

COMMENTS AND OBSERVATIONS

1. The correctness of the cash-in-bank account balance amounting to P3.666 billion as of December 31, 2009 could not be ascertained due to the following deficiencies:

- 1.1 Non-recording of credits/withdrawals amounting to \$5,127,672.20 or P237,698,372.50 and debits/remittances amounting to \$5,688,635.20 or P263,702,373.33 from Savings Account with the Land Bank of the Philippines (LBP).

Review of the bank reconciliation statement as of December 31, 2009, disclosed the following:

- a. Withdrawals/Debits amounting to \$5,127,672.20 or P237,698,372.50 were not taken up in the books due to absence of documents to support the transactions, broken down as follow:

Date of Transaction	Amount in Dollar	Ex. Rate	Amount in Peso
22-May-09	6,920.00	46.356	320,783.52
21-Jul-09	505	46.356	23,409.78
22-Jul-09	23,011.65	46.356	1,066,728.04
6-Aug-09	97,204.60	46.356	4,506,016.44
8-Oct-09	5,000,016.44	46.356	231,780,762.09
15-Dec-09	14.51	46.356	672.63
	5,127,672.20		237,698,372.50

its/remittances amounting to \$5,688,635.20 or P263,702,373.33 were not taken up in the books, detail of which could not be established because the amounts appearing in the Journal Entry Vouchers (JEVs) debiting the subject Savings Account could not be identified with the figures appearing in the attached Schedules. Also, the amounts do not tally with the deposits/credits appearing in the bankbook.

- 1.2 Non-recording of withdrawals/disbursements from LBP and UCPB Savings Accounts amounting to P6.018 million and P102,764.36, respectively.

Review of the bank reconciliation statement for LBP and UCPB Savings Accounts as of December 31, 2009, disclosed that withdrawals/debits amounting to P6,017,609.49 and P102,764.36, respectively, were not taken up in the books of accounts.

Verification also disclosed that most of the above stated withdrawals were done thru the issuance of an Authority to Debit the Account (ADA). To date, however, the ADA together with other documents supporting the withdrawals were not submitted to the Accounting Division, thus, said withdrawals could not be taken up in the books of accounts, resulting in the overstatement of cash-in-bank-local currency account balance by P6,120,373.85.

Thus, the legality of the transactions and the completeness of the documents pursuant to Section 4 of PD 1445 which states that “Claims against government funds shall be supported with complete documentation” could not be determined.

1.3 Monthly bank reconciliation statements for the bank accounts of the Head Office and Area Centers are not prepared regularly.

For control and monitoring purposes, monthly bank reconciliation statement is prepared to determine whether all debits and credits recorded in the books are the same credits and debits made by the bank. In that manner deficiencies noted maybe immediately corrected so as to reflect the correct cash-in-bank balance in any given month.

Verification disclosed that the following bank accounts are being maintained by the Authority for the Head Office:

Purpose	Account Code	Account Balance
Mother account	111	111,130,699.18
AC Operations	111-02	8,065,726.40
HO Operations	111-03	7,753,271.79
CAAP-Special Fund	111-04	1,442,297.14
CAAP Infra Account	111-05	13,374,372.76
ATM Payroll	112	4,258,408.14
MIAA Honorarium	112	1,927,968.67
Savings account	112a	94,794,073.81
Savings account	112b	263,667,969.94
Bidders bond	112c	1,864,738.10
US Dollar-Savings account	116	316,523,140.76

We noted that monthly bank reconciliation statements for the above cited accounts were not prepared on a regular basis. Monthly bank reconciliation statements of as of December 31, 2009 were submitted to the Auditor’s Office only last June 2010. Likewise, deficiencies and/or reconciling items noted were not immediately corrected/adjusted in the books of accounts. These are reconciling items which were not adjusted for years.

The same observation was noted in Area Centers IV, VI, VII and VIII.

We recommended and Management agreed to:

- a. Require the personnel concerned to coordinate with Landbank and request documents to support the unrecorded debits and credits to savings accounts.
- b. Require the Checking Unit to submit immediately to the Accounting Division documents supporting withdrawals/disbursements amounting to P6,017,609.49 and P102,764.36 from LPB and UCPB savings accounts, respectively, for

recording in the books of accounts. Then require the Accounting Division to submit the same to the Auditor's Office for post audit purposes.

- c. Require the Accounting Division in the Head Office and in the Area Centers to prepare monthly bank reconciliation statements within ten (10) days after the end of each month and coordinate with the bank personnel and/or other Division/Unit of the Authority to document reconciling items discovered/noted so that they maybe recorded immediately in the books of accounts.
- d. Require the Accounting personnel concerned to see to it that figures appearing in the Schedules attached to the Journal Entry Voucher for the recording of remittances of collections tally with the figures debited to the cash in bank accounts.
- e. Maintain only one savings account for local currency and one for foreign currency. Closing of the savings accounts being maintained at the UCPB is more reasonable for they are not used in the daily operations of the Authority and convert them into Time Deposit accounts.
- f. Maintain only one current account for the following purposes:
 - Infra Projects;
 - Trust Fund accounts; and
 - Special Fund account.

2. Cash in bank amounting to P1.696 billion that are not immediately needed for operations were not invested in government securities or placed under time deposit accounts. As a result the Authority lost the opportunity to earn interest income of about P25.572 million.

Verification disclosed that the Authority is maintaining the following bank savings accounts and their balances as of November 30, 2009 are as follows:

Currency	Account Code	Account Balance
Phil. Peso	112a	577,337,562.73
Phil. Peso	112b	479,992,409.71
US Dollar	116	80,120,042.78
US Dollar	116a	558,647,392.40

In the analysis of the transactions pertaining to the above-cited savings accounts, we noted that transactions therein were mainly deposits and fund transfers. Thus, it can be concluded that said funds are not immediately needed in the operations of the Authority and can be invested in government securities or placed under time deposit accounts. The failure of the Authority to invest said funds resulted in the loss of opportunity to earn interest income of about P25.572 million.

We recommended and Management agreed to implement the following measures:

- a. Set the minimum monthly fund requirement for the Authority's operations. Then, invest excess funds in a high yielding secured note, government securities and/or other negotiable securities.
 - b. Assign personnel who will be responsible in the proper placements/investment of the Authority's funds not immediately needed for operations.
3. **The accuracy and validity of accounts receivable balance amounting to P5.273 billion could not be ascertained due to a) the delay in the issuance of assessments and billings of revenues; b) subsidiary records do not reconcile with the amounts appearing in the Schedule/Aging of Accounts Receivable; c) inadequate provision of allowance for doubtful accounts; d) P3.255 billion remained uncollected and outstanding for more than three years thereby casting doubts on their collectibility; and collections through direct deposits with the Authority's depository bank of receivables amounting to P331.477 million were not credited to the account but instead were credited to deferred credits account pending the identification of the clients/depositors.**

The Authority generates revenue from exercising its regulatory and licensing functions. The major sources of revenues are from domestic and foreign airline companies for the use of airports, air space and air navigational facilities of the Authority. A monthly bill is sent to each airline company for operational charges for landing/take-off and over flight.

Sound accounting practice dictates that assessment and billing of revenues should be done within a month after they are earned. In that manner, revenues will be recognized in the period they are earned.

Verification disclosed that assessment and billing of operational charges from the airline companies were mostly three (3) months delayed, hence, the account is understated by undetermined amount.

Also, we noted that Management failed to strictly implement the provisions of DOTC-ATO Aeronautical Information Service – Department Order No. 94-763, specifically Part III, Section 3, which states that failure on the part of any person, firm or corporation to pay any fee, charge or rental due and demandable after written demand by the agency shall be sufficient ground to deny such person, firm or corporation of further use of the airport or any of its facilities, utilities and services and shall be basis for cancellation of their Contract. Further, a one percent (1%) per month interest or fraction thereof (compounded monthly) shall be imposed upon failure to settle the bill on the due date.

Demand letters were not sent to the concerned airline companies when their accountabilities become due and payable. Their contracts were not cancelled, thereby allowing them to continue using the Authority's airports and facilities contrary to the above cited DOTC-Department Order. As a result, P4.084 billion or 77.5% of the total receivables remained outstanding for one year and over, thus, casting doubt on their collectibility, as follows:

Age	Amount	% to Total
Less than 30 days	210,628,294.69	4.0%
31-90 days	477,840,410.43	9.0%
91-365 days	500,086,490.89	9.5%
Over 1 year	586,604,461.71	11.0%
Over 2 years	242,503,189.50	4.5%
3 years and above	3,255,328,335.13	62.0%
	5,272,991,182.35	100%

We also noted that the General Ledger account balance totaling P3,725,571,369 was understated by P723,902,370 when compared with the Subsidiary Ledger account balances and/or Aging Schedule of accounts receivable, as follows:

Office	Per GL	Per SL	Over (Under)
Head Office	3,571,322,584	4,278,204,041	(706,881,457)
Area Center I	40,837,510	36,039,794	4,797,716
Area Center VI	21,534,715	42,550,465	(21,015,750)
Area Center VII	91,876,560	92,679,439	(802,879)
	3,725,571,369	4,449,473,739	(723,902,370)

The understatement might be due to errors in recording the Area Centers' collections. In the Audit Report of Area Centers, Management alleged that various aircraft companies made direct payments to CAAP Central Office, but the same could not be recorded in their books because they were not informed about the details.

While accounts receivable of Area Center V amounting to P129,905,058 were not supported with Subsidiary Ledger and/or Schedule.

Further, we noted that accounts receivable of the following Area Centers amounting to P792,989,766 were not provided with allowance for doubtful accounts, thus, overstating the net realizable value of the accounts contrary to PAS 39. Details follow:

Office	Amount
Area Center V	466,612,618
Area Center VI	65,413,725
Area Center VII	91,876,560
Area Center IX	169,086,863
	792,989,766

Furthermore, of the total receivables, P3,160,252,071.94 or 74% are from the Philippine Airlines (PAL), of which P2,829,066,180 or 90% are three years and over.

We were informed that previously, PAL was paying fees and charges for its domestic and international flights arising from its use of airports and air navigational facilities. However, in 1995, PAL stopped paying the fees and charges, claiming exemption and invoking Section 13 of Presidential Decree (PD) No. 1590 (PALS

Franchise Law), as the flag carrier of the Philippine government. They claimed exemption from paying fees and charges of any kind imposed by the municipality, city, provincial or national government agency. Notwithstanding the claim of PAL, then ATO and now CAAP continued billing PAL in full for all operational charges.

On March 11, 2009, PAL Management submitted a Term Sheet to CAAP Management stating the following terms of settlement:

- a. PAL shall no longer invoke its exemption in respect of the contested amount and shall pay CAAP the contested navigation charges and related aeronautical fees;
- b. On condition that CAAP will acknowledge its accountabilities with PAL for aircraft maintenance and other services billed from 1980 to 1998 amounting to P185,345,674.58 and for use of PAL's property in Bacolod and Ozamiz amounting to P2,279,510.46 to be offset with PAL accountabilities;
- c. The net outstanding balance as of December 2007 and prior amounting to P2.829 million will be paid in ten years or 120 months. The amount was arrived at by deducting the claim of PAL from then ATO as stated in item b;
- d. Amortization will be P23.6 million a month or P282.9 million a year;
- e. Account balance for CY 2008 after deducting the rental fee for the use PAL's property in Bacolod and Ozamiz will be as follows:

Period covered	Total Receivables	Less: Receivable from CAAP	Net Receivable Balance
Jan-Jun	161,439,579.82	1,364,390.46	160,075,189.36
Jul-Dec.	146,113,726.56	915,120.00	145,198,606.56
	307,553,306.38	2,279,510.46	305,273,795.92

- f. Initial payment of P50 million will be due upon signing of the Term Sheet which will be deducted from the outstanding balance for the period January to June 2008;
- g. Upon signing of the Settlement Agreement, PAL will pay the amount of P133.7 million, to be applied as follows: P23.6 million for the first monthly amortization and P110.1 million for payables for the period Jan-June 2008 (P160.1 million – P50 million); and
- h. Thirty days after signing of the Settlement Agreement, PAL will pay the outstanding balance for July-December 2008 in the amount of P145.2 million.

To date however, Management failed to act on the said proposal, hence, the accounts of PAL remained unsettled and still accumulating.

Furthermore, we noted that collections through direct deposits with the Authority's depository bank of accounts receivables amounting to P331,476,737 were not credited to this account but to deferred credits account. As a result, the accounts receivable balance was overstated by the same amount.

Management informed that the list of clients who made the direct payments with the Authority's depository bank was not immediately available at the time of the recording of the said collections. Hence, the same were temporarily credited to deferred credit account. Once the lists of clients/depositors were submitted by the depository bank, a debit to deferred credit and a credit to accounts receivable

account is made. Then, the corresponding subsidiary ledgers of clients are updated.

We recommended and Management agreed to implement the following measures:

- a. Instruct the Billing Section to prepare and send bills to concerned airline companies within a month after revenues are earned.
- b. Instruct the Revenue Section to inform the Area Center concerned whenever payments pertaining to their accounts were made and reconcile Subsidiary Ledger account balance with the General Ledger account balance.
- c. Study the proposals submitted by Philippine Airlines and negotiate for its approval, if acceptable.
- d. Provide adequate allowance for doubtful accounts pursuant to PAS 36.
- e. Implement strictly the provisions embodied in Part III of DOTC-ATO-AIS DO No. 94-763 to compel delinquent clients to pay their accounts such as sending demand letters, cancelling their contracts and imposing the 1% penalty charge per month for failure to settle their account on due date.
- f. Instruct the personnel concerned to secure from the bank the list of clients who made direct payments at the end of each month.

4. Advances to Officers and Employees amounting to P50.061 million remained unliquidated even if the purpose for which they were granted have already been served contrary to pertinent provisions of COA Circular No. 97-002, dated February 10, 1997 resulting in the overstatement of the current asset account balance and understatement of the expense account balance.

Section 4.1 of the above cited COA Circular provides that:

- a) No cash advance shall be given unless for a legally specific purpose.
- b) 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.
- c) A cash advance shall be reported on as soon as the purpose for which it was given has been served.

While Section 5.1.c thereof provides that Accountable Officer shall liquidate his cash 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.

Verification disclosed that the above-cited provisions were not strictly implemented by Management. Hence, cash advances for travelling expenses and other maintenance and operating expenses amounting to P50,061,248 remained unliquidated even if the purpose for which they were granted have already been served. Details follow:

Office	Amount
Head Office	46,650,009
Area Center II	513,949
Area Center III	137,487

Area Center IV	59,809
Area Center V	842,084
Area Center VI	298,857
Area Center VII	314,767
Area Center VIII	375,847
Area Center IX	780,640
Area Center X	87,799
Total	50,061,248

We noted that cash advances have been repeatedly granted even if previous cash advances are not yet liquidated. We further noted that some cash advances pertaining to the Head Office have been outstanding since 1999. The failure to liquidate cash advances within the prescribed period resulted in the overstatement of current asset account balance and understatement of the travelling expense account balance.

We recommended and Management agreed to the following measures:

- a. Issue a memorandum requiring all Accountable Officers to liquidate their long outstanding cash advances. If necessary, withhold any money due them until their cash advances are liquidated.
- b. Strictly adhere to the pertinent provisions of COA Circular 97-002 dated February 10, 1997 in the granting and utilization of cash advances.

5. The existence and accuracy of the property and equipment account amounting to P1.974 billion could not be ascertained due to (a) the failure to conduct physical inventory (b) under provision of depreciation; and (c) incomplete records maintained by the Accounting Division and Supply Section in support of the General Ledger balances of Property and Equipment.

Physical Inventory taking is an indispensable procedure for checking the integrity of property custodianship which will provide a basis for preparing the accounting reports. It is one of the basic controls in ascertaining reliability as to the existence and accuracy of the properties and inventory accounts balances as shown in the financial statements. Reconciliation between accounting records and actual physical count should be done once a year.

International Accounting Standards No. 16 provides that Property, Plant and Equipment measured under the cost model are carried at cost, less accumulated depreciation and impairment loss. It also provides that depreciation represents a systematic allocation of the depreciable amount of each component of the asset to profit or loss from the point at which it is available for use until the end of its useful life. An asset's depreciable amount is its cost, or other amount substituted for cost, less its residual value.

Similarly, COA Circular No. 2003-007 dated December 31, 2003, as amended by COA Circular No. 2004-05 dated August 09, 2005, prescribes policies and guidelines in the computation of depreciation of government property, plant and equipment for allocating the same over their useful life and fair presentation of the

financial statements. These circulars require the computation of depreciation using the following criteria:

1. Straight-line method shall be adopted;
2. Use of uniform estimated useful life, as presented in Annex A of COA Circular No. 2003-007;
3. Residual value equivalent to 10%;
4. Any adjustments arising from the revision of asset's useful life to conform to Annex A of COA Circular No. 2003-007, shall be charged to the current and subsequent years' depreciation expense of the particular asset.

For proper control and monitoring purposes, the Accounting Unit shall maintain perpetual inventory records, such as PPE Ledger Cards for each category of plant, property and equipment which shall contain the details of the General Ledger accounts. To provide check and balance, the Supply Section shall maintain Property Cards (PC) for property and equipment which shall be reconciled with the Accounting records regularly.

In view of the abolition of the Air Transportation Office (ATO) and the creation of the Civil Aviation Authority of the Philippines (CAAP) pursuant to Republic Act No. 9497 dated March 4, 2008, DOTC-Department Order No. 2008-09 dated March 26, 2008 was issued creating an Inventory Team to conduct inventory of all ATO property and equipment located at the Head Office and all airports in the Area Centers. The said Department Order requires the Inventory Team to conduct a comprehensive inventory/verification of all property including real estate, buildings, aircrafts, motor vehicles and office equipment.

Verification disclosed that as of August 14, 2008, the team finished the actual inventory of all major airports included in the aforementioned area centers except for few airports manned by less than fifteen (15) personnel, operationally inactive, and was not included in their travel itinerary. The team made a report pertaining to assets of ATO Area Centers I, II, III, IV, VIII and IX. There was no Inventory Report received for the Head Office, NCR, Area Centers V, VI, VII and X. As a result, the ATO Property and Equipment account balances as of June 30, 2008 forwarded to CAAP books of accounts are of doubtful validity and existence.

As for CY 2009, still no physical inventory of property and equipment was conducted, thus, the accuracy and actual existence of property and equipment account balance amounting to P1,973,613,438 could not be ascertained.

Also, the accumulated depreciation account balance of P2,155,821,153 is understated of undetermined amount because not all property and equipment were depreciated as required under PAS No. 16 and COA Circular No. 2004-05 dated August 09, 2005.

Further, PPE Ledger Cards maintained by the accounting Division and Property Cards maintained by the Supply Section are incomplete; hence, there is no way to establish the correctness of the General Ledger account balance of Property and Equipment.

We recommended and Management agreed to implement the following measures:

- a. Require the Members of the Inventory team created under DOTC-Department Order No. 2008-09 dated March 26, 2008 to complete their inventory report. If necessary file administrative cases against them for failure to perform their assigned tasks and/or initiate the withholding of their salary until the required report is submitted.
 - b. Create an Inventory Committee to conduct physical inventory of all the property and equipment of the Authority at least once a year to ascertain their physical existence. Then, reconcile the balances in the Report of the Physical Count of Property and Equipment with the balances per books of accounts to determine the correctness of the recorded balances.
 - c. Require the Accounting Division to provide depreciation to all depreciable property and equipment of the Authority in compliance with IAS No. 16 and COA Circular No. 24-004-05 to reflect the correct net book value of the property and equipment accounts and correct net income for the year.
 - d. Require the Accounting Section and the Supply Section to exert extra efforts in gathering relevant documents in order to establish the correctness of property and equipment accounts recorded in the books.
 - e. Require the Accounting Section and the Supply Section to maintain Property Ledger Cards and Property Cards, respectively, for property and equipment which shall be reconciled regularly.
- 6. Property and equipment worth P4.506 billion were reclassified as other assets due to the failure of Management to determine their validity and actual existence, even if the circumstances why these assets could not be identified and/or located are not investigated.**

As of December 31, 2008, the Inventory Team created by Management failed to complete their inventory taking and to submit the corresponding inventory report to the Accounting Division. Hence, the following property and equipment were reclassified as Other Assets because their validity and actual existence could not be determined:

Property and Equipment	Amount
Land Improvements	1,140,535,859
Land	1,081,908,431
Buildings	920,451,399
Construction in Progress-Agency Assets	303,501,227
Office Equipment	266,406,325

Communication Equipment	136,106,503
Airport Equipment	99,385,690
Construction in Progress-Other Public Infra	98,711,725
IT Equipment & Software	19,662,589
Furniture & Fixtures	10,678,979
Runways/Taxiways	4,027,000
Other assets-Area Centers	424,486,383
	4,505,862,110

This observation was included in our 2008 Annual Audit Report, however to date no adjustment have been made to the account.

It is very unusual that the actual existence of the land, land improvements and buildings accounts could not be determined because they can be identified easily. Verification disclosed that in CY 2010, Management hired the services of an appraiser to identify and determine the appraised value of the land, land improvements, buildings and other structures located in the CAAP Head Office and different Area Centers/Satellite Airports of the Authority. We were informed that there are already partial reports submitted but no adjustments have been made in the books of accounts.

Verification also disclosed that most of these property and equipment belong to the Area Centers specifically the land, buildings and runways/taxiways but are recorded in the Head Office books because they were paid thereat.

We recommended and Management agreed to implement the following measures:

- a. Make the necessary adjustment for land, land improvements, buildings and other accounts already identified and appraised by the appraiser hired to reflect their correct account classification and value;
- b. Create an Inventory Team to conduct a complete physical inventory of all property and equipment and prepare the corresponding inventory report indicating therein the whereabouts and condition of all the recorded property and equipment;
- c. Require the Accounting Division to thoroughly analyze all property and equipment transferred to other asset account in the Head Office books to determine what Area Center they belong and to determine whether the amount appearing under other asset account are the same equipment and make the necessary adjustment where appropriate;
- d. Revert to the proper account, property and equipment found to be valid and existing;
- e. For properties found to be unserviceable, require the Inventory Team to prepare the corresponding Inventory and Inspection Report of Unserviceable Property and submit the same to the Accounting Division as basis in retaining these unserviceable properties under the Other Asset account pending their actual disposal; and
- f. For those which could not be accounted for, investigate the causes for the loss and if warranted, file appropriate charges against those who will be found liable for any loss therefore.

7. Construction in Progress-Other Public Infrastructure account balance of P307.650 million is doubtful due to non-recognition of infrastructure projects worth P94.43 million completed during the year and erroneous treatment of expenditure.

The Account Construction in Progress-Other Public Infrastructure (CIP-OPI) is used to record the cost or accumulated value of all other public infrastructure not classified under any specific type of public infrastructure accounts which are still under construction. Upon completion, a credit entry to this account shall be made for its transfer to appropriate property, plant and equipment account.

A check with the general ledger showed that this account had a balance of P307,650,423.15 for the year ending 2009. Except for an adjustment made in December 2009, the general ledger showed that no significant transaction was recorded in the credit side of the ledger indicating that no project was completed in the year 2009.

However, examination of disbursement vouchers based on random sampling, disclosed that there were projects completed in September and November 2009 with a total cost of P94,433,102.11, details follow:

Project		Amount	
1.	Establishment of Aeronautical Information System	P	50,000,000
2.	Construction of New Aviation Safety Building		29,656,382
3.	Establishment of Flight Service Station Building at Antique		8,068,524
4.	Construction of 3-storey FSS Building at Pagadian		6,708,196
	Total Cost	P	94,433,102

There could be other completed projects for the year 2009 as the examination of disbursement vouchers was based on random sampling.

The non-recognition of the completed projects affected the book value of Property, Plant and Equipment (PPE). The book value of affected PPE is overstated as depreciation was not applied.

Credits made to the account to record completed infrastructure pertaining to Airfield Lighting System at Dumaguete Airport and three-storey FSS Building & Rehab of Powerhouse at Bagabag Airport in the amount of P75,687,612.94 and P8,116,200.00, respectively, should not have been made because the costs of the projects while under construction were not debited to the account. As a result the account was understated by P83,803,812.94.

A scan of the subsidiary ledger of CIP-OPI disclosed that adjustment was made to set-up obligations for the year 2009 under Journal Entry Voucher (JEV) No. F-09-12-645 dated 29 December 2009. A closer look of the JEV revealed that the cost incurred in the hiring of a private contractor on the appraisal of CAAP properties in the amount of P21,832,616.64 was treated under this account which should have treated under expense account because the services rendered were not part of any infrastructure under construction. In addition, the expenditure pertains to CY 2010 because the appraisal contract was entered into only in CY 2010. The recognition

of the subject expenditure under Construction in Progress account in CY 2009 resulted in the overstatement of PPE and liability accounts

We recommended and Management agreed to require the Accounting Division a) to make the necessary adjusting entry to correct the entries made as regards the expenditure incurred in hiring appraisal company; b) to correct/adjust the entries made as regards the completed infrastructure in Dumaguete and Bagabag Airports; and c) to determine all completed infrastructure and record the same in their proper PPE account.

8. Current assets worth P451.16 million classified as other assets are not documented, thus their validity and actual existence could not be established.

In CY 2008, Management reclassified to other assets account, the following asset account on the ground that these are dormant, undocumented, non-moving, unserviceable assets pending disposition, and unidentified:

Account	Amount
Cash in Bank-Local Currency, Current Account	35,515,494
Due from National Treasury	54,623,403
Due from National Government Agencies	109,619,420
Due from Regional Offices	159,306,751
Advances to Officers and Employees	37,607,281
Deposits on Letters of Credit	9,741,461
Other Current Assets	44,747,098
	451,160,908

This

observation was included in our 2008 Annual Audit Report, however, to date no adjustments have been made on the subject accounts.

It must be noted that among the accounts re-classified were cash-in-bank and deposits on letters of credits amounting to P35,515,494 and P9,941,461, respectively, and if the same could not be identified and/or located, it is tantamount to loss of assets for which every accountable officer shall be liable for all losses attributable to negligence in the keeping of the funds pursuant to Section 22 of PD 1445.

The Terminal Audit Report of ATO as of June 30, 2008 mentioned that in the Notes to Financial Statements for CY 2007, management disclosed that Other Current Assets amounting to P44,747,098 pertains to various deposits made with then Bureau of Public Highways for the improvement of airport facilities from 1970 to 1980, Caltex Philippines for the purchase of gasoline and diesel in 1974, to different electric cooperatives for the installation of power connection of the different airport/offices in 1973, 1976, 1979 and 1981, to PLDT for the installation of telephone lines in 1989, and to different Courts of First Instance for the deposits on the lot embraced by the construction of airports with civil cases. However, documents to support the amount are no longer available.

We recommended and Management agreed to perform the following procedures:

- a. Secure from the concerned depository bank the necessary records/statements pertaining to the cash-in bank accounts amounting to P35.52 million to determine the correctness and actual existence of the balance.
 - b. Analyze entries made under the Due from the National Treasury, Due from National Government Agencies and Due from Regional Offices Accounts to determine the correctness and actual existence of the accounts.
 - c. Identify the officers and employees whom the subject advances were granted and demand for their liquidations and/or payment.
 - d. Secure from the depository banks documents necessary to determine the existence and correctness of Deposits on Letters of Credits account.
 - e. Other Current Asset Accounts totaling P44,747,097, should be reclassified as Guaranty deposits to reflect the correct nature of the transactions made. Send letters to the identified agencies, such as DPWH, Caltex Philippines, the electric cooperatives, PLDT and the Courts where cases have been filed to inquire any account they have for then ATO.
 - f. Investigate the causes why these current asset accounts transferred to other assets could not be identified and/or located. If warranted, file appropriate charges against those who will be found liable for any loss thereof.
 - g. Consider the proper disposition of dormant/unidentified accounts from the ATO books in consonance with the provision of COA Circular No. 97-001 dated February 17, 1997.
- 9. The validity of the recorded Deposits on Letters of Credits amounting to P18.332 million is doubtful considering the long period they have been outstanding in the books. Likewise, details of the account could not be determined due to lack of subsidiary record.**

Commercial Letter of Credit (LC) is a letter written by the importer's bank to the exporter to guarantee their ability to pay. It is a contractual agreement between two banks and two parties conducting commerce. The buyer of good is called the applicant in the letter of credit. The seller is called the beneficiary. A bank that acts in behalf of the buyer is called an issuing bank. Local Letters of Credit are just stand by guarantee to ensure the payment of procured goods. Payment is made by the bank to the seller upon presentation of bills of lading or other freight documents evidencing delivery of merchandise being procured.

For control purposes, subsidiary ledgers should be maintained specifically when a general ledger account is composed of several individual accounts and/or transactions.

Verification disclosed that in CY 2008 deposits on letters of credits amounting to P9,741,461 was reclassified as other assets pending verification of their actual existence. To date however, no action was taken to establish their actual existence. Hence, it is doubtful whether these LCs still exist.

On the other hand, deposits on letter of credits account balance of P18,332,140 remained dormant during the year, hence, also casting doubt on their actual existence because in most cases procurement thru LCs are done within one year.

We recommended and Management agreed to implement the following measures:

- a. Require the Accounting Section to exert extra efforts to determine the banks wherein subject deposits were made. In that manner, confirmation can be made to determine whether these deposits still exist.
- b. For proper control and monitoring of the General Ledger account, require the maintenance of Subsidiary Ledgers for accounts consisting of several individual accounts and/or transactions.
- c. Consider the proper disposition of dormant/unidentified accounts from the ATO books in consonance with the provision of COA Circular No. 97-001 dated February 17, 1997.

10. Deferred Charges account balance of P .303 million do not reconcile with the account balance of P140.690 million or \$3.037 million per the Consolidated Statement of Estimated Fund Balance submitted by International Civil Aviation Organization (ICAO).

On November 22, 1995, the Assistant Secretary of the ATO requested from the DOTC Secretary for authority to negotiate and enter into a trust fund agreement with the International Civil Aviation Organization (ICAO) to provide Technical Consultants to ATO for the development and improvement of the safety and surveillance programs. This is in line with the requirements imposed by the Federal Aviation Administration (FAA) upon the ATO, and being classified Category II (Conditional) status with the eminent downgrading to Category III (Unacceptable) of the ATO if deficiencies noted by the FAA are not resolved within 120 days from September 13, 1995. On December 4, 1995 said request was duly granted and the Trust Fund Agreement known as TF/PH1195/901 was entered into by the Director General of the Civil Aviation in behalf of the Philippine Government and ICAO for the latter to provide the technical co-operation requested by ATO/Government. For the said endeavor, ICAO shall notify the Government with the estimated amount required to finance the technical co-operation and/or implement the agreed programme contained in the Annexes of the agreement. ICAO shall calculate the funds required on the basis of estimated actual costs for experts and fellowships and estimated cost for paid by the equipment which should be Government with add-on charges for support costs at the percentage rate established by the ICAO.

The initial cost of the Project per Annex 1 of the Trust Agreement amounted to \$163,300 only, to date however, the Project cost is already \$12,261,928. It has been observed that the Annex of the agreement had been amended for seven (7) times since its inception even without evaluating whether the conditions stated in the Trust Agreement were actually accomplished considering that ICAO is not submitting a yearly accomplishment report. Likewise, reports of disbursements together with the supporting details were not regularly submitted as required under item 7 of the Trust Agreement.

The Consolidated Statement of Estimated Fund Balance as of December 31, 2009 was submitted by ICAO only on March 10, 2009, stating the following information:

Year	Funds Received	Interest Earned	Disbursements made	Transfer to Other Funds	(Gain)/Loss on Forex	Fund Balance
1996	1,655,189	42,773	795,022	-	-	902,940
1997	917,316	56,387	1,068,474	-	-	808,169
1998	425,918	37,999	705,831	-	-	566,255
1999	-	23,263	357,269	10,000	-	222,249
2000	261,260	20,877	290,018	25,000	-	189,368
2001	339,999	17,361	387,077	520	-	159,131
2002	353,742	4,180	168,407	-	-	348,646
2003	433,270	4,672	464,188	70,500	406	251,494
2004	-	2,613	105,624	70,000	45	78,438
2005	700,460	7,115	(1,032)	95,000	13	692,032
2006	1,007,680	54,309	239,840	25,000	-	1,489,181
2007	398,400	76,139	614,115	-	444	1,349,161
2008	2,929,138	40,823	1,504,812	33,600	(1,383)	2,782,093
2009	2,138,183	13,000	1,861,962	30,000	4,355	3,036,959
Total	11,560,555	401,511	8,561,607	359,620	3,880	3,036,959

Verification disclosed that Deferred Charges account balance of P302,773 pertains to the funds transferred to ICAO to finance the activities to be performed under the above-cited Trust Agreement. In comparing the amounts reflected in the above consolidated statement against the Authority's records, we noted that the following transactions were not recognized in the books of the Authority:

Nature	Amount in Dollars	Amount in Peso
a. Interest earned	401,511	18,600,398.59
b. Fund transfer to other funds	359,620	16,659,756.12
c. Net loss on foreign exchange	3,880	179,744.88
d. Funds transferred to ICAO for CY 2009	32,138,183	99,053,465.66
e. Disbursements for CY 2009	1,861,607	86,257,251.61

Further, we noted that there were motor vehicles and other non-expendable equipment procured out of the Project fund, but our review of the Trust Fund Agreement, disclosed that there is no provision as regards the ownership of the said non-expendable equipment after the termination of the contract.

We recommended and Management agreed to implement the following measures:

- a. Require the Accounting Division to reconcile its records with the ICAO records and make the necessary adjustments where appropriate;
- b. Require ICAO to submit quarterly report of accomplishments as compared with the target objectives/outputs and quarterly report of disbursements together with the supporting details. Also, require the submission of an audited year end financial report.

c. If ever a renewal of the Project will be made, issue a new Trust Agreement and include a clear provision as regards the following:

- the ownership of the non-expendable equipment procured out of the Trust Fund upon the completion/termination of the Project; and
- Reports to be submitted, the supporting documents/schedules to be attached and when these reports shall be submitted.

11. The validity and existence of the Due from Central Office, Due from Regional Office, Due to Central Office and Due to Regional Office account balances of P10.281 million, P200.934 million, (P71.834 million) and P84.148 million, respectively are doubtful considering that these accounts are reciprocal accounts that should be eliminated or should have a zero balance at the end of the accounting period and upon consolidation of the financial statements of the Head Office and the Area Centers.

Reciprocal accounts are used to record transactions between the Head Office and the Area Centers which are to be reconciled and closed upon combination of the Head and Area Centers books at the end of year. Due from/to Area Centers and Due from/to Central Office accounts should be recorded as reciprocal accounts such that when a debit to the Due from Regional Office account in the Head Office books, a corresponding credit to the Due to Head Office account in the Area Centers books should be made and vice-versa. Upon consolidation of the Head Office and Area Centers trial balances, the debits to Due from Regional Office account should be equal to the credits to Due to Central Office account and debits to Due to Regional Office should equal to the credits to Due from Central Office account. These accounts will have a zero balance upon closing through a paper/off book adjusting entry and upon consolidation of the trial balances of the Head Office and Area Centers.

Our audit disclosed that funds transferred to Area Centers were recorded in the Head Office books of accounts as expense under Subsidy to Area Centers account and as income under Subsidy from Central Office accounts in the Area Centers books. Said entries were not appropriate because there were no obligations paid on the part of the Head Office and there were no income earned on the part of the Area Centers. Subsidy to Area Centers should be recorded as Due from Regional Office in the Head Office books and Due to Central Office in the Area Centers books. As a result, the expense accounts of the Central Office and the income accounts of the Area Centers were overstated.

We noted that Due from Regional Office account is used as an ordinary receivable account and not closed at the end of the year, thus, the account has a beginning balance of P193,433,439.41. During the year, debits to the account were made for fund transfers to Area Centers and unremitted collections of Area Centers. We could not determine whether a corresponding credit to Due to Central Office account was made in the Area Centers for the unremitted collections but for the fund transfers received, it is certain that no corresponding credit was made because they were taken up as subsidy income in the Area Centers books. We also noted that Area Center X account balance was abnormal or a negative debit

P4,082,040.51, thus, rendering the combined account balance of P200,933,855 doubtful.

While Due to Regional Office account was used as regular liability account in the sense that a credit was made to record obligations pertaining to Area Centers and a debit thereto upon payment of said obligations. The account has a beginning balance of P1,011,434.05 and during the year total debits and credits to the account amounted to P824,871,391.42 and P908,007,626.37, respectively. These transactions were not recorded in the Area Centers books, hence, the validity of the account balance of P84,147,669 could not be ascertained.

Furthermore, Due to Central Office account has an abnormal or negative credit balance of P71,834,363 because the account of Area Center X has a negative credit balance of P109,863,343 which implied that cash remittances to Head Office were more than the amount collected and/or errors were committed in the recording of collections and deposits.

We recommended and Management agreed to implement the following measures:

- a. Issue accounting guidelines on the recording of fund transfers from the Central Office to the Area Centers and the recording of collection and remittances of Area Centers.
 - b. Require the Accounting Division to furnish the concerned Area Center Accounting Unit a copy of the Journal Entry Voucher (JEV) issued whenever a debit or a credit to the Due from/to Regional Office accounts was made.
 - c. Require the concerned Area Center Accounting Unit to furnish the Central Office Accounting Division a copy of the Journal Entry Voucher (JEV) issued whenever a debit or a credit to Due from/to Head Office account was made.
 - d. Prior to the closing of books of accounts, reciprocal accounts should be reconciled so that upon combination of the financial statements of the Head Office and Area Centers, these accounts will have a zero balance.
- 12. The validity and actual existence of Due to Central Office-DOTC account balance of P51.400 million in the Head Office books could not be ascertained because the account has been outstanding for more than three (3) years and documents to support the account could not be presented.**

The account is used to record cash received from the Department of Transportation and Communication (DOTC) subject to liquidation. The account is supposed to be a reciprocal account and should be reconciled and closed at the end of the year upon combination of the DOTC and its Bureaus financial statements. The account has a beginning balance of P51,399,605.81 and has been dormant during the year, thus, casting doubt as to the validity and correctness of the account.

Verification from the Finance Department disclosed that the account pertains to funds received from the Department of Transportation and Communications (DOTC) subject to liquidation. We were informed that the account could not be liquidated because they could not determine the details and purposes of the fund transfers.

We recommended and Management agreed to require all persons concerned to coordinate with the Finance Department of the Department of Transportation and Communications to determine the purposes of the fund transferred by them to then

ATO. In that manner proper liquidation maybe made and closed the account. Also, we recommended for the reclassification of the account to Due to National Government Agency considering that the Authority is no longer a Bureau under the DOTC and its financial statements are no longer consolidated with the said Department.

13. The accuracy and correctness of Advances to Contractors account balance of P4.605 million is doubtful due to the long period they have been outstanding in the books and some accounts have abnormal or credit balances

Advances to Contractor account is used to record payment authorized by law to be made in advance to contractors upon submission of the required bonds or standby letter of credit.

Section 4 of Annex "E" of the Revised IRR of PD 9184 authorized the granting of advance payment to contractors not to exceed fifteen percent (15%) of the total contract to be repaid by deducting fifteen percent (15%) from the periodic progress payments.

Review and analysis of the Advances to Contractors account balance as of December 31, 2009 disclosed that the account balance of P4,605,238.98 is not reliable due to the following:

- a. The actual amount advanced to contractors which have an on-going projects with the Authority as of December 31, 2009 was P9,629,021.67, details follow:

Name of Contractor	Amount
INTECH Property Appraisal, Inc.	3,894,105.60
Cavacon Coporation	2,160,392.67
Compact Corporation	1,105,200.00
Evercon Builders and Equipment	844,417.01
E.M. Cuerpo, Inc.	554,680.12
E.I. Templonuevo and Associates, Inc.	421,309.91
Bridgetone Construction Company	337,280.00
A.S.S. Construction	311,636.36
	9,629,021.67

- b. The following contractors account balances amounting to P5,526,033.86 have abnormal or credit balances indicating over recoupment and/or errors committed in recording of the transactions:

Name of Contractor	Amount
The Online Advance System	3,267,961.81
Clifford construction Corp.	705,231.84
New Ostrich Enterprises and Const.	531,680.08
Jaya Builders	450,621.89
P.J. Cruz construction and Trading	257,624.01
Kaalisabay Construction	230,744.20

Hexacon Builders and Traders	82,170.02
Mayonkis Construction	0.01
	5,526,033.86

- c. The accounts of the following contractors amounting to P502,251.17 have been outstanding for more than two (2) years and verification disclosed that their projects with the Authority have already been completed which implied that said advances were not recouped and/or recoupment was made but not recorded in the books:

Name of Contractor	Amount	Date of Transaction
Mannasoft Technology Corporation	33,000.00	Jan. 2002
Atlantic Pacific Empire Const. Corp..	250,784.41	Feb. 2002
Bentidel Ent. & Developer	218,466.76	July 2005
	502,251.17	

We recommended and Management agreed to require the Accounting Division to make a thorough analysis of the accounts with abnormal or credit balances and the long outstanding accounts and make the necessary adjustments where appropriate.

- 14. The validity and propriety of the Due from National Government Agencies and Due from Local Government Units account balances amounting to P69.624 million and P42.471 million, respectively, could not be ascertained due to a) the long period they have been outstanding in the books, b) inclusion of unidentified accounts, and c) erroneous recording of transactions.**

Due from National Government Agencies account is used to record fund transfer to different government agencies for the implementation of project subject to liquidation and for the procurement of supplies and services.

Due to Local Government Units is used to record fund transferred to local government units for the implementation of projects subject to liquidation.

Verification disclosed that Due from National Government agencies amounting to P69,624,017.30 pertains to the following agencies and purposes:

Name of Agency	Amount	Purpose
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National Housing Authority	44,036,122.71	Laguindingan Airport Dev.Project (LADP)
Procurement Service	14,926,043.31	Procurement of office supplies and equipt.
Dept. of National Defense	3,667,000.00	Jolo Airport Project
National Printing Office	823,120.00	Printing materials/accountable forms
Philippine Postal Corp.	80,000.00	Procurement of stamps
Land Registration Office	2,362.00	Registration fee of service vehicle
Clifford Domingo	8,606.00	Cash advance for travelling expense
Unidentified	6,080,763.28	
	69,624,017.30	

While Due from Local Government Unit account balance amounting to P42,470,888.37, of which P42,465,821.68 pertains to funds transferred to the Province of Misamis Oriental in connection with the acquisition of access road lots for the LADP.

Further verification disclosed that the Laguindingan and Jolo Airports Projects have already been implemented, yet to date no liquidation reports have been submitted by the National Housing Authority and the Department of National Defense, hence, their accounts remained outstanding.

The account from the Procurement Service is doubtful considering that the supposed undelivered items pertain to procurement for CY 2007 and below.

Funds transferred to the National Printing Office, Land Registration Office, Philippine Postal Corporation and to Clifford Domingo should have been recorded under the appropriate expense account and not under the due from the NGA account.

Furthermore, we noted that the Subsidiary Ledger being maintained for the Due from the National Government Agency account is just a duplication of the General Ledger. Only one subsidiary Ledger is maintained for all agencies, hence, the individual account balance of each agency could not be easily determined, thus, defeating the very purpose why subsidiary Ledger is maintained.

We recommended and Management agreed to implement the following measures:

- a. Require the Accounting Section to coordinate with the National Housing Authority, the Province of Misamis Oriental and the Department of National Defense for them to submit report of expenditures to liquidate the funds transferred to them. To avoid the same deficiency, Memorandum of Agreement with other government agencies should have a clear provision on the liquidation of the fund transfer.
- b. See to it that no additional fund transfer is given to any national government agency and local government unit unless previous fund transfer is liquidated.
- c. Require the Accounting and Supply Section to coordinate with the Procurement Service to reconcile the Authority's records with their records to determine the correctness of their account balances.

- d. Require the Accounting Section to record to the appropriate expense account funds transferred to the National Printing Office, Land Registration Office, Philippine Postal Corporation and to Clifford Domingo.
- e. For proper control and monitoring of the General Ledger account, require the maintenance of Subsidiary Ledger for each debtor/creditor.
- f. Consider the proper disposition of dormant/unidentified accounts from the ATO books in consonance with the provision of COA Circular No. 97-001 dated February 17, 1997.

15. Hiring of consultants was not in accordance with DBM National Budget Circular No. 433, dated March 1, 1994 and CSC Memorandum Circular No. 26 and 26 A, series of 1997.

Section 3 of the Department of Budget and Management (DBM), National Budget Circular No. 433, dated March 1, 1994 provides for the guidelines on the hiring of consultants as follows:

1. Heads of agencies may hire consultants provided there are funds in their respective appropriations specifically for the purpose, as certified by the Agency Accountant;
2. The consultant to be hired shall be a known expert in his field as manifested by his work experience and/or training;
3. The services of a consultant shall be engaged for a limited period only; and
4. The consultant shall be hired to perform specific vital activities or services which cannot be provided by the regular staff of the agency.

While CSC Memorandum Circular No. 26 prohibits the designation of consultants, contractual and non-career employees to positions exercising control or supervision over regular and career personnel in the hiring agency.

In our review of the consultancy service contracts issued during the year, we noted that the above cited guidelines were not complied, such that:

1. Some consultants hired can not be considered experts in their field as manifested by their work experience and trainings;
2. Services being rendered by the some consultants are not technical in nature that the regular staff of the agency could not perform, to wit:
 - Provides a one stop shopping travel services to CAAP Officers and personnel at least possible cost;
 - Monitors the processing of Authority/Orders and assist in liquidation of travel expenses;
 - Assist in the travel services to CAAP officers and personnel;
 - Deliver communication to Embassies and to the NAIA;
 - Serves as liaison to PAL;
 - Helps in editing documents;
 - Assist in organizing the corporate staff offices of the CAAP;
 - Assist in establishing working arrangements with the DBM;
 - Assist in the review and preparation of reports on collections;

- Draft/prepare messages, memos, letters and other communications for the Director General;
 - Prepare press release and media representation; and
 - Prepares documents needed in Board Meetings.
3. While it was specifically stated in the consultancy contracts that consultants are prohibited from exercising direct control and supervision over organic personnel of the agency, their functions/designations implies otherwise, such as:
- Perform task as assistant Head for Records and Documents Management Group;
 - Handles recruitment, selection, hiring, training and development process for technical and non-technical personnel;
 - Assist in the supervision of the concerned administrative offices of the Authority on matters pertaining to administration and corporate communications;
 - Assist the Director, Flight Standards Inspectorate Service in all planning and administrative matters;
 - Oversees storage of official records/files;
 - Gives instructions on work methods and procedures;
 - Act as Planning Officer as part of the Corporate Planning and Business Development Staff;
 - Takes full control and safe keeping of all physical assets of CAAP for proper management and conservation;
 - Oversees the operational activities of Casiguran Airport Development Project.
4. The following mandated duties and functions of the organic personnel of the agency are delegated to some consultants:
- Assist in the development of performance targets, productivity and quality improvement standards on administrative matters;
 - Renders legal opinions as to matters and issues within the mandate and functions of the Enforcement and Legal Service;
 - Monitor and evaluate the performance of the Medical Service Unit in the different aerodromes;
 - Formulates policies and procedures concerning the laws and regulations of FSIS in relation to enforcement procedures;
 - Participate in planning, problem solving and decision making;
 - Assist in the exercise of quasi-legislative and quasi-judicial powers of the Enforcement and Legal Service;
 - Inspect and evaluates maintenance facilities of approved organization;
 - Processes applications for original and renewal of AME I specialist licenses;
 - Conducts surveillance of all sectors of aviation maintenance and operation activities;
 - Inspect aircraft maintenance training facilities for compliance with the ICAO standard requirements;
 - Formulate a training program for RSD personnel on information technology applications at the Technical Library Division;
 - Analyzes and evaluates proposed projects, business ventures and/or investments requiring the use of CAAP assets;

- Studies and makes recommendations on the Flight Standards Inspectorate Service organizational structure; and
- Formulates qualification standards of FSIS.

This observation was already included in our 2008 Annual Audit Report, and we have recommended that Management review the need to hire consultants in line with existing laws, rules and regulations particularly Section 33 of PD 1445 on excessive, irregular and unnecessary expenditures. Management gave the following justifications:

- Consultants were hired to help the Management create new organizational structure, new systems, and formulate the corresponding policies as an Authority; and
- Consultants were hired to regain Category I status for CAAP. Management believes their expertise would be of great help to the newly created Authority.

To date, however, said goals were not yet attained despite the hiring of more than one hundred (100) consultants and spending P15,414,290.84 and P5,200,200 for their services in 2009 and 2008, respectively.

We recommended and Management agreed to the following:

- review the need to hire consultants in line with the existing laws, rules and regulations particularly, Section 33 of PD 1445 on excessive, irregular and unnecessary expenditures; and
- strictly observe the guidelines on hiring consultants under Section 3 of DBM Circular No. 433 and CSC Memorandum Circular No. 26.

16. Security and janitorial services contracts were extended beyond the allowable one (1) year period contrary to the Revised Guidelines on the Extension of Contracts for General Support Services. Likewise, three (3) months after the opening of the bids, no security service contract was awarded contrary to Section 38.1 of the IRR of RA 9184.

Section 4 on the Revised Guidelines for the extension of contracts for general services provides that Procuring entities may extend the duration or effectivity of an ongoing contract about to expire, under the following conditions:

- 4.1 No contract extension shall exceed on (1) year;
- 4.2 The original contract subject of the extension was awarded in accordance with the provisions of RA 9184 and its Implementing Rules and Regulations;
- 4.3 The procuring entity concerned has substantially undertaken procurement activities required prior to award of the new contract under R.A. 9184 and its IRR;

4.4 The aforesaid contract extension is undertaken due to circumstances beyond its control and procuring entity concerned cannot award a new contract within a month after the expiration of the term of the original contract.

Section 5 of the guidelines also provides that all contract extensions shall be subject to the prior approval of the Head of the Procuring Entity or his/her authorized representative upon recommendation of the Bids and Awards Committee. In addition to the foregoing, if the extension exceeds six (6) months, the Head of the Procuring Entity or his/her authorized representative shall immediately report to the Government Procurement Policy Board in writing of its intent to extend beyond six months.

Verification disclosed that security service contract of Lockheed Detective and Watchman Agency, Inc. was extended beyond the one (1) year allowable period and the same was not reported in writing to the GPPB. The security service contracts of the said agency were renewed on month to month basis from January 2009 up to June 30, 2010 contrary to the above cited Revised GPPB Guidelines.

Also, on April 28, 2009 a public bidding for the procurement of security services was conducted, however, as of June 30, 2010 or eleven (11) months after the opening of the bids, no security service contract was awarded contrary to Section 38.1 of the IRR of RA 9184 which states that the procurement process from the opening of the bids up to the award of contract shall not exceed three (3) months, or shorter period to be determined by the procuring entity concerned.

The same observation was noted in Area Centers VI and X.

Area Center VI engaged the services of Sikatuna Investigation Security Detective and Allied Services for security services since 2000 which was renewed annually, the latest of which covered a six month period from July 16, 2009 to January 15, 2010. While the janitorial service contract with South Richland Development was entered into since 2002 which was also renewed annually, but the latest was on month to month basis.

As for Area Center X, the security and janitorial services contracts entered into with Mati Investigation and Security and Allied Services (MINSAS) and Universal Janitorial and Allied Services (UJAS), respectively, were made without public bidding and were renewed on a month to moth basis.

We recommended and Management agreed to strictly adhere to Sections 4 of the GPPB Revised Guidelines on the Extension of Contracts for General Support Services and Section 38.1 of the Implementing Rules and Regulations of RA 9184.

- 17. Not all insurable property and equipment of the Authority were insured through the General Insurance Fund of the Government Service Insurance System (GSIS) contrary to Section 489 of the Government Accounting and Auditing Manual (GAAM), Volume I.**

Section 489 of the Government Accounting and Auditing Manual Volume I provides that:

“All heads of departments, commissions, boards, bureaus, offices of the national and local governments concerned except municipal governments below first class, government- owned and/ or controlled corporations, subsidiaries and acquired asset corporations shall secure from the General Insurance Fund directly all insurances or bonds covering properties, contracts, rights of action and other insurable risks of their respective offices, including all those in which their respective offices have an insurable risk and all those in which they have an insurable interest only. For this purpose, no insurance agent or general agent shall hereafter be appointed or maintained to represent the General Insurance Fund and/or the Government Service Insurance System.

The officials mentioned above shall submit their respective inventories of property every end of the fiscal year to the Commission on Audit, furnishing the GSIS with a copy of said inventory for appraisal of the amount of the premium to be paid for the insurance of the property reported.”

In view of the Management failure to complete its inventory taking for its property and equipment, not all insurable property and equipment, such as communication equipment, fire trucks, buildings, airfield and others were insured with the General Insurance Fund of the Government Service and Insurance System (GSIS). In view thereof, the Authority is exposed to possible loss which could have been transferred to and absorbed by the GSIS. It also weakened the controls established for safeguarding the assets which was one of the objectives of internal control.

Hereunder are the lists of insurable equipment identified at Area Center IX which were not covered by insurance:

Property	Description	Amount
Generator	Perkins, 30KVA DEGS, SN-CO82731/27	P 426,712.00
Communication Console	Communication Console with Accessories	100,000.00
Fire Truck	Morita, Isuzu Truck Engine with Complete Accessories	No amount
Mobile Transceiver	(PAE)UHF Air Band Mobile Transceiver Model T6M	325,840.00
Airfield	Runway and ramp are cemented	4,629,380.00
New Terminal Building	1-Storey Building	1,199,104.96
Annex Terminal Building	1 Storey Building, connected to new terminal building	5,300,000.00
Fire shed	Fire shed Building	392,000.00
Runway Markers	Distance to go – visual day markers	199,237.00
Perimeter Fence	Barbed wire fence, newly repaired	145,830.00
Flight Service Station	Two Storey Building	1,931,685.63
Property	Description	Amount
Non Direction Beacon	NDB & Power Plant Building	1,030,461.80
Equipment	Doppler Very High Frequency Omni Range	56,998,800.00
Non break power supply	1 set Battery and Charger,	11,609,200.00
Building	Building FSS concrete Building	10,000,000.00

Generator	1 set 15KVA Diesel engine generator	7,067,300.00
Machinery	1 set DME NNC-5708, Mod-174B602097-003	5,853,519.50
Runway	Concrete Runway	3,231,884.62
Building	Administration Building	3,200,000.00
Machinery	1 set Synchroscope, 10042	1,515,900.00
Generator	1 set Tools for 15KVA diesel engine generator	Y3,565,500.00

We recommended and Management agreed that after completing the inventory taking and establishing the acquisition and/or appraisal cost of all property and equipment of the Authority, all insurable property and equipment will be insured with the General Insurance Fund of the GSIS.

18. Audit disallowances/charges amounting to P29.351 million remained outstanding for more than two years.

Verification disclosed that audit disallowances amounting to P29.351 million as of December 31, 2009 were issued to the employees of then Air Transportation Office (ATO). These disallowances were already final and executory considering that no appeal had been filed within six months after receipt of the Notices of Disallowance, details follow:

Office	Amount
Head Office	26,623,858
Area Center IV	53,144
Area Center V	367,508
Area Center VI	3,071
Area Center VIII	1,051,420
Area Center IX	1,238,200
Area Center X	13,852
Total	29,351,053

It was also disclosed that subsidiary records for some audit disallowances are not maintained, thus, collecting the same could not be implemented. Further, these audit disallowances have been outstanding for more than two years and Management did not take action to collect the same.

We recommended and Management agreed to determine all persons liable for the entire audit disallowances amounting to P29.337 million. Then, implement a mechanism on how to collect said audit disallowance, such as deducting a fixed amount from the salary of the persons liable concerned until the audit disallowances are fully settled.

19. Representation expenses amounting to P838,218 were irregular, excessive and unnecessary pursuant to COA Circular No. 85-55A.

COA Circular No. 85-55A dated September 8, 1985 defines irregular, unnecessary and excessive expenditures as follows:

1. Irregular expenditures are incurred without adhering to established rules, regulations, procedural guidelines, policies, principles or practices that have gained recognition in law. A transaction conducted in a manner that deviates or departs from, or which does not comply with standards set is deemed irregular. An anomalous transaction which fails to follow or violates appropriate rules of procedure is likewise irregular.
2. Excessive expenditures pertain to expenditures which could not pass the test of prudence or the diligence of a good father of a family, thereby denoting non-responsiveness to the exigencies of the service.
3. Unnecessary expenditures are those not supportive of the implementation of the objectives and mission of the agency relative to the nature of its operation. This would also include incurrence of expenditure not dictated by the demands of good government, and those the utility of which cannot be ascertained at a specific time.

In the review and analysis of the Representation expense account balance amounting to P5,126,715, we noted that P838,218 or 16% were incurred by the Officer-in-Charge, Office of the Deputy Director General for Administration. Based on the above definitions, said expenses are qualified as irregular, excessive and unnecessary due to the following:

1. Expenses amounting to P166,336.35 were incurred during Saturdays, Sundays and Holidays.
2. Food expenses paid to ATO Cooperative Canteen and Philippine Air Traffic Controllers Cooperative amounting to P172,837 and P69,102, respectively, were not supported by list of food served. Payments were based merely on the statement of account from the said Cooperatives, hence, there is no way to determine whether the amount claimed were accurate.
3. ATO Cooperative Canteen billed the Authority twice for the month of January 2009, first under JEV # 09-2-0532 dated February 25, 2009 supported by an itemized and/or the daily meals serve in the amount of P10,370 and second under JEV # 09-03-852 dated March 13, 2009 in the amount P10,453 wherein only statements of account dated January 23 and 30, 2009 were attached.
4. Aside from the food expenses incurred as stated in item #2 hereof, food expenses from different hotels and restaurants amounting to P188,830.27 were also incurred, and each bill amounted to more than five thousand.
5. Expenses amounting to P9,875.80 were all incurred on December 3, 2009 and supported by eleven (11) receipts from three (3) different places, namely: Taguig, Silay and Bacolod.
6. Expenses amounting to P4,624.29 were all incurred on December 10, 2009, and supported by nine (8) receipts from four (4) different places, namely: Taguig, Pasig, Mandaluyong and Paranaque.
7. Purchases from supermarkets for grocery items amounting to P47,391.33.
8. Expenses claimed were supposed to be incurred for meetings and conferences, however, disbursement vouchers were not supported by guest list and/or

personnel who attended the meeting and notice of meeting stating among others the agenda of the meeting.

9. Expenses incurred outside Metro Manila, namely: Silay City, Bacolod City and Baguio City, amounting to P46,465.20 were not supported by Approved Travel Orders.
10. An overall analysis of the reimbursements for representation expenses of the Officer-in-Charge, DDG for Administration disclosed that it seems the amount reimbursed were actually intended as monthly representation allowance in the amount of P70,000 only in the guise of representation expenses without legal basis.

We recommend that Management implement the following:

1. Require the Officer-in-Charge, Deputy Director General for Administration to refund the amount claimed for representation which were determined to be irregular, excessive and unnecessary.
2. Strictly observe the austerity measures adopted by the government as prescribed under Administrative Order 103;
3. Issue guidelines on the payment of representation expense by specifically stating what and when an expense will qualify as representation expense and the necessary documents to support the same, subject to the applicable laws, rules and regulations.

Area Center V

- 20. Monthly financial reports are not submitted within the reglementary period contrary to Section 100 of Presidential Decree No. (P.D.) 1445, thus, prescribing the Auditor from conducting timely audit thereof.**

Section 100 of P.D. No. 1445 otherwise known as the Government Auditing Code of the Philippines, states that:

“Disbursing officers in any government agency shall render monthly reports of their transactions pursuant to regulations of the Commission to be submitted not later than the fifth day of the ensuing month to the Auditor concerned who shall conduct the necessary examination and audit within thirty days upon receipt thereof.”

For CY 2009, delays in the submission of the required monthly financial reports ranges from 30 to 96 days. The accounting section was not able to submit on time the required monthly reports of transactions thus precluding the Auditor to conduct the necessary examination and audit thereof. The latest report submitted to the Office of the Auditor as of December 31, 2009 was for the month of September 2009. Reports for October to December 2009 were submitted in January and February 2010.

The management commented that all the Airport Managers have fully understood that the Area Center cannot submit on time if the satellite airports are late in

submission. The Airport Managers will exercise due diligence in submitting reports on the deadline set.

We recommended that the concerned accountable officers submit the required monthly reports within five days of the following month to the Office of the Auditor for audit, pursuant to Section 100 of P.D. 1445.

21. Unserviceable properties which still have undetermined scrap value were dumped at the back of Crash Fire and Rescue Building of the Silay-Bacolod Airport, thus exposing the said properties to elements or theft.

Inspection of properties of Silay-Bacolod airport revealed that unserviceable properties which still have undetermined scrap value were exposed to elements or theft. Properties like old computers, filing cabinets, motorcycles, air conditioning unit, etc were found at the back of the Crash Fire and Rescue Building instead of keeping them in a bodega or secured place.

Interview with the acting supply officer revealed that the airport has no available space for which to store the said properties, thus they were just dumped at the back of the Crash Fire and Rescue Building, although inside the airport premises said unserviceable properties are exposed to the theft or elements and also poses danger of fire to the airport.

We recommended that Management create a Disposal Committee who shall prepare an Inventory and Inspection Report of Unserviceable Properties for appropriate disposal, to be approved by the Airport Manager. This will clear the area at the back of the Crash Fire and Rescue Building.

22. Spare Parts Inventory amounting to P8.772 million as of December 31, 2009 is not supported with schedule and physical existence could not be established in the warehouse, thus the spare parts inventory account could not be ascertained.

Section 114(2) of the Presidential Decree (PD) No. 1445 provides that "Subsidiary records shall be kept where necessary."

As of December 31, 2009, Spare Parts Inventory in the amount of P8,771,710.69 was not verified in the absence of supporting schedule.

The Acting Supply Officer informed that the spare parts were donated by the Department of Transportation and Communication (DOTC). However, the Deed of Donation and the corresponding list of spare parts were neither presented nor furnished to the Office of Auditor.

Furthermore, verification of records disclosed that the said account has been non-moving since CY 2005.

We recommended that Management secure copy of the Deed of Donation and other pertinent documents to establish the existence of spare parts inventory account.

Area Center VI

- 23. Prevalence of errors in the recording of collections including an erroneous and unauthorized adjustment in CY 2008 were noted thereby raising doubts on the accuracy and reliability of the reported Cash Collecting Officer Account beginning balance of P19.218 million.**

Under the NGAS, accounting journal entries shall be reflected in the JEV which shall serve as the basis for recording the transaction in the books of accounts. In addition, the NGAS Chart of Accounts defines Cash-Collecting Officer (GL102) as the amount of collections with the collecting officers/postmasters/telegraph operators pending deposit. Further, the CAAP accounting system provides that Cash – Collecting Officer shall be debited for collection of billed income and credited for remittance to Central Office.

Our audit of the account revealed the following deficiencies which rendered the balance of Cash Collecting Officer account doubtful and unreliable:

- a. Balance beginning is overstated by P9,246,853.86 due to over/understatements in the recording of transactions including an unauthorized adjustment made in December 2008 which debited and credited the account by P8,011,385.18 and P3,094,700.72 respectively. Moreover, the person in-charge with the preparation of the financial statements could not present a copy of the JEV which should have been the proof that such an entry has been authorized to be recorded in the books of accounts. In addition, the General Journal for December 2008 was likewise missing. As a result we could not determine the propriety of the said adjustment.
- b. During the year, the account was debited twice for collections made – first in the Cash Journal and second in the General Journal thus overstating the collections by P11,718,353.31. However, an understatement in the recording of collections in February, 2009 resulted in a net overstatement of P9,938,662.87. (This overstatement has been adjusted per JEV#0734).
- c. Copies of validated deposit slips are not submitted to support the monthly report of collections and deposits of satellite airports.
- d. Reports of collections and deposits from Tagbilaran do not indicate the undeposited collections of the previous month.

We recommended to Management the following measures:

1. Evaluate the capabilities of the personnel manning the accounting section and make some reassignment of personnel, if warranted.

2. Caution should be taken in entrusting the bookkeeping chores to job order personnel, especially, if there is very minimal supervision done by supervisors.
3. Monitoring and review should be emphasized to avoid unnecessary errors which have remained undetected.
4. Periodic reconciliation between the accounting section and the cashiering section should be done to ensure the balance of the account is correct.

24. Disbursements amounting to P23.017 million were not properly approved and/or supported with the documents establishing their validity and correctness contrary Section 168 of the GAAM, Volume I.

Section 168 of the Government Accounting and Auditing Manual, (GAAM), Volume I provides that the basic requirements applicable to all classes of disbursements are as follows:

- a. Certificate of Availability of Funds issued by the chief accountant;
- b. Legality of transaction and conformity with laws, rules and regulations;
- c. Approval of expenditure by Head of Office or his authorized representative; and
- d. Sufficient and relevant documents to establish validity of claim.

In the audit of transaction during the year, we noted the following deficiencies

Nature of Deficiencies	Amount
a. Payrolls were not signed/approved by Area Manager and leave applications without the signatures of either the approving official or the applicant were prevalent.	20,479,002.63
b. Payments/remittances not supported with official receipts.	263,026.36
c. Purchase Orders, Certificate of delivery, Inspection and acceptance reports not signed. In other instances, the requests for quotation were not attached to the vouchers.	569,350.10
d. Gasoline consumption were not supported with trip tickets.	208,364.67
e. Statement of payments to GSIS, Pagibig etc not signed	1,304,686.53
f. No revised itineraries of travel or "Appendix A" were submitted in the liquidation of the prepayment vouchers. In addition, Reimbursement Expense Receipts (RER) used for local transportation were not signed by the payees	192,852.72
Total	23,017,282.68

We recommended that Management ensure that all the basic requirements enumerated under Section 168 of the GAAM, Volume I are complied with before any disbursement is made to establish the validity/propriety and correctness of the transactions.

Area Center VII

25. Payables totaling P238,669 is of doubtful validity because of the absence of documents in support thereof.

Section 4(6) of PD 1445 requires that claims against government shall be supported with complete documentation.

While Section 39(1) of the same PD provides that:

”The Commission shall have the power, for purposes of inspection, to require the submission of the original of any order, deed, contract or other document under which any collection of, or payment from, government funds may be made, together with any certificate, receipt or other evidence in connection therewith. If an authenticated copy is needed for record purposes, the copy shall upon demand be furnished.”

Review of the accounts of the agency revealed that Accounts Payable totaling P238,668.80 were not supported by documents to prove the validity of the payables. No claims from creditors were submitted to the agency.

When this observation was discussed with the accountant, she admitted that there are no more claimants under this account because all have been paid. During the exit conference on May 28, 2010, she promised to make the necessary adjustment.

We recommended that the Accountant determines the validity of all outstanding obligations. Those found valid should not be allowed to remain unsettled beyond the period of two (2) years. Payables without specific claimants should be reverted to Government Equity.

Henceforth, only obligations with proper and complete documentation should be recorded in the books of accounts.

26. The Accounting Unit did not strictly follow the accounting procedures and did not use some of the accounting forms, records, reports and books of accounts prescribed in the New Government Accounting System (NGAS) in accounting for expenditures, revenues and other transactions which caused delay in the submission of financial reports and difficulty in the audit of transactions, accounts and operations.

The Manual on the New Government Accounting System-Corporate prescribes accounting procedures and forms, records, registries, reports, books of accounts and registers for use by Corporate, National and Local Government Units adopting the NGAS.

Of the prescribed forms, records, books, registers, the Accounting Unit did not use/maintain the following:

- Report of Checks Issued

The Report of Checks Issued is prepared by the Disbursing Officer and submitted to the Accountant for recording supposedly in the Check Disbursement Journal.

However, review of accounts revealed that the Disbursing Officer (DO) prepares a Report of Checks Issued that is different from the form prescribed in the NGAS Manual. It bore columns like gross amount, deductions for GSIS, PAG-IBIG, etc which are normally found in the journals. The DO assigns account codes for every transaction and summarizes the accounting entries at the end of the month. More often, these entries are corrected by the Area Accountant because the accounts used are sometimes erroneous. The correction made is not on the journal entry itself that is written on the face of the form. Rather, it is in the Journal Entry Voucher prepared to record the recapitulation of the balances in the Record of Checks Issued which form is a combination of the Report of Check Issued and the Check Disbursement Journal. Thus, more time is involved in the review considering the two entries.

- Cash in Bank Register

The DO also maintains the Cash in Bank Register to record the issuance of checks. As of audit date, only the register for one bank account was presented. On April 23, 2010 demand for the production of the four (4) others was made. However, as of this writing, the same are not yet submitted for review.

Scrutiny of the Cash in Bank Register revealed that it was not yet properly filled-up and not up-dated.

- Subsidiary Ledger/General Journal

We observed the subsidiary ledgers for Cash, Disbursing Officer, Property, Plant and Equipment, Accounts Payable and Due to Officers and Employees accounts were not maintained. In the case of the account Due from Officers and Employees, the General Ledger contained details that should have been recorded in the subsidiary ledgers. Reference to General Journal was indicated in the General Ledger but there is actually no General Journal. It is only the Journal Entry Voucher which is prepared at the end of the month and used as basis for the posting to the General Ledger.

- Journal Entry Voucher

The NGAS requires that Journal Entry Voucher shall be used for all transactions of the government, whether cash receipts, cash/check disbursements or non-cash transaction. It shall be prepared by the Accounting Unit based on transaction documents presented. Accounting journal entries shall be reflected therein and shall serve as the basis for recording of the transactions in the appropriate journals.

In the verification of transactions, we found out that Journal Entry Voucher is only made at the end of the month as a consolidation of all journal entries for the period in the case of check disbursements and not for each transaction made. Sometimes, the accounts used in the journal entries are wrong. At the end of the month, in the preparation of JEV, the Accountant records the appropriate account to be used. However, most of the time, the journal entry previously prepared by the personnel designated are not corrected thus casting confusion as to the source of the JEV. Transactions are not corrected on the face of the disbursement voucher, liquidation report and payrolls.

The non-preparation of the JEV every time a financial transaction occurs could result in unrecorded transactions and difficulty in tracing. It is hard to trace which account used/recorded by the Disbursing Officer is altered by the Accountant when at the end of the month she prepares the JEV to record the transaction involved.

The Accountant explained during the exit conference that because of lack of personnel and time constraints she did not prepare the JEV per transaction, anyway, journal entries were made on the face of the voucher or payroll.

The Accounting Unit shall prepare journal entry voucher for each transactions whether cash receipts, cash/check disbursements or non-cash transactions, as required in Sec. 31 of NGAS Vol. 1.

The above practices violate the provisions of the New Government Accounting System. Management explained that because of time constraints and lack of personnel, the accounting unit initiated systems/procedures that will enable them to meet deadline set by Central Office for the submission of financial reports. One of these procedures is to defer the preparation of the journals which is time consuming. Instead, reports are prepared based on those submitted by respective concerned personnel.

We recommended that the Disbursing Officer and the Area Accountant strictly follow the accounting procedures and use the required forms, records, books and reports in the NGAS. All records and books should be kept up-to-date and always available for reference and audit.

27. The designated Collecting Officer failed to deposit collections promptly and intact contrary to the provisions of Joint MOF-COA Circular No. 1-81, thereby exposing funds to risk of misappropriation or loss.

Review of the accounts and reports of a Collecting Officer of Ormoc City revealed that there were collections that were allowed to stay in the hands of the collector from 2 to 36 days. Collections during the year ranges from P240 to P3,000 with an average daily collection of P1,003.37.

The accountable officer deposited only once in the months of January and February; twice in the months of March to May; four times in the months of June to November; and three times in December. During the period, collections remained in his possession; the same were exposed to risk of misappropriation or loss. The practice

is contrary to Section 69, pars. 1 and 4 of PD 1445 and Joint MOF- COA Circular No. 1-8.

The Accountable Officer reasoned out that he could not leave the office every now and then since sometimes there are calls from the central office and other offices. Also, he alleged that the bank is (8) kilometers away from their office and he is using his personal vehicle in going there. He added that the CAAP office is giving him P20 only for his expenses which he does not claim because of the hassle in preparing the claim documents.

We recommended that the practice of retaining collections be discontinued. The Collecting Officer should deposit promptly and intact all collections turned over to him by the collectors, with the authorized depository bank daily or not later than the next banking day to avoid the risk of possible misappropriation or loss.

Area Center VIII

- 28. Stale checks and cancelled checks totaling P30,341 and P200,000, respectively, remained unadjusted in the books of accounts, resulting in the understatement of cash-in-bank account of the same amount. Likewise, the amount used in the preparation of Bank Reconciliation Statement was based on account balance per check disbursement record instead of the account balance per Subsidiary Ledger.**

Section 52, Volume I of NGAS provides that checks may be cancelled when they become stale. The depository bank considers a check stale, if it has been outstanding for over (6) months from date of issue or as prescribed.

Also, unclaimed stale checks which are still with the Cashier shall be marked cancelled on its face whereas stale checks which are in the hands of the payees or holders in due course and requested for replacements, new checks may be issued upon submission of the stale checks to the Accounting Unit. A certified copy of the previously paid DVs shall be attached to the request for replacement. A JEV shall be prepared to take up the cancellation. The replacement check shall be reported in the RCI.

Verification of bank reconciliation statements revealed that a total of P30,341 checks considered stale are still in the books despite that it has been outstanding for over six (6) months from the date of issue.

In addition, LBP Check No. 1308066 dated July 31, 2008 amounting to P200,000 is still in the list of outstanding checks notwithstanding that it was already cancelled thus understating the Cash in Bank account.

Further audit disclosed that the book balances in the bank reconciliation statements of both accounts mentioned above are based on the check disbursements record (CDR) instead of the balances in the subsidiary ledger (SL) maintained by the agency, thus, defeating the purpose of the reconciliation which is to check the accuracy of the bookkeeping system.

We also noted that a check amounting to P50 belonging to another agency was erroneously debited by the bank remained as a reconciling item in the bank reconciliation statement.

We recommended and Management agreed to require the Accounting Unit to:

- a. make the necessary adjustments for the stale and cancelled checks amounting to P30,341 and P200,000, respectively;
- b. use the amount per subsidiary ledger as the balance per book when preparing a bank reconciliation statement; and
- c. inform the Authority's government depository bank about the P50 erroneously debited to the Authority's bank account for immediate adjustment.

Area Center IX

- 29. Collections totaling P428,271.55 were not remitted to the Authority's depository bank more than one (1) year after receipt thereof in violation of Section 69.1 of Presidential Decree 1445 (PD 1445).**

Section 69.1 of the PD 1445 provides 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. The amount of the collections ultimately payable to other agencies of the government shall thereafter be remitted to the respective treasuries of the regulations which the Commission and the Department (Ministry) of Finance shall prescribe.”

The notes to the financial statements for CY 2008 stated an unremitted collections of P428,271.55 under account Due from Officers and Employees. The said amount was composed of unremitted collection of P52,271.55 from an accountable officer of Surigao, who is now deceased, and unreported and unremitted collection of P376,000 from an accountable officer of Cagayan de Oro who is now terminated from the service.

The accountant commented that for the unremitted collection account of Surigao, the head office had already deducted the amount from the Accountable Officer's Terminal Leave Benefits. But as of the moment the CAAP, Cagayan de Oro had not received any copy or advice from head office regarding the matter.

Per interview with the accountant and the Chief of the Personnel Department revealed that the accountable officer of Cagayan de Oro was verbally instructed to pay the unreported and unremitted collections. But since her separation from the office, the agency did not make any effort to collect the said amount.

We recommended and Management agreed to secure from CAAP Central Office a copy of the retirement claims of the deceased accountable officer assigned then at CAAP, Surigao City to document the restitution of his shortage in the amount of

P52,271.55 in order to close his accountability/liability. Also, send demand letter to the dismissed accountable officer assigned then at CAAP, Cagayan de Oro City to collect the unremitted collections amounting to P376,000.

30. Delayed remittance of mandatory contributions and loan amortizations on GSIS, HDMF and PHILHEALTH of CAAP Butuan violated Section 3.4 of Rule III of IRR of R.A. 8291 thus affecting the members of the benefits and loan privileges obtained there from.

Section 3.4, Rule III of IRR of R.A 8291 provides that each employer shall remit directly to the GSIS the employees' and employer's contributions within the first ten (10) days of the calendar month following the month to which the contributions apply. The remittance by the employer of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees. Section 3.6.1 of the IRR also provides that:

“when authorized by the employee, the employer shall deduct from his monthly compensation optional life insurance premiums, pre-need monthly installments, loan amortizations and such other amount due the GSIS from the employee. Likewise, Section 3.6.2 also provides that “these amounts shall be remitted to the GSIS within the first Ten (10) days of the calendar month following the month when the deductions were effected, accompanied by supporting lists in the forms prescribed by the GSIS.”

Also, Section 3.8, Rule III of IRR of RA 8291 also provides that the employer shall pay not less than two percent (2) simple interest per month on its unremitted collections and contributions computed from their due date to the date of receipt of the payment by the GSIS. Collections and contributions shall include compulsory contributions, optional life insurance premiums, pre-need installments, loan amortizations, general insurance premiums and such other amounts payables to the GSIS. Section 3.9 also provides that in cases of non-remittance of contributions, the following rules apply: (a) all loan privileges of the member shall be suspended; (b) premium arrearages and outstanding service loan accounts and corresponding surcharges shall be deducted from the proceeds of the claim.

In addition, HDMF Circular No. 2 provides under item D-4 that:

“all remittances shall be made within ten (10) calendar days from the end of the month to which the contributions apply”...”D-8 states that ‘failure to pay contributions as prescribed shall subject the employer to penalty of three per cent (3 %) per month or any fraction thereof of the amounts payable from the date the contributions fall due until paid....”

Further, Philhealth Circular No. 09, Series of 2008 provides the deadline of payment of remittances by the employed sector remains on every 10th day after the applicable month. Also, Section 162, Rule XXXII of RA 7875 provides that:

“any employer or officer authorized to collect contributions who, after collecting or deducting the monthly contributions to the Corporation within

thirty (30 days) from the date they become due shall be presumed to have misappropriated such contribution and shall suffer the penalties hereunder indicated and those provided for in Article 315, par 1 (b) of the Revised Penal Code on Swindling. The fine shall be in addition to the outstanding applicable contribution receivable from the employer and shall be multiplied by the total number of employees of the firm.”

Audit in CY 2009 of remittances involving the inter-agency payables account disclosed that GSIS employee contributions, including government share were not promptly remitted and that there were discrepancies, as follows:

Due to GSIS:

Period Covered	Total Amount Withheld	Total Amount Remitted	Date Remitted	No. of Days Delayed	Over (Under) Remittance
Nov. 2008	-	111,184.77	Jan. 22, 2009	43	
Dec. 2008	-	111,281.67	Feb. 04, 2009	25	
Jan. 2009	109,095.14	109,481.25	Mar. 31, 2009	49	P386.11
Feb. 2009	109,665.11	83,898.30	Apr. 21, 2009	42	(P25,766.81)

Government Share: Life and Retirement Insurance Contributions (731)

Period Covered	Total Amount Remitted	Date Remitted	No. of Days Delayed	Remarks
August 2008	64,326.99	Jan. 09, 2009	121	
January 2009	64,326.99	Mar. 31, 2009	49	No payments made for the months of September 2008- December 2008 per submitted vouchers as 11.23.09
February 2009	56,499.29	Apr. 27, 2009	48	

Government Share: EC Contributions

Period Covered	Total Amount Remitted	Date Remitted	No. of Days Delayed	Remarks
August 2008	P4,170.00	Jan. 09, 2009	121	
November 2008	4,507.07	Jan. 22, 2009	43	No payments for the month of September to October 2008 per submitted vouchers as of 11.23.09
December 2008	4,507.07	Feb. 04, 2009	25	
January 2009	4,608.52	Mar. 31, 2009	49	
February 2009	4,518.42	Apr. 27, 2009	48	

Likewise, there were also delays in the remittances of Pag-ibig and Philhealth contributions, as follows:

Due to Pag-ibig

Period Covered	Total Amount Withheld	Total Amount Remitted	Date Remitted	No. of Days Delayed
December 2008		P47,325.04	Jan. 23, 2009	13
January 2009	P46,973.68	46,973.68	Feb. 06, 2009	-
February 2009	40,150.97	40,150.97	Mar. 12, 2009	02
March 2009	20,167.16	20,167.17	Apr. 23, 2009	13

Government Share: Pag-ibig Contributions

Period Covered	Total Amount Remitted	Date Remitted	No. of Days Delayed
December 2008	4,507.07	Jan. 23, 2009	13
January 2009	4,608.52	Feb. 06, 2009	-
February 2009	4,518.42	Mar. 12, 2009	02

March 2009	5,300.00	Apr. 23,2009	13
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Due to Philhealth

Period Covered	Total Amount Withheld	Total Amount Remitted	Date Remitted	No. of Days Delayed
December 2008		6,889.50	Jan. 09, 2009	-
January 2009	6,787.00	6,787.00	Feb. 06, 2009	-
February 2009	6,787.00	6,787.00	Mar.10, 2009	-
March 2009	6,787.00	6,787.00	Apr. 23, 2009	13

Government Share: Philhealth Contributions

Period Covered	Total Amount Remitted	Date Remitted	No. of Days Delayed
December 2008	3,375.00	Jan. 09, 2009	-
January 2009	3,312.50	Feb. 06, 2009	-
February 2009	3,375.00	Mar. 10, 2009	-
March 2009	3,312.50	Apr. 17, 2009	07

The delayed remittances were due to lack of funds by the time the contributions falls due, or the amounts withheld as inter-agency payables and the government share were used for the meantime for payments of other expenses.

Such practice affected CAAP Butuan members in terms of penalties, surcharges, or interests meted by these authorized agencies due to delayed remittances. Likewise, CAAP Bututan members were deprived of the benefits and loan privileges they may be entitled if remittances were completely and promptly made.

We recommended and Management agreed to remit promptly and regularly the corresponding mandatory contributions, premiums, and amortizations of all its members to enjoy the entitled benefits and loan privileges and avoid incurrence of penalties, surcharges or interests from delayed remittances.

Management replied that the contributions due to GSIS as of December 1, 2009 had been settled including the under remittance of P25,766.81 during the month of February 2009. It added that CAAP Butuan was cash-strapped during the consecutive months of November 2008 thru February 2009, hence incurred a delay in the remittances. However, the subsequent months had been paid within the prescribed period. Further, Management commented that CAAP Butuan is making an effort to build a better image and thus, inevitably prompt payments of contributions to HDMF, GSIS and Philhealth takes priority on cash outlays. Disbursements will be monitored in a manner geared towards fulfillment of this objective.

- 31. During the year, the Authority incurred expenses amounting to P1,183,649 for the Gender and Development (GAD) Project and accomplished the following activities:**

Gender Issue/Activity	No. of Employees trained/Attended

<p>1. Lack of information, awareness, understanding and appreciation of gender issues among employees.</p> <p>a. Conducted the following trainings:</p> <ul style="list-style-type: none"> - Gender Sensitivity - First CAAP-GAD Technical Working Group Assessment and Planning Conference <p>b. Send participant to the following seminar/workshop:</p> <ul style="list-style-type: none"> - International Women’s Human Rights Course at Miriam college - Managing Work Attitudes - Employee Discipline: vis-à-vis Institutional Values - Work Values Enhancement <p>2. Lack of gender-sensitive facilities to help passengers with infant/children</p> <p>a. Install diaper changing tables at Ozamiz Airport</p>	<p>30</p> <p>45</p> <p>2</p> <p>6</p> <p>3</p> <p>3</p> <p>1 unit</p>
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32. For CY 2009, no Notices of Disallowance, Charge and Suspension was issued. However, prior period audit disallowances amounting to P29,351,053 remained unsettled as of December 31, 2009.