ACs	NATURE	AMOUNT	DESCRIPTION AND STATUS OF THE PROJECT
I	Supply and installation of two (2) units generator set	P2,000,780	These are brand new generator set (200 KVA) which remained unutilized for 549 days from date of delivery on June 30, 2016 due to the failure to upgrade the three transformers from 100 KVA to 300 KVA.
	Powerhouse 8m x 6m	1,432,762	This was started on January 17, 2016 and completed on July 4, 2016 in accordance with the as built plan but has been idle for 545 days because of the non-provision for feeder lines/fuel day tank.
	5,000 gals overhead water tank at Lingayen airport	1,192,400	These overhead water tanks remain unutilized due to the non-inclusion of water pipes in the program of work.
	5,000 gals overhead water tank at Vigan airport	1,419,219	
V	5,000 gals overhead water tank at Virac	1,496,000	The installation of two overhead water tanks was to provide sufficient water supply to the vicinity of Virac airport for flying passengers and the general public. It was reportedly completed in April 2017, however, the two tanks remain idle and inoperative because there was no water pump near the staff house while the other water pump was incapable of sucking water from source up to the overhead tank.
	Seven (7) units of air	805,479	These were procured as back up units only

ACs	NATURE	AMOUNT	DESCRIPTION AND STATUS OF THE PROJECT
IX	conditioners		in case the old ones would become non-operational. The air conditioners cannot be installed due to lack of funds for the installation fees. These items remain in the stock room, still in its original packaging, hence, exposed to elements.
	Six (6) office tables	18,000	
	4,000 liters fuel tank	349,420	This tank was purchased but will not be used since the monthly budget for fuel is only for 200 liters, hence, the fuel tank is not necessary.
	Emergency repairs of runway	1,972,000	Repairs were done almost every month. These repairs entailed covering holes in the runways (both ends) with cold mix asphalt as temporary patching. Emergency repairs are not economical and efficient in the use of government funds.
	Provision of deepwell to supply water at terminal building	790,000	Per Program of Work (POW), the contractor was to provide one unit stainless steel submersible deepwell pump of 5 HP, however, only 1 ½ HP was installed hence, cannot suck sufficient water from the deepwell. The terminal building and its offices experience shortage of water and discomfort on the part of the riding passengers.
	Repair of security fence in both sides of the Apron	798,443	The repair shall cover 50 bays at 3 meters however, only 42 bays were rehabilitated. Likewise, there should be four (4) strands of barbed wire on top of the fence, however, only two (2) strands were installed and these were not new.
	Rehabilitation of existing CSIS office	399,539	The contract include the provision of various furniture and equipment. Only six (6) items were delivered instead of thirteen.
	Provision of perimeter fence	497,337	The contract covered the replacement of cement post where the barbed wires are to be installed. However, the contractor failed to do it. The barbed wires were installed to the old post.
	Repair of fence cement hollow blocks	198,972	The contract covered the repair of 11 bays with concrete hollow blocks however, the contractor did not repair the fence with CHB but with barbed wire and wooden posts only.
TOTAL		P13,370,351	

22.2.5 We recommended and Management agreed to the following:

- a. Require the Planning and Design Section to conduct actual inspection and evaluation of the project site before preparing the Design Plans of a project. The detailed engineering investigation, surveys and design must be sufficiently carried out taking into

consideration all the scope of work needed so that the purpose and benefits for which a project is constructed could be attained at the maximum level;

- b. Require the contractor in writing to correct/repair the defects discovered to avoid issuance of Notices of Disallowances (NDs); and
- c. Include in the Project Procurement Management Plan only items that are needed to avoid the procurement of unnecessary items of equipment.

22.2.6 Moreover, Management should find measures to bring the equipment to good running condition and a permanent solution to address the problem of recurring holes in the runway.

NON-COMPLIANCE WITH CERTAIN PROVISIONS OF THE REVISED IRR OF RA 9184

23. Three ACs did not observe/comply with certain provisions of the Revised IRR of RA 9184, thereby, defeating the purpose of transparency and competitiveness in the procurement of infrastructure, goods and services and other control measures.

ACs	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Amount
IV	Procurement of two infrastructure projects	Section 7.1 -All procurement shall be within the approved budget of the Procuring Entity and should be meticulously and judiciously planned by the Procuring Entity. Corporate Budget for the contract approved by the governing board, pursuant to Executive Order (E.O). No. 518, s. 1979, in the case of Government-Owned and /or Controlled Corporations Section 20 of Rule VII - Pre-procurement Conference	The two awarded projects with a total contract amount of P6,537,860 were not within the revised Annual Procurement Plan (APP) and authorized budget of the agency. No pre-procurement conference conducted for the two projects.	P6,537,860
IX	28 Various infrastructure projects	Section 23.4.2.3- x x x x, the persons/entities enumerated in Section 23.4.2.1 of this IRR may participate in competitive bidding if he has been	Infrastructure projects totalling P11,451,346 were awarded to a contractor, considered as ineligible bidder, for the following reasons:	11,451,346

ACs	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Amount
		issued a license by the PCAB to engage or act as a contractor.	<p>The entity was not issued a PCAB license to engage or act as a contractor. The Mayor's permit issued to the entity states that the type of business it is engaged in is in retail for essential and non-essential foodstuffs, office supplies, construction materials, spare parts and janitorial supplies and as a contractor for services such as T-shirt and tarpaulin printing.</p> <p>The entity does not possess a valid tax clearance since the tax clearance submitted to CAAP for bidding purposes was valid only until February 1, 2017, hence it was not eligible to bid for projects after said date. Review of transactions and documents showed that all of the projects were awarded after February 2017.</p>	
	Repairs of various equipment	<p>Section 10, Article IV-All procurement shall be done through public bidding</p> <p>Section 9.1.3.4 of COA Circular No. 2012-001 Documentary requirements in the payment of repairs and maintenance of items of equipment and motor vehicles.</p>	<p>Procurement of construction materials and supplies for projects were done through reimbursement basis instead of undergoing the competitive bidding process.</p> <p>Transactions were not supported with the following:</p> <ul style="list-style-type: none"> • Copy of the pre-repair evaluation report and approved detailed plans showing in sufficient detail the scope of work/extent of repair to be done. • Report of waste materials • Copy of document indicating the history of repair • Warranty certificate • Pre-repair inspection reports 	3,817,333
	Procurement of equipment	Section 52 - Shopping may be resorted to under any of the following instances: a. when there is an unforeseen contingency requiring immediate	There was only one price quotation for each of the procured equipment.	1,208,033

ACs	Nature of Transaction	Specific Provisions of the Revised IRR of RA 9184 not complied	Condition	Amount
		purchase provided however, that the amount shall not exceed Fifty Thousand Pesos or b. procurement of ordinary or regular office supplies and equipment not available in the Procurement Service involving an amount not exceeding Two Hundred Fifty Thousand Pesos.		
	Procurement of office furniture, etc.	Section 7.2- No government procurement shall be undertaken unless it is in accordance with the Approved Annual Procurement of the Procuring Entity.	The agency procured goods amounting to P1,300,434.54 that were not included in approved APP of CY 2017.	1,300,435
XII	Provision of Bunker beds, stainless steel cages etc.	Items 8.1 and 8.3, Annex E - Imposition of liquidated damages equivalent to 1/10 of 1 per cent of the cost of the unperformed portion of the works for every day of delay.	Four (4) infrastructure projects were completed beyond the contract period, with delays ranging from 8 to 97 days but were not imposed with corresponding liquidated damages.	4,394,380
	Various infrastructure projects	Item 4.2, Annex E- The advance payment shall be made only upon the submission to and acceptance by the procuring entity of an irrevocable standby letter of credit of equivalent value from a commercial bank x x x and confirmed by the procuring entity.	Advance payments of P3,070,890.23 equivalent to 15% of the total contract price of P20,472,601.56 for various infrastructure projects were granted and released to the contractors, despite the non-submission to and acceptance by the procuring entity of an irrevocable standby letter of credit of equivalent value from a commercial bank, a bank guarantee or a surety bond callable upon demand, issued by a surety or insurance company duly licensed by the Insurance Commission and confirmed by the procuring entity.	3,070,890

23.1 We recommended that Management strictly adhere to the provisions of the Revised IRR of RA 9184 in all stages of the procurement of infrastructure, goods and services to ensure transparency and competitiveness in the procurement process and implement control measures. Specifically, we recommended that-

- a. The Bids and Awards Committee submit an explanation and justification for awarding the contracts despite the insufficiency of appropriation. Ensure that the approved Annual Procurement Plan (APP) and Approved Budget for Contract (ABC) including changes thereto, be considered in the procurement of infrastructure projects in the future pursuant to Sections 7.1 and 7.2 of the Revised IRR of RA 9184.
- b. Management strictly comply with the provisions of RA 9184 in awarding of contracts to qualified bidders and in the documentation of the related payments.

23.2 Management Comment:

AC IV - During the exit conference, Management blamed the late approval of the 2017 COB which was communicated to the AC thru email only on September 4, 2017. However, they assured compliance to the audit recommendation in their succeeding procurement of infrastructure projects.

AC IX - They explained that the former BAC members especially the TWG lack expertise and training in RA 9184 hence, projects were awarded to ineligible bidders. Management will comply to the other audit recommendations in 2018.

23.3 Auditor's Rejoinder:

AC IV - We stand by our observation that the procurement of two infrastructure projects in the total contract amount of P6,537,860 was not in accordance with the ABC. Likewise, said projects cannot be considered as Multi-Year Project (MYP), contrary to the claim by the Management because the work duration of both projects as stated in the Contract was only 150 calendar days which is less than a year, hence do not fall under MYP

AC IX - We maintain that the BAC should review the qualification of the sole bidder and not award the contract automatically to the lone bidder. Moreover, it is the responsibility of the Head of the Procuring Entity to appoint qualified BAC and TWG members and ensure that they attend seminars and training on RA 9184.

GENDER AND DEVELOPMENT (GAD)

24. Gender perspectives in CAAP's Programs, Activity and Projects (PAPs) were not fully considered in the formulation of the GAD Plan and Budget (GPB) resulting in several deficiencies/inconsistencies.

- 24.1 PCW-NEDA-DBM Joint Circular No. 2012-01 prescribes the guidelines and procedures for the formulation, development, submission, implementation, monitoring and evaluation including accounting of results of agency annual GPB and GAD accomplishment reports (AR). Paragraph 2.3 thereof requires that *Pursuant to the MCW and the General Appropriations Act (GAA), all government departments, including their attached agencies, offices, bureaus, state universities and colleges (SUCs), government-owned and controlled corporations (GOCCs), local government units (LGUs) and other government instrumentalities*

shall formulate their annual GPBs within the context of their mandates to mainstream gender perspective in their policies, programs and projects. GAD Planning shall be integrated in the regular activities of the agencies, the cost of implementation of which shall be at least five (5%) of their total budgets.xxx. Moreover, par. 3.4 of the same provides that To aid gender mainstreaming, agencies shall perform gender analysis using existing tools, such as the Harmonized Gender and Development Guidelines (HGDG), to ensure that the different concerns of women and men are addressed equally and equitably in their PAPs. Activities to address these differential concerns through capacity development on GAD or GAD-focused activities shall be included in agency GPBs.

- 24.2 COA Circular No. 2014-001 dated March 18, 2014 provides that programs and projects that are not in the agency's Philippine Commission on Women (PCW) endorsed GAD plan cannot be charged to the GAD Budget. In addition, Section IVB.2(d) of the same states that "*Personal services such as salaries of agency assigned to plan, implement and monitor GAD PAPs on full time or part basis or as an additional duty, following government rules on hiring and creating positions, provided further that in case of those rendering services on part time basis or as an additional, only the salary or wage proportionate to the time devoted to GAD shall be considered in the computation of the cost of the particular GAD activity*".

GAD budget was less than five per cent of CY 2017 approved Corporate Operating Budget (COB).

- 24.3 Our audit disclosed that CAAP has allocated only P203.85 million or 1.98 per cent to the GPB out of its 2017 approved COB, which is not in accordance with Joint Circular No. 2012-01. We noted, however, that there were PAPs supporting GAD plans and programs that were undertaken and accomplished by the Authority but were not included in the GAD budget. Had this been considered, allocation for GPB would be higher than 1.98 per cent.
- 24.4 It is worth mentioning that the required five per cent need not be on top of the COB. It may be computed by attributing to GAD plans and programs the regular PAPs of the Authority.
- 24.5 We recommended and Management agreed to prepare a timely Annual GPB equivalent to five per cent of the total agency budget appropriations.

Only 8 out of the 38 approved GAD PAPs in the approved GPB for CY 2017 were implemented.

- 24.6 Review of the GAD Accomplishment Report (AR) submitted to COA showed that not all identified GAD PAPs in the approved GAD plan of the Authority was carried out. Out of the 38 approved GAD PAPs, only 8 had actual disbursements totaling P14.387 million equivalents to 13 per cent of the allocated funds during the year.

Particulars	No. of PAPs	GAD Budget (in thousand pesos)	Expenditures (in thousand pesos)	% of Accomplishment
Client-Focused projects (CFPs)	4	P115.120	9.541	8%
Organization-focused projects (OCPs)	4	88.730	4.846	5%
	8	P203.850	14.387	13%

24.7 The low percentage of accomplishment on the implementation of the proposed PAPs indicates that Management was unable to address the gender issues included in the FY 2017 GPB, thereby depriving the intended beneficiaries of the benefits that may be derived from GAD PAPs such as poverty alleviation, economic empowerment of women, protection and promotion of women's human rights and resolution of other gender issues.

24.8 We recommended and Management agreed to encourage close coordination among all personnel involved to implement fully all GAD-related activities included in the GPB.

GAD-attributed PAPs were not included in the GPB.

24.9 Further review of the GAD AR revealed that GAD-attributed PAPs amounting to P9.332 million were accomplished in CY 2017 although these were not included in the approved GPB for CY 2017, details are shown below:

GAD-attributed PAPs not in GPB

AC	Activity/Program	Amount	Remarks
X	<i>Construction of Communal Toilets with Gender Neutral Stall at Airport Concourse and Parking Areas.</i>	P4,403,362	Completed as per Accomplishment Report of AC X
	-Dipolog Airport- 2,189,597.75		
	-Pagadian Airport-2,213,764.27		
IX	Zamboanga Airport	2,400,000	On going
II	Tuguegarao Airport	2,033,736	On going (20% complete)
I, III-VII, IX-XII	<i>No. of Diaper-changing Rooms for the clients at Airport Passenger Terminal Buildings (PTBs)</i>	495,348	Completed as per Accomplishment Report of ACs
TOTAL		P9,332,446	

24.10 Charging to the GAD budget of PAPs not included in the approved GPB is contrary to COA Circular No. 2014-001.

24.11 We recommended and Management agreed to formulate an effective monitoring system/process to ensure that all identified PAPs due for implementation will be

timely and fully undertaken so that the benefits to be derived therefrom will be enjoyed by the beneficiaries.

Salaries of the personnel assigned to plan, implement and monitor GAD PAPs not incorporated in the GPB.

- 24.12 Review of the GAD AR and inquiry with concerned personnel disclosed that salaries of personnel assigned to GAD were not included in the computation of the cost of a particular GAD activity. Thus, the salaries (full or proportionate) was not recognized and charged to GAD funds which is not in compliance with COA Circular No. 2014-001.
- 24.13 We recommended and Management agreed to consider in the computation of the cost of GAD activities the salaries of agency personnel assigned to plan, implement and monitor GAD PAPs on full time or part time basis or as an additional duty as required under the above-mentioned COA Circular.

25. Budget for capacity development amounting to P4.7 million was not utilized.

- 25.1 Paragraph 4.2 of the PCW-NEDA-DBM Joint Circular No. 2012-01 on *Capability Building on Gender and Development* states that *a clear understanding and appreciation of gender and development is a pre-requisite for a successful GPB. Agencies are required to regularly undertake orientations and capacity development on GAD including GAD-related laws and commitments for their employees. Trainings should include gender mainstreaming, gender analysis and gender-responsive planning and budgeting.* In addition, par. 4.4 requires the institutionalization of the GAD Database/ Sex-disaggregated Data. *The agency shall develop or integrate in its existing database GAD information to include gender statistics and sex-disaggregated data that have been systematically produced or gathered as inputs or bases for planning, budgeting, programming and policy information.*
- 25.2 Verification of the GAD AR disclosed that CAAP has allocated P4.7 million budget for various GAD-related capacity development activities in their FY 2017 GPB.

GAD PLAN and BUDGET		Remarks
Programs/Projects/Activities	Amount	
Client Focused		
4. Capacity development on establishment of Sex Disaggregated Data (SDD) on Trafficking Persons at Airports.	P700,000	No activity undertaken.
2.1 Conduct of coordination of meetings and seminars/ workshops involving GFPS, Key agency personnel, DOJ-IACAT and other pertinent entities to capacitate agency personnel.	700,000	No activity undertaken.

GAD PLAN and BUDGET		
Programs/Projects/Activities	Amount	Remarks
Organization-Focused		
8.1 Participation of GFPS in local/national and international trainings, seminars, conferences. - continuing project	2,000,000	No need to attend international trainings. Local seminars, conferences, trainings approved by PCW and conducted by PCW-accredited entities will do.
8.2 Develop a purposive Capability Development Program on gender issues with training plan.	1,000,000	No activity undertaken.
10. Participation of members of the GFPS and HR personnel in meetings, seminars and workshops on establishment of Sex Disaggregated Data.	200,000	No activity undertaken.
10.1 Establishment of Sex Disaggregated Data.	100,000	No activity undertaken.
	P4,700,000	

25.3 We noted, however, that no activities were undertaken to capacitate the concerned CAAP personnel. This impeded the efficiency, effectiveness and success of the Authority's GAD planning and budgeting process.

25.4 We recommended and Management agreed to regularly undertake orientations and capacity development on GAD including GAD-related laws and commitments for employees including trainings on gender mainstreaming, gender analysis and gender-responsive planning and budgeting as required in Paragraph 4.2 of the PCW-NEDA-DBM Joint Circular No. 2012-01.

26. The FY 2017 GPB was not endorsed by the PCW.

26.1 Section 8.6 of the PCW-NEDA-DBM Joint Circular No. 2012-01 states that-

PCW shall endorse agency GPBs only under the following conditions:

8.6.1 if they are reviewed by the mother or central office;

8.6.2 if the requested revisions or additional information in the answer about the GPB are accepted by PCW within the prescribed deadlines; and

8.6.3 if they are accompanied by the GAD AR.

26.2 We noted that CAAP's GPB was not endorsed by the PCW which is not in keeping with Section 8.6 of the PCW-NEDA-DBM Joint Circular No. 2012-01. Inquiry from Management disclosed some of the factors why endorsement from PCW was not obtained:

- a. late submission of the FY 2017 GPB due to inadequate manpower to prepare the proposed GPB report; and
 - b. poor service of the PCW portal to upload the GPB for review and endorsement.
- 26.3 Although review and endorsement with the PCW of the Authority's GPB was not obtained, we gathered that the proposed GPB for FY 2017 was submitted to DOTr pursuant to Section 8.3 of the above-mentioned circular which states in part that *GPBs of attached agencies, bureaus and regional offices submitted directly to PCW shall be returned to their mother or central office for its review.*
- 26.4 We recommended and Management agreed to secure a copy of the GPB duly endorsed by PCW to ensure that GAD programs and projects being implemented are in accordance with the PCW priority agendas and targets. Likewise, strictly adhere to the provisions of the PCW-NEDA-DBM Joint Circular No. 2012-001 and COA Circular No. 2014-001 dated March 18, 2014.

27. Amounts Withheld for Remittance to Government Agencies

27.1 Compliance with Tax Laws

The CAAP HO and 12 ACs withheld and remitted taxes on gross compensation income from officials and employees and on government purchases and contract of services from private entities pursuant to Revenue Regulation No. 10-2008 dated July 8, 2008. At CAAP-HO, of the unremitted balance of P36,060,260 as of December 31, 2017, the amount of P2,655,307 pertains to tax refunds reclassified to Accounts Payable, P933,381 is for reconciliation, while the balance was claimed to have been remitted in 2018.

Moreover, in the 12 ACs, of the total taxes withheld of P190,646,814, P186,645,817 was remitted during CY 2017, leaving a balance of P23,626,810.

The following deficiencies were noted in the ACs:

	Unremitted Balance as of December 31, 2017	Remarks
AC III	7,754,658	The balance pertains to prior year amounting to P6,666,283 and P1,088,374 for CY 2017
AC V	444,105	The balance pertains to prior year amounting to P170,847 and P273,258 for CY 2017
AC VI	3,258,531	No schedule was submitted to support the ending balance, thus could not be duly validated.
AC XI	3,331,924	Of the amount, only P150,519 was remitted in January 2018.

27.2 Compliance with GSIS and Pag-IBIG Premium/Loan Amortization/Deductions and Remittances

27.2.1 The GSIS personal share and loans of employees and Social Insurance Fund (SIF) and Employees Compensation Insurance Fund (ECIF) premiums as government shares were deducted and remitted in accordance with RA No. 8291, the GSIS Act of 1997. Likewise, Pag-IBIG premiums and loan amortization collected were remitted in compliance with RA No. 9679 (Pag-IBIG Fund Law 2009).

Particulars	Balances as of January 1, 2017	Premiums and Loan Amortization collected for CY 2017	Remittances	Balances as of December 31, 2017
GSIS	14,206,311	254,347,518	250,675,685	17,878,144
Pag-IBIG	3,423,312	42,408,642	40,895,906	4,809,039
TOTAL	17,629,623	296,756,160	291,571,591	22,687,183

27.2.2 Of the total balance of P22,687,183 as of December 31, 2017, P12,090,911 pertains to CAAP HO which was remitted in 2018.

28. Enforcement of COA Audit Suspension, Disallowances and Charges

HEAD OFFICE

28.1 The total audit suspensions, disallowances and charges found in the audit of transactions as of December 31, 2017, based on the Notice of Suspension (NS)/Notice of Disallowance (ND)/Notice of Charge (NC)/Notice of Settlement of Suspensions and Disallowances/Charges (NSSDC) issued by this Commission, is summarized as follows:

Particulars	Beginning Balance (As of 01/01/2017)	This period January 1 to December 31, 2017		Ending Balance (As of 12/31/2017)
		NS/ND/NC	NSSDC	
Notice of Suspension	29,979,062	35,040,773	5,937,218	59,082,617
Notice of Disallowance	211,019,525	5,909,423		216,928,948
Notice of Charge	30,913			30,913
TOTAL	241,029,500	40,950,197	5,937,218	276,042,478
% of settlement			2.11%	

28.2 The disallowances issued comprise mainly of Flying Risk Pay paid to CAAP employees, and allowances.

28.3 COA Decision No. 2017 – 222 dated July 12, 2017 affirmed various Notices of Disallowances on payment of Performance Enhancement Allowance (PEA) to

CAAP officials and employees. A Motion for Reconsideration (MR) has been filed by CAAP.

AREA CENTERS

Particulars	Beginning Balance (As of 01/01/2017)	This period January 1 to December 31, 2017		ADJUSTMENTS (Suspension/s Matured into Disallowance)	Ending Balance (As of 12/31/2017)
		NS/ND/NC	NSSDC		
Notice of Suspension					
AC I	-	-	-	-	-
AC II	-	-	-	-	-
AC III	-	-	-	-	-
AC IV	-	-	-	-	-
AC V	2,916,316	947,566	2,365,257	-	1,498,625
AC VI	797,124	-	797,124	-	-
AC VII	-	-	-	-	-
AC VIII – Tacloban	2,341,449	725,530	2,446,994	-	619,985
– Catarman	1,741,231	751,961	1,530,298	-	962,894
– Calbayog	725,527	162,105	887,631	-	-
AC IX	-	-	-	-	-
AC X	18,441,011	-	800	17,852,128	588,083
AC XI	-	49,025	49,025	-	-
AC XII	7,586,306	56,803,083	27,150,611	-	37,238,778
TOTAL	34,548,964	59,439,269	35,227,740	17,852,128	40,908,365
% of settlement			37.48%		
Notice of Disallowance					
AC I	16,352,705	-	9,767	-	16,342,938
AC II	8,627,335	161,455	-	-	8,788,790
AC III	17,676,774	-	-	-	17,676,774
AC IV	11,176,832	-	-	-	11,176,832
AC V	20,311,938	385,776	5,529	-	20,692,185
AC VI	65,384,960	1,845,595	15,230	-	67,215,325
AC VII	41,077,627	459,832	-	-	41,537,459
AC VIII – Tacloban	9,355,382	14,412	1,060	-	9,368,734
– Catarman	820	2,798	820	-	2,798
– Calbayog	-	880	880	-	-
AC IX	26,803,905	-	-	-	26,803,905
AC X	93,328,294	17,852,173	-	-	111,180,467
AC XI	39,762,741	-	310,231	-	39,452,510
AC XII	7,385,467	41,759	83,005	-	7,344,221
TOTAL	357,244,780	20,764,680	426,522		377,582,938
% of settlement			0.00%		

AREA CENTERS

Contract extensions for Security Services not compliant with GPPB issuance

29. Extension of contracts for Security Services were undertaken in a manner not consistent with the requirements of Government Procurement Policy Board (GPPB) Resolution No. 23-2007 dated September 28, 2007.

GPPB Resolution No. 23-2007 otherwise known as the Revised Guidelines on the Extension of Contracts for General Support Services provides the general conditions and procedural requirements governing the extension of ongoing contracts of general support services. On the conditions for the extension of the effectivity of an on-going contract about to expire, Sections 4.1 and 4.6 thereof state that no contract extension shall exceed one (1) year and the current service provider has not violated any of the provisions of the original contract, respectively. Moreover, 2nd paragraph of Section 5 provides that if the proposed extension exceeds six months, the Head of the Procuring Entity or his/her duly authorized representative shall immediately report to the GPPB in writing of its intent to extend beyond six months.

Area Center I

29.1 Management paid a total of P5.722 million for security services rendered by Merit Security & Investigation Agency, Inc. beyond the allowable one year extension of contract contrary to Sections 4.1 and 4.6 of the Revised Guidelines on the Extension of Contracts for General Support Services.

29.1.1 Review of documents submitted revealed that on December 7, 2016, Authority Order No. 367-16 was issued to the Civil Aviation Area Manager-AC I, authorizing him to sign for and in behalf of the Director General all monthly renewal of contract for security services within his area of jurisdiction. We also noted that the original Contract of Services entered into by and between CAAP represented by the former Director General and Merit Security & Investigation Agency, Inc., represented by their General Manager, took effect on April 1, 2015 which shall be effective for a period of one (1) year or will expire on April 1, 2016.

29.1.2 The extension of contracts for Security Services Agreement reached the allowable one year on March 31, 2017. However, as of December 31, 2017, AC I still paid the amount of P5,722,228 for security services rendered by Merit Security and Investigation Agency, Inc. for the period April 1 to December 31, 2017 or nine months beyond the one year allowable extension without informing the GPPB.

29.1.3 We recommended that Management:

- a. Discontinue the payment of security services beyond one (1) year after expiration of the contract;
- b. Discourage the extension of expired contracts for security services;

- c. Undertake procurement of security services through competitive bidding; and
- d. Strictly adhere to the provision of Section 5.0, of the GPPB Resolution No. 23-2007 dated September 28, 2007.

29.1.4 Management Comment:

Management commented that the procurement of Security Services is conducted by the CAAP HO through the Special Bids and Awards Committee (SBAC). After the failure of public bidding on the said procurement for CY 2016, no subsequent public bidding was conducted by the SBAC up to present. Nevertheless, CAAP AC I Management added that they are doing their best to ask for the status of the procurement from time to time, whether verbal or written, and that they have already forwarded the copies of Audit Observation Memorandum (AOM) to the HO.

The HO on the other hand, has taken the necessary steps and it is in the process of bidding for new security service agent for the different ACs.

Area Center VI

29.2 The contract for security services entered into by CAAP with Eaglematrix Security Agency, Inc. for the period August 1, 2016 to September 30, 2017 was made on a month to month basis.

29.2.1 In the review of documents pertaining to the contract for security services we have noted the following deficiencies:

- The public bidding for the security services was conducted on April 2, 2013 and was awarded to Eaglematrix Security Agency, Inc. covering a multi-year contract for three years from August 1, 2013 to July 31, 2014, August 1, 2014 to July 31, 2015, August 1, 2015 to July 31, 2016. Since the expiration of the Security Services Contract in July 31, 2016 up to the present, renewal of the said contract was done on a month-to-month basis, and has been a practice for 17 months to date thus, circumventing the general condition provided in the above-cited Resolution which states that no contract extension shall exceed one year. In addition, there was no action from Management to undertake necessary procurement activities to conduct a public bidding for a new contract for security services, thus the provision of the contract extension as an emergency measure was apparently abused.
- The Head of the Procuring Entity or his/her duly authorized representative failed to report to the GPPB in writing its intent to extend the contract beyond six months. The practice of extending the contract of security service on a month-to-month basis for an

aggregate of 17 months to date without the approval of the GPPB is a violation of the procedural requirement of the above-mentioned Resolution.

- Review of the contracts on a month-to-month basis showed that some monthly contracts were notarized after the expiration of the effectivity of the said contract which nullified its legality and grossly violated the established rules, regulations and procedural guidelines.

29.2.2 We recommended that Management faithfully adhere to the provisions of the GPPB Resolution No. 23-2007 dated September 28, 2007, re: contract extension of security services, and make the following courses of action:

- a. Make representation with CAAP HO that procurement activities and the conduct of public bidding for a new contract of security services be made at the right time taking cognizant of the pertinent provisions of GPPB Resolution No. 23-2007 dated September 28, 2007;
- b. The Head of Procuring Entity or his duly authorized representative to report the contract extension exceeding six months with the GPPB in writing in compliance with the procedural requirement of the subject Resolution.; and
- c. The execution and notarization of the contract for security services should be made prior to the effectivity of the contract.

29.2.3 Management commented that they were informed by CAAP HO Security and Intelligence Service (CSIS) that the bidding was delayed due to change in CAAP Management and the same will be conducted as soon as the SBAC for the purpose is created.

Area Center I

30. Non-collection of billed accounts to various concessionaires of the Authority resulted in accumulation of overdue Accounts Receivable amounting to P1.568 million which remained outstanding for more than one to ten years, thus, depicting inefficiency in collection.

30.1 Evaluation of Accounts Receivable accounts for concessionaires per schedule disclosed the following:

Aging of Accounts Receivable – Various Concessionaires

Age		Amount
1 to 60 days	P	198,200
61 to 180 days		429,304
181 days to 1year		46,503
Sub-total - Current	P	674,007
1 year to 5 years	P	395,730
5 years to 10 years		550,102
Over 10 years		622,421
Sub-total – Past Due	P	1,568,253
TOTAL	P	2,242,260

30.2 Review of the Aging of Accounts Receivable from concessionaires revealed that out of the total amount of P2,242,260 from 108 concessionaires of CAAP AC I, P647,007 (30%) are current and P1,568,253 (70%) are overdue and not yet collected as of December 31, 2017.

30.3 Part IX, Section 3 of the Revised Schedule of Fees and Charges under the Alternate International Airports and National Airports Department Order No. 98-1178, dated February 25, 1999 provides that:

PART IX: CONCESSION PRIVILEGE FEES

Sec. 3 Manner of Payment - *Concession privilege fees shall be paid on a monthly basis payable at the beginning of each month and subject to the provisions of Sec. 2 & 3, Part XIII hereof.*

30.4 Likewise, Part XIII, Section 3 of the same Department Order states that:

PART XIII: PAYMENT

Sec. 3 Effects of Non- payment- *Failure on the part of any person, firm or corporation to pay any fee, charge or rental due and payable after written demand by the Assistant Secretary, shall be considered sufficient ground to deny such person, firm or corporation of the further use of the airport or any of its facilities, utilities and services and shall be a basis for cancellation for their contract. Xxx*

30.5 In spite of the above-mentioned provisions of Department Order No. 98-1178, AC I Management could still not fully enforce the collection of long overdue accounts and impose penalties as an effect of non-payment of such billings.

30.6 Evaluation also disclosed that out of 108 concessionaires, only 41 or 38 per cent are actively paying dues and 67 or 62 per cent are currently delinquent.

30.7 Interview with the Accountant revealed that clients with delinquent accounts already received demand letters as their final warning before transferring such accounts to the Head Office for further legal action.

- 30.8 We recommended that CAAP AC I Management enforce a stricter collection policy on all its concessionaires, especially those with delinquent accounts. Likewise, continue sending demand letters to other defaulting clients. If warranted, institute appropriate legal remedies in order to collect past due accounts of various concessionaires of the Authority.
- 30.9 The Legal Officer of CAAP AC I justified that demand letters were already sent to clients with overdue accounts and further informed that if clients were still not compliant, Management will file legal complaints, as authorized under CAAP Board Resolution No. 09-006, allowing AC lawyers to file cases on behalf of CAAP.

Area Center III

31. Accumulated leave credits of the AC's employees as of December 31, 2017 amounting to more or less P21.733 million were not taken up as liability/accrued expense in the books, contrary to PAS 19 on Employee Benefits. Conversely, an estimated unused mandatory leave amounting to P0.715 million were not deducted from the earned leave which is not in consonance with Section 25 of the Omnibus Rules on Leave Rule XVI of the Civil Service Memorandum Circular No. 42, thus resulted in the misstated liability and expense accounts.

31.1 PAS No. 19 states that:

When an employee has rendered service to an entity during an accounting period, the entity shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- a. as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognize that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and*
- b. as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.*

31.2 The accumulated leave credits of the officials and employees amounting to P21,733,466.23 were not recorded or recognized as liability in the books of accounts as of year-end. The effectivity of application of PAS No. 19 was on January 1, 2015 but the AC failed to implement these provisions, thus resulted in the understatement of the total liabilities and the related expenses accounts.

31.3 Also, Sections 25 of Civil Service Memorandum Circular No. 41, s. 1998 provides that *all officials and employees with 10 days or more vacation leave credits shall be required to go on vacation leave whether continuous or intermittent for a minimum of five (5) working days annually under the following conditions:*

- a. *The head of agency shall, upon prior consultation with the employees, prepare a staggered schedule of the mandatory five-day vacation leave of officials and employees, provided that he may, in the exigency of the service, cancel any previously scheduled leave.*
- b. *The mandatory annual five-day vacation leave shall be forfeited if not taken during the year. However, in cases where the scheduled leave has been cancelled in the exigency of the service by the head of the agency, the scheduled leave not enjoyed shall no longer be deducted from the total accumulated vacation leave.*
- c. *Retirement and resignation from the service in a particular year without completing the calendar year do not warrant forfeiture of the corresponding leave credits if concerned employees opted not to avail of the required five-day mandatory vacation leave.*
- d. *Those with accumulated vacation leave of less than ten (10) days shall have the option to go on forced leave or not. However, officials and employees with accumulated vacation leave of 15 days who availed of monetization for 10 days, under Section 22 hereof, shall still be required to go on forced leave.*

31.4 Leave cards of various employees are incorrect due to non-deduction of the five days forced/mandatory leave. This resulted in the erroneous forwarding of leave balances, hence the estimated unused mandatory vacation leaves of the personnel/employees amounting to P714,751 were not deducted from earned leave which is not in consonance with Section 25 of the Omnibus Rules on Leave (Rule XVI of the Omnibus Rules Implementing Book V of Executive Order 292) on the proper monitoring of leave credits, thus resulted in the overstatement of accumulated leaves of the employees.

31.5 We recommended that Management:

- a. Recognize the employees' accumulated leave credits as additional liability in compliance to the provisions of PAS No. 19;
- b. Work back and reconcile earned leave credits to arrive at the correct balances of the leave credits;
- c. Update/record earned leave on a monthly basis;
- d. Deduct the five days unused mandatory leave credits from the accumulated leaves every end of the year to come up with the correct leave credit balance; and
- e. Prepare summary of leave credit balances of all employees at the end of the year duly attested by the employees.

Collections were not deposited intact and regularly.

Area Center III

32. Terminal fee collections of the accountable officer (AO) were not deposited intact and regularly, contrary to Section 69(1) of PD 1445 and Section 21 of the Manual on the New Government Accounting System (MNGAS), Volume I, thereby exposing the funds to risk or possible misuse.

32.1 Section 69(1) of PD No. 1445 states that:

Public officers authorized to receive and collect moneys arising from taxes, revenues, or receipts of any kind shall remit or deposit intact the full amounts so received and collected by them to the treasury of the agency concerned and credited to the particular accounts to which the said moneys belong. Xxx

32.2 Likewise, Section 21, MNGAS, provides that:

xxx. Where collections are minimal and daily deposit thereof becomes costly and impractical, the Collecting Officers shall deposit their collections at least once a week, or as soon as the collections reach P10,000.00. They shall record all deposits made in the CRR.

a. Romblon Airport

32.3 Audit disclosed that it took the Accountable Officer (AO) 4 to 34 days before the accumulated daily collections ranging from P4,300 to P43,200 were deposited, details below:

Collection Dates		No. of Days	Collection	Deposits		Balance
From	To			Date	Amount	
01-Jun-16	15-Jun-16	15	21,400	16-Jun-16	19,500	1,900
17-Jun-16	29-Jun-16	13	13,200	30-Jun-16	13,000	2,100
01-Jul-16	17-Jul-16	17	18,000	19-Jun-16	16,300	3,800
22-Jul-16	27-Jul-16	6	6,200	29-Jul-16	10,000	-
29-Jul-16	31-Aug-16	34	30,799	31-Aug-16	5,999	24,800
				31-Aug-16	23,100	1,700
04-Sep-16	28-Sep-16	25	13,600	30-Sep-16	14,200	1,100
02-Oct-16	16-Oct-16	15	8,500	18-Oct-16	9,600	-
19-Oct-16	26-Oct-16	8	5,700	28-Oct-16	5,700	-
30-Oct-16	20-Nov-16	22	17,200	21-Nov-16	15,400	1,800
23-Nov-16	27-Nov-16	5	4,300	28-Nov-16	6,100	-
30-Nov-16	21-Dec-16	22	15,500	19-Dec-16	10,200	5,300
25-Dec-16	28-Dec-16	4	4,900	29-Dec-16	10,200	-
15-Feb-17	20-Feb-17	6	20,463	20-Feb-17	15,700	4,763
22-Feb-17	27-Feb-17	6	18,300	28-Feb-17	18,400	4,663
				28-Feb-17	163	4,500
01-Mar-17	13-Mar-17	13	32,000	14-Mar-17	33,000	3,500
15-Mar-17	20-Mar-17	6	18,200	21-Mar-17	17,900	3,800
22-Mar-17	29-Mar-17	8	24,000	30-Mar-17	27,800	-

Collection Dates		No. of Days	Collection	Deposits		Balance
From	To			Date	Amount	
31-Mar-17	10-Apr-17	11	34,100	11-Apr-17	23,300	10,800
12-Apr-17	26-Apr-17	15	43,200	27-Apr-17	43,900	10,100
24-May-17	28-May-17	5	14,600	29-May-17	19,800	4,900
29-May-17	29-May-17	No deposit yet	4,700	Not yet deposited		9,600
GRAND TOTAL			368,862	359,262		

32.4 As shown in the above table, there were partial deposits of collections to the Authorized Government Depository Bank (AGDB). Of the daily collections made by the AO, amounts ranging from P300 to P24,800 are retained by the AO, thereby exposing the funds to risk or possible misuse.

32.5 The AO explained that he could not remit the collections intact and regularly because of the distance of the Land Bank of the Philippines, Odiongan Branch, which is 49 kilometers from Romblon Airport coupled with the inadequacy of public vehicles which made the daily deposit difficult.

b. San Jose Airport

32.6 Examination of records revealed that it took 2 to 5 days before the accumulated daily collections ranging from P17,850 to P60,150 were deposited, details below:

Collection Dates		No. of Days	Collection	Deposits		Balance
From	To			Date	Amount	
22-May-16	23-May-16	2	45,600	23-May-16	45,600	-
05-Jun-16	06-Jun-16	2	36,750	06-Jun-16	36,750	-
12-Jun-16	13-Jun-16	2	43,500	13-Jun-16	43,500	-
19-Jun-16	20-Jun-16	2	35,250	20-Jun-16	35,250	-
25-Jun-16	27-Jun-16	3	36,150	27-Jun-16	36,150	-
02-Jul-16	04-Jul-16	3	32,850	04-Jul-16	32,850	-
09-Jul-16	12-Jul-16	4	60,150	13-Jul-16	60,150	-
16-Jul-16	18-Jul-16	3	38,250	18-Jul-16	38,250	-
23-Jul-16	25-Jul-16	3	42,900	25-Jul-16	42,900	-
06-Aug-16	08-Aug-16	3	41,400	08-Aug-16	41,400	-
09-Aug-16	10-Aug-16	2	17,850	12-Aug-16	17,850	-
22-Aug-16	25-Aug-16	4	41,100	25-Aug-16	41,100	-
11-Sep-16	13-Sep-16	3	55,150	13-Sep-16	55,150	-
17-Sep-16	19-Sep-16	3	42,300	19-Sep-16	42,300	-
21-Sep-16	23-Sep-16	3	31,479	23-Sep-16	31,479	-
24-Sep-16	26-Sep-16	3	40,500	26-Sep-16	40,500	-
02-Oct-16	03-Oct-16	2	33,150	03-Oct-16	33,150	-
08-Oct-16	10-Oct-16	3	34,350	10-Oct-16	34,350	-
30-Oct-16	31-Oct-16	2	31,400	02-Nov-16	31,400	-
06-Nov-16	07-Nov-16	2	46,650	07-Nov-17	46,650	-
13-Nov-16	14-Nov-16	2	38,100	16-Nov-17	38,100	-
20-Nov-16	21-Nov-16	2	43,950	21-Nov-17	43,950	-

Collection Dates		No. of Days	Collection	Deposits		
From	To			Date	Amount	Balance
21-Nov-16	28-Nov-16	8	43,600	28-Nov-17	43,600	-
04-Dec-16	05-Dec-16	2	48,546	05-Dec-17	48,546	-
11-Dec-16	12-Dec-16	2	42,900	12-Dec-17	42,900	-
15-Dec-16	16-Dec-16	2	20,400	16-Dec-17	20,400	-
17-Dec-16	19-Dec-16	3	43,200	19-Dec-17	43,200	-
07-Jan-17	09-Jan-17	3	31,350	09-Jan-17	31,350	-
14-Jan-17	16-Jan-17	3	29,700	16-Jan-17	29,700	-
21-Jan-17	23-Jan-17	3	29,250	23-Jan-17	29,250	-
28-Jan-17	30-Jan-17	3	30,421	30-Jan-17	30,421	-
04-Feb-17	06-Feb-17	3	28,200	06-Feb-17	28,200	-
11-Feb-17	13-Feb-17	3	30,400	13-Feb-17	30,400	-
18-Feb-17	20-Feb-17	3	27,000	20-Feb-17	27,000	-
25-Feb-17	27-Feb-17	3	30,000	27-Feb-17	30,000	-
04-Mar-17	06-Mar-17	3	30,600	06-Mar-17	30,600	-
11-Mar-17	14-Mar-17	3	39,600	14-Mar-17	39,600	-
18-Mar-17	20-Mar-17	3	31,050	20-Mar-17	31,050	-
25-Mar-17	27-Mar-17	3	31,500	27-Mar-17	31,500	-
01-Apr-17	03-Apr-17	3	31,950	03-Apr-17	31,950	-
08-Apr-17	10-Apr-17	3	34,350	10-Apr-17	34,350	-
13-Apr-17	17-Apr-17	5	49,200	17-Apr-17	49,200	-
22-Apr-17	24-Apr-17	3	31,650	24-Apr-17	31,650	-
25-Apr-17	26-Apr-17	2	21,000	26-Apr-17	21,000	-
29-Apr-17	02-May-17	4	42,150	02-May-17	42,150	-
06-May-17	08-May-17	3	34,200	08-May-17	34,200	-
13-May-17	15-May-17	3	34,350	15-May-17	34,350	-
20-May-17	22-May-17	3	31,500	22-May-17	31,500	-
03-Jun-17	05-Jun-17	3	31,350	05-Jun-17	31,350	-
10-Jun-17	13-Jun-17	4	41,550	13-Jun-17	41,550	-
17-Jun-17	19-Jun-17	3	29,400	19-Jun-17	29,400	-
24-Jun-17	27-Jun-17	4	43,200	not yet deposited	-	43,200
TOTAL			1,892,346		1,849,146	43,200

- 32.7 The LBP Branch where the account of the Airport is maintained is located at Punzalan Building Quirino St., Barangay 6, San Jose Occidental Mindoro and just 30 minutes ride from CAAP – San Jose Airport with a maximum fare of P30 only.
- 32.8 Since the only flight is in the morning, the AO has ample time to deposit the collections daily. Non-deposit of daily collections exposes the funds to risk of possible loss or misuse.
- 32.9 We recommended that the AO comply strictly with Section 69(1) of PD 1445 and Section 21 of the MNGAS, Volume I on the deposit intact of collections and on a daily basis, as appropriate.

Area Center IV

33. The proposed Improvement of Water System at Busuanga Airport with an estimated project cost of P5 million remained unimplemented as of year-end, thereby depriving the intended users of immediate benefits that could be derived therefrom.

- 33.1 One of the approved infrastructure projects of CAAP-AC IV for CY 2017 is the proposed Improvement of Water System at Busuanga Airport with an estimated project cost of P5,000,000. Under the approved Annual Procurement Plan (APP), the target date of awarding the said project is in June 2017. For a work duration of 120 calendar days, it is expected to be completed before the end of the year if it is awarded as scheduled.
- 33.2 Review of the accomplishment report of the AC for CY 2017 disclosed that the actual implementation of the said project has not yet started and even the awarding of the contract was not yet undertaken.
- 33.3 Records show that there were two failed biddings as no bids were received during the scheduled opening of bids for the project on July 3 and 25, 2017. Under Section 53 of the 2016 Revised Implementing Rules and Regulations (IRR) of RA 9184, the Procuring Entity is allowed to directly negotiate a contract with a technically, legally and financially capable contractor in case of two failed biddings. Moreover, Section V (D)(1)(b) of Annex H of the said IRR provides the specific procedures to be undertaken under a negotiated procurement.
- 33.4 However, five months after the second failure of competitive bidding, the proposed project remain unimplemented. Further verification disclosed that the contract was awarded only on March 21, 2018 or eight months after the BAC recommendation contained in BAC Resolution No. 17-073 dated July 25, 2017 to resort to negotiated procurement.
- 33.5 At present, the Busuanga Airport Management has to source its water from a nearby river. It uses a firetruck to supply the water requirement of the entire airport which entails additional labor cost, gasoline and other expenses in transporting water from source to the Airport.
- 33.6 The non-implementation of the water system project within the timelines set in the APP deprived the intended users of immediate benefits that could be derived from the water facility.
- 33.7 We recommended that Management ensure immediate completion of the project to improve the services of Busuanga Airport particularly the immediate use of the water system for the benefit of its employees, passengers, general public and other intended users.
- 33.8 In response to the AOM, Management assured the immediate completion of the Improvement of Water System project. According to them, the project has already started and that they will provide water supply in Busuanga Airport facilities from other source until the completion of said project.

Area Center VI

34. Of the 178 Repairs, Maintenance and Non-Infrastructure Projects in 2017 with a total budget of P90.856 million, 84 projects worth P40.283 million were not implemented during the year while delays were noted in the implementation of 66 projects, which consequently delayed the delivery of basic services to intended beneficiaries.

34.1 Review of the status of implementation of Programs, Activities and Projects (PAPs) as of December 31, 2017 showed unnecessary delays in the implementation of projects while 47.02 per cent of the programmed non-infrastructure projects were not implemented. Only 28 projects were implemented in accordance with the schedule in the APP.

34.2 Further, of the unimplemented PAPs, at least 10 projects totaling P5,659,000 were for realignment as follows:

PAPs	Airport	Project Cost	Reason for Realignment
Repair/Repainting of Runway Markers/Markings	CAAP-Kalibo	P 1,500,000	Due to on-going asphaltting of the runway by DOTr, the amount is realigned to repair of perimeter fence
Provision of K9 Shelter	EDD CSIS-Iloilo	180,000	Realigned since the end user is not CAAP
Provision of Windows & Doors at Airside Guardhouse	CAAP-Iloilo	50,000	Implemented in previous year
Repair and Maintenance of Baggage Handling System	CAAP-Iloilo	2,754,000	With on-going contract with service provider to end in 2018
Repair of Nissan Sentra 180 GT A/T 2004	CAAP-Iloilo	130,000	Budget is not enough for the repair
Removal & Replacement of Anti-Static Carpet Tiles	CAAP-Iloilo	130,000	Implemented in previous year
Improvement of VIP Room	CAAP-Roxas	280,000	Request re-alignment for Provision of Public CR at VPA
Repair & Maintenance of L300 Van	CAAP-Roxas	100,000	For Re-alignment for Provision of Transformer PAD POW Submitted
Repair/Maintenance of Motorcycle	CAAP-Roxas	35,000	For Re-alignment Provision of Transformer PAD POW Submitted
Paving of Access Road from RWY to Weather Instrument	CAAP-Roxas	500,000	Request re-alignment for Const. of Fence at Weather Instrument
Total – 10 projects		P 5,659,000	

34.3 Included in the APP/Corporate Operating Budget (COB) are prior year's carry over projects which remained unimplemented as of December 31, 2017 as follows:

Name of Project	Airport	Approved budget	Status of Implementation as of CY 2017	Reason for delayed Implementation
	CAAP-Kalibo	P 20,000	For Carry over for 2018	Not enough budget since the locks are of non-local brands
Provision of Covered Pathway	CAAP-Iloilo	500,000	Not Implemented	Change of location
Repair of Drop Arm Barriers	CAAP-Iloilo	100,000	Not Implemented	Change of design
Total		P 620,000		

34.4 In addition, procurement of property and equipment with capital outlay releases were not properly monitored by the Authority, hence accomplishment cannot be determined and affected the delivery of vital services of the agency.

34.5 Some factors that contributed to the delays in the implementation of the projects include delayed preparation of program of works, failure of bidding or delays in the bidding/procurement process, delayed approval of realignment to another project and lack of proper coordination with concerned units at CAAP HO assigned to implement the project such as the Aerodrome Development Management Service (ADMS).

34.6 Moreover, poor monitoring of the implementation of the projects adversely affected the timely execution of the projects, thus delaying the benefits that could be derived therefrom.

34.7 This is a reiteration of prior year's audit observation.

34.8 We recommended that Management:

- a. Revisit and enhance its planning and monitoring strategies and observe strict adherence to the timelines in the implementation of projects to ensure timely delivery of services;
- b. Follow-up implementation of projects by the ADMS and Air Navigation Services (ANS), CAAP HO; and
- c. Assign a personnel to closely monitor procurement of equipment and/semi-expendable supplies included in the APP.

34.9 Management promised to enhance their strategies in implementing and monitoring the implementation of projects to give better quality of service to clients and stakeholders.

35. Of the 16 infrastructure projects for implementation in 2017 with a total budget of P125.500 million, 15 projects worth P123.500 million were not implemented during the year while delay was noted in the implementation of the lone project implemented, which consequently delayed the delivery of basic services to intended beneficiaries.

35.1 Review of the status of implementation of PAPs as of December 31, 2017 showed that out of 16 infrastructure projects for implementation totaling P125,500,000, only one project with budgeted amount of P2,000,000 was started in 2017 while 15 projects remained unimplemented as at year end. Of the 16 projects, 8 projects with a total amount of P103,300,000 were supposed to be implemented by CAAP HO, particularly ADMS and ANS. The 16 infra projects and the status as of December 31, 2017 are as follows:

PAPs	Airport	Budget	Status
Construction of 3.8m x 60m Retaining Wall to Replace Damage Trapezoidal Grouted Riprapped Open Canal (TGROC) at Airside	Iloilo	P 4,300,000	Awarded but not yet started
Construction of CSIS Office	Iloilo	1,200,000	Not implemented
Rehabilitation of Fire Station Bldg. & Roofing Expansion	Kalibo	2,500,000	Carry-over for 2018
Expansion of Administration Building	Kalibo	4,000,000	Awarded but not yet started.
Provision of Cargo Building	Kalibo	2,000,000	Started 11/15/17
Construction of Powerhouse	Kalibo	6,600,000	For ADMS to implement; to be implemented in CY 2018
RE-blocking of Apron Pavement	Kalibo	10,000,000	For ADMS to implement; to be implemented in CY 2018
Strip grade Correction	Kalibo	51,500,000	For ADMS to implement; to be implemented in CY 2018
Improvement of PTB	Kalibo	8,000,000	For ADMS to implement; to be implemented in CY 2018
Construction of CSIS Office	Kalibo	1,200,000	Awarded
Construction of Covered Waiting Area at VPA	Bacolod	3,000,000	Not implemented
Improvement of Terminal Building	Bacolod	6,000,000	For ADMS to implement
Expansion of Administrative Building	Roxas	4,000,000	Not implemented
Construction of CSIS Office	Roxas	1,200,000	For ADMS to implement
Construction of Airport Drainage System	Roxas	5,000,000	For ADMS to implement
Construction of New 5-Storey Control Tower Building	Roxas	15,000,000	For ANS to implement
Total - 16 Projects		P 125,500,000	

35.2 Included in the CY 2017 APP/COB are prior year's infrastructure carry over projects which remained unimplemented as of December 31, 2017 as follows:

Name of Project	Airport	Approved budget	Status of Implementation as of CY 2017	Reason for delayed Implementation
Construction of Powerhouse	Kalibo	P 6,600,000	Not implemented	For ADMS to implement; to be implemented in CY 2018
Improvement of Terminal Building	Bacolod	6,000,000	Not implemented	For ADMS to implement; to be implemented in CY 2018
Construction of Airport Drainage System	Roxas	5,000,000	Not implemented	For ADMS to implement – already implemented by DOTr
Construction of New 5-Storey Control Tower Building	Roxas	15,000,000	Not implemented	For ANS to implement – Lay out plan is not yet finished
TOTAL		P 32,600,000		

35.3 Most carry over projects from CY 2016 are those that are to be implemented by the ADMS and ANS of CAAP HO. Poor monitoring and lack of proper coordination with concerned units at CAAP HO assigned to implement the project contributed to the delay in the execution of the projects.

35.4 As a result, the targeted number of projects to be implemented during the year was not achieved. Non-implementation and non-completion of the projects on time consequently delayed the benefits that could be derived from such projects.

35.5 This is a reiteration of prior year's audit observation.

35.6 We recommended that Management:

- a. Revisit and enhance its planning and monitoring strategies and observe strict adherence to the timelines in the implementation of projects to ensure timely delivery of services; and
- b. Make representations with CAAP HO and follow up implementation of priority projects by the ADMS and ANS, CAAP HO.

35.7 Management stated that they will coordinate with the CAAP HO for speedy implementation of projects.

Area Center IX

36. Management failed to issue billing statements for Operational Charges on time, thus resulting in understatement of the Income from Operations account and non-collection of related revenues in CY 2017. Moreover, the billing statements for CY 2015 and 2016 were only issued in CY 2017 resulting in uncollected revenues amounting to P52 million as of year-end hence, depriving the government of much needed funds.

36.1 Sound accounting practice dictates that assessment and billing of revenues should be done within a month after they are earned. Moreover, basic accounting principle provides for the recognition of revenues in the period they are earned.

36.2 Records show that CAAP AC IX has not been efficient in its assessment, billing and collecting functions especially on Operational Charges, which is the major source of its revenue, as disclosed by the delays in the assessment and billing of earned revenues.

36.3 For CY 2017, the AC Management was only able to issue the following billing statements for Operational Charges:

Airline	Operational Charges-Assessed (Jan. to June 2017)	Period of Billing	Bills Rendered	
			Date Billed	Amount
Cebu Pacific	P 16,446,072	Jan. to June 2017	Sept. 20, 2017	P16,446,072
PAL*	5,387,183	NONE	NONE	-0-
TOTAL	P 21,833,255			

* Assessed/computed however billing statements were not issued to PAL as of year-end.

36.4 Because of delays in billing, Management was not able to collect any revenues for Operational Charges in CY 2017. The billings for the period July to December 2017 have yet to be prepared and issued to airlines by AC Management. This understated the Income from Operations account since Business Income is recognized only when fees are billed or collected.

36.5 Records also show that billing statements for CYs 2015 and 2016 for Cebu Pacific were only issued in CY 2017 as follows:

Airline	Billing Period	Date Billed	Amount	Amount Collected as of Dec. 31, 2017	Uncollected as of Dec. 31, 2017
Cebu Pacific-ZIA	Jan. to Dec. 2015	Sept. 20, 2017	P19,328,165	P14,378,021	P 4,950,144
Pagadian	Jan. to Dec. 2015	No bills rendered			
Dipolog	Jan. to Dec. 2015	Aug. 7, 2017	2,523,220	2,523,220	-

Airline	Billing Period	Date Billed	Amount	Amount Collected as of Dec. 31, 2017	Uncollected as of Dec. 31, 2017
Sanga2	Jan. to Dec. 2015	Nov. 21, 2017	1,085,260	-	1,085,260
ZIA	Jan. to Dec. 2016	Sept. 20, 2017	24,061,290	-	24,061,290
Pagadian	Jan. to Dec. 2016	No bills rendered			
Dipolog	Jan. to Dec. 2016	Aug. 7, 2017	3,412,926	3,089,374	323,552
Sanga2	Jan. to Dec. 2016	Nov. 21, 2017	1,723,190	-	1,723,190
TOTAL			P52,134,051	P19,990,615	P32,143,436

- 36.6 There were no billing statements rendered to Philippine Airlines (PAL) Express for Operational Charges for CYs 2015 and 2016 however, assessment of amount to be paid by PAL was already computed by Management amounting to P8,904,025 and P10,798,767, respectively. Management committed to issue the billing statements in the 1st quarter of CY 2018.
- 36.7 In CYs 2015 and 2016, the Accounting Unit booked up income and receivables relative to Operational Charges amounting to P15,127,134 and P17,307,815, respectively, based on the Actual Bills Rendered Report submitted by the Billing Section. However, verification disclosed that there were no actual bills rendered to the airlines.
- 36.8 The booking up by the Accounting Unit of unbilled income/receivables is contrary to Section 7 of the Government Accounting Manual which states that the revenue recognition point of business income is when fees are billed for earned revenue from use of government property/facilities or if not practicable, when fees are collected.
- 36.9 Moreover, according to the Area Accountant the amount booked up in CYs 2015 and 2016 is not yet final because he is still awaiting the submission of the revised Actual Bills Rendered.
- 36.10 Furthermore, review of billings and payments made showed there are still uncollected income from CY 2014 for PAL Express and Cebu Pacific amounting to P2,551,630 and P4,637,776, respectively.
- 36.11 Verification revealed that the failure to bill on time was due to frequent changes of personnel assigned in the preparation and issuance of billing statements. In addition, personnel assigned were uncertain in the correct computation of Operational Charges but this was already addressed in 2017 when CAAP HO conducted briefings.
- 36.12 Management explained that the accumulated backlog in billings resulted because the employee in charge for billings was also the Acting Chief for Aerodrome Maintenance Section, a designation which also entails a lot of responsibility hence his attention was divided between the two functions. Moreover, when he assumed as in-charge of billings in Mid 2016 there were already accumulated delays in billings and data were not readily available.

- 36.13 Considering that CAAP is a revenue generating agency of the government, billing and collections of earned revenue is an important management activity and inefficiency in its implementation results in delayed and/or non-collection of income hence affecting the cash flow of the Authority.
- 36.14 We recommended that Management
- a. Make/Prepare the assessment and billing of revenues within a month after these are earned and ensure that income/revenues are recognized in the period these are earned;
 - b. Prioritize and expedite the collection of Operational Charges for CYs 2014 to 2016; and
 - c. In case of personnel movement, ensure that the replacement is trained for the assigned functions to avoid inefficiencies in the job.
- 36.15 Moreover, we recommended that Management institute appropriate sanctions against the personnel responsible for the delayed assessment, preparation and issuance of billing statements.
- 36.16 Management commented that billings for CYs 2015 and 2016 for Cebu Pacific-Pagadian and PAL Express-ZIA and Dipolog Airports were already issued in CY 2018.

Area Center XII

37. Terminal Fee tickets in AC XII totaling 418 pieces with a face value of P75 and P100 per ticket or a total of P39,300 are missing and unaccounted, thus posing a risk of fraudulent use or issuance thereof, contrary to Section 2 of Presidential Decree (PD) 1445.

- 37.1 In the cash examination conducted on September 19, 2017, covering the period from June 24, 2016 to September 19, 2017 on the cash and account of the AO, it was noted that out of the previously reported missing terminal fee tickets of 5,768 pieces with face/money value of P75 and P100 per ticket or a total of P574,300, 5,350 pieces with face/money value of P100 per ticket or amounting to P535,000 were recovered and presented in audit, thereby, leaving a balance of 418 pieces still missing or unaccounted or a total amount of P39,300, as shown below.

Serial Numbers	No. of Pieces	Denomination	Amount
775001-775100	100	75	P 7,500
4531301-4531350	50	100	5,000
4533101-4533150	50	100	5,000
4540451-4540500	50	100	5,000
4544351-4544400	50	100	5,000
4544401-4544450	50	100	5,000
4544451-4544454	4	100	400
4544487-4544500	14	100	1,400
4546951-4547000	50	100	5,000
Total	418		P 39,300

37.2 Verification disclosed that terminal tickets were not properly kept in a safe place which can only be accessed by the designated AO.

37.3 Thus, the Authority's lack of internal control measures in safeguarding its accountable forms with money value, resulted in the loss of the 418 pieces of terminal fee tickets with face/money value of P75 and P100 per ticket or a total of P39,300, posing a risk of fraudulent use or issuance thereof, contrary to Section 2 of PD 1445.

37.4 We reiterated our prior year's audit recommendations that Management:

- a. Install necessary control measures in safeguarding its accountable forms by providing a locked storage cabinet so that access will be limited only to authorized employees in compliance with Section 123 of PD 1445; and
- b. Exert extra effort in locating the 418 pieces of missing or unaccounted terminal fee tickets. If the said tickets could not be found, issue a Notice of Loss to prevent possible use of the same as provided under COA Circular No. 84-233 dated August 2, 1984. Thereafter, file a request for relief from accountability, subject to evaluation of this Commission.

38. The AC failed to charge the domestic commercial and general aviation airline operators with the landing and take-off fees and aircraft parking charges for the use of the airport facilities, services, utilities and properties of the Authority in violation of Department Order (DO) No. 98-1178 issued by then Department of Transportation and Communications (DOTC), thus, resulted in the understatement of Income account by P59,727 as of December 31, 2017.

38.1 DO No. 98-1178 provides for the revised schedule of fees and charges for alternate international and national airports as follows:

Part IV: Aircraft Parking Charges

Section 1. Fees for Parking at the Terminal Apron – Parking at the terminal apron for the first hour for jet aircraft, and for the first forty five (45) minutes for jet-prop aircraft shall be free of charge. An additional fee of ten per cent (10%) of the landing fees prescribed in Part III will be charged for every additional fifteen (15) minutes.

38.2 Comparison of the data between the aircraft operations log reported by the Air Traffic Services (ATS) and the billing statement prepared by the Billing Section of CAAP AC XII and Surigao Airport as to the landing and take-off details which were billed to domestic commercial and general aviation airline operators disclosed that there were unbilled landing and take-off fees and aircraft parking charges for the use of airport facilities, services, utilities and properties of the Authority in the amount of P21,527.25 and P38,200.38, respectively, or a total of P59,727.63, as summarized in the table below:

	Parking Fees	Aircraft Parking Fees	Total
2016	P19,070	P31,673	P50,742
2017	2,457	6,528	8,985
Total	P21,527	P38,201	P59,727

- 38.3 The failure of the AC to properly charge the domestic commercial and general aviation airline operators with the landing and take-off fees and aircraft parking charges for the use of airport facilities, services, utilities and properties violated DO No. 98-1178 and resulted in the understatement of income and the corresponding receivable accounts in the total amount of P59,727 as of December 31, 2017.
- 38.4 We recommended that Management direct the Billing Section to send billing statement to the concerned airline/aircraft operators for collection of income due the Authority in accordance with DO No. 98-1178.