

COMMENTS AND OBSERVATIONS

1. Balances of accounts transferred from ATO books remain doubtful as of December 31, 2010.

Republic Act No. 9497 or the Civil Aviation Authority Act of 2008 was issued creating the Civil Aviation Authority of the Philippines (CAAP) as an independent regulatory body with quasi-judicial and quasi-legislative powers and possessing corporate attributes. It is attached to the Department of Transportation and Communications (DOTC) for the purpose of policy coordination.

In the Transitory Provisions of RA 9497, the Air Transportation Office (ATO) was abolished. All the powers, duties and rights vested by law and exercised by the ATO were transferred to CAAP. All assets, real and personal property, funds and revenues owned by or vested in the different offices of the ATO, including all contracts, records and documents relating to the operations of the abolished agency and its offices and branches were, likewise, transferred to the Authority. Any real property owned by the national government or government-owned corporation or authority which is being used and utilized as office or facility by the ATO shall also be transferred and titled in favor of the CAAP.

Most of the observations noted in the terminal audit of ATO were the non-existence, uncertainty, doubtfulness, propriety, correctness and validity of the accounts. The balances of accounts raised in the said observations were carried over during the transfer of ATO accounts to CAAP, while some were temporarily debited to Other Assets to be subjected to verification and reconciliation in the absence of appropriate documents. Management commented in the 2008 Annual Audit Report that: "While CAAP agreed that they had been implementing the procedures on the transfer as of the cut-off date on a staggered and continuing basis, they admitted that the closing and opening of books of ATO and CAAP, respectively, were done in haste. In recording the assets transferred, Management simply transferred the book values of the existing assets of ATO as of June 30, 2008 to the CAAP books of accounts."

As of December 31, 2010 most of the accounts presented in the financial statements are still doubtful as no significant adjustments were made in the books of accounts as recommended in the 2008 and 2009 Annual Audit Reports (AARs). Accordingly, the asset and liability accounts with doubtful balances also affect the government equity recorded in the books.

In our audit of the 2010 balances, we noted the following:

Accounts Receivable and Income from Communication Facilities

The validity and accuracy of the balances of Accounts Receivable amounting to P3.647 billion and the corresponding Income from communication facilities in the total amount of P2.274 billion as of December 31, 2010 in the Head Office Books cannot be ascertained due to: i) the absence of corporate policy on revenue & collections; ii) the significant differences of the balances of Accounts Receivable per general ledger, subsidiary ledger and the aging of accounts receivable; iii) the differences between the recorded balances and the balances per confirmation from airline companies; iv) the non-reconciliation of the collections recognized in the deferred credits account

representing remittances made by airline companies directly to the bank; and v) the failure of the Authority to send demand letters and charge penalties for delinquent customers.

Absence of Corporate Policy resulted in a defective system of billing, delays in the collection of receivables from the airlines due to failure of the Authority to issue demand letters and charge penalties for delinquent airlines, delays in the recording of collections, and improper segregation of key duties and functions.

Our verification further disclosed that balances of GL, SL & Aging of Accounts Receivable as of December 31, 2010 showed significant differences as follows:

Particulars	Balance as of December 31, 2010
General Ledger (GL)	3,646,934,078.12
Subsidiary Ledger (SL)	1,469,781,255.75
Aging of AR	4,538,194,729.77

We noted a difference of P2,177,152,822.37 between the balances of the GL and the SL as of December 31, 2010. It was further observed that the SL for Accounts Receivable does not include the balances transferred from the ATO's books and include credit memos issued to airlines that were not yet recorded in the books. The balances of the Accounts Receivable as presented in the aging schedules differ from the SL balances by P3,068,413,474.02.

Likewise, the SL balances of the airlines per our confirmation, do not reconcile with book balances. Confirmation with Philippine Airlines (PAL) which represents 77.27% of the total amounts confirmed showed a variance of P526,918 million, compared against the balance per books, while the confirmed balances for the remaining airlines showed a variance of P259.159 million against the balance per books.

We also noted that the total Accounts Receivable from Philippine Airlines (PAL) amounting to P3.441 billion as of December 31, 2010 remained uncollected for several years.

Also, the collections directly remitted to the bank by airline companies were recorded first to the deferred credits account instead of directly crediting the accounts receivable account upon receipt of their remittances. Non reconciliation of the collections recorded directly to the deferred credits accounts and the eventual adjustment to the accounts receivable account resulted to variance in the total amount of P227.96 million.

Similarly, in various Area Centers' books, the validity, accuracy and existence of the Accounts Receivable accounts totaling P491.719 million were also doubtful to wit:

Area Centers	Amount
Area 1	P 46,788,562.78
Area 2	92,573,473.52
Area 3	46,878,025.79
Area 4	70,602,807.02
Area 6	208,150,480.68
Area 7	13,653,030.00
Area 9 & 10	13,073,098.20
Total	P 491,719,477.99

The Authority, granted with fiscal autonomy per Section 15 of R.A. 9497 must have effective policies & procedures on revenue & collection as these are used to fund the operations of the Authority.

We recommended and the Authority agreed that:

1. A policy on the assessment, billing and collection of revenue be adopted /formulated to effectively manage and improve revenue collections and adopt sound internal controls;
2. Extra effort be exerted to analyze and reconcile the individual accounts as reflected in the aging schedules to come up with the correct SL balances and follow the timely submission of the SL and stop using the deferred credit account in recording collections;
3. Utmost importance be given to the proposed Term Sheet of PAL since proceeds of which can help finance the needed improvements of the CAAP facilities.

The Authority informed that the Term Sheet as presented by PAL was discussed with the Board of Directors and recommended that the figures be reviewed. Pending the review of the Term Sheet, the Authority has worked out that the current billings be settled so that at least the account will move.

Other Assets

We noted that the following Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets with a total amount of P4.376 billion remain in the Other Assets account of the Head Office books as of December 31, 2010 as follows:

Acct. Code	ACCOUNT NAME	Balance as of 12/31/10
Current Assets Accounts		
111	Cash in Bank - Local Currency, Current Account	34,756,638.90
136	Due from National Government Agencies	109,619,419.73
131	Due from National Treasury	54,623,403.26
142	Due from Regional Offices	159,306,751.46
148	Advances to Officers and employees	37,607,280.62
180	Deposits on Letters of Credit	9,741,460.96
189	Othe Current Assets	44,747,097.98
		450,402,052.91
Property & Equipment		
201	Land	1,119,585,100.98
202	Land Improvements	1,140,535,858.57
203	Runways/Taxiways	4,027,000.00
211	Buildings	920,451,399.13
221	Office equipment	266,406,324.57
222	Furnitures and Fixtures	10,678,978.79
223	IT Equipment	19,662,588.66
228	Airport Equipment	99,385,689.59
229	Communication Equipment	136,106,503.48
264	Construction in Progress - Agency Assets	107,782,493.28
273	Construction in Progress - Other Public Infra	98,711,724.62
		3,923,333,661.67
Unserviceable and Fully Depreciated Assets		2,671,827.62
TOTAL AS OF DECEMBER 31, 2010		4,376,407,542.20

This observation was noted since CY 2008. In 2010, only the Cash in Bank and the Construction in Progress accounts in the Head Office have adjustments totaling P196,027,588.24 or 4.29% of the total amount.

Analysis and documentation should have been done by the concerned personnel to adjust these accounts to their proper accounts. The unserviceable and fully depreciated assets should have been disposed and consequently dropped from the books of accounts.

We recommended and the Authority agreed that they must exert extra effort to document and prepare the necessary adjustments to properly classify the abovementioned accounts. Initially, they have already identified disposable properties/scrap materials which they plan to dispose in 2011.

Property, Plant and Equipment

The existence and validity of the Authority's Property, Plant and Equipment (PPE) account in the total net amount of P617,126,805.69 as of December 31, 2010 cannot be ascertained due to non submission of the 2010 Report on the Physical Count of Property, Plant & Equipment since conduct of inventory was not completed and the accounting division's failure to maintain the equipment ledger cards.

There are vehicles used by the Authority which were not recorded in the Motor Vehicle account. There were also various vehicles included in the Schedule of Accumulated Depreciation amounting to P3,285,503.46 which were not part of the submitted List of Vehicles of CAAP Central Office as of December 31, 2010.

We also noted that in 2010, not all properties 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.

The Authority informed us that no action was taken on the insurance of the properties pending the result of the inventory taking.

Several Area Centers' PPE accounts were also doubtful due to (a) the inadequacy of records maintained for each class of accounts; (b) the unrecorded assets; (c) the omission to conduct physical count of fixed assets; (d) inadequate property and accounting records and absence of Report on the Physical Count of Property, Plant and Equipment Inventory; (e) the existence of aircrafts and aircraft ground equipment totaling ₱968,792.61 cannot be ascertained due to its absence from the Agency's premises and documents to prove their transfer to other locations; and (f) the incurrence of land improvements amounting to ₱93,878,960.65 despite the absence of the account "Land" in the books of account as follows:

Area 2	P 16,651,634.61
Area 3	10,124,017.36
Area 4	14,990,213.49
Area 5	968,792.61
Area 5	93,878,960.65
Area 9 & 10	221,050,019.30
Total	P357,663,638.02

We recommended that the Authority:

1. submit the 2010 Report on Physical Count of Property, Plant and Equipment and maintain the required equipment ledger cards to ascertain the correct balances of PPE accounts as at December 31, 2010;
2. conduct physical inventory of all the motor vehicles of the CAAP Head Office and reconcile the inventory report with the Accounting Division to be able to recognize/derecognize the motor vehicles in the Authority's books of account. Accordingly, correct depreciation expenses must be recorded in the books of accounts; and
3. insure all insurable properties and equipment with the General Insurance Fund of the GSIS.

We also reiterated the following previous year's recommendations which were not complied with or no actions were taken:

Deposit on Letters of Credit

The validity of the recorded Deposit on Letters of Credit 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.

We recommended and Authority agreed to implement the following measures:

1. 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;
2. maintain and monitoring Subsidiary Ledgers for accounts consisting of several individual accounts and/or transactions; and
3. 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.

Due from Regional Offices and Due to Central Office

As of December 31, 2010, Due from Regional Offices and Due to Central Office accounts still have balances amounting to P136,790,071.30 and P62,719,995.90, respectively. These are reciprocal accounts that should have been eliminated in the combined financial statements.

We recommended and Authority agreed to 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. The 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.

Due to Other NGAs

The amount of P51.4 million recorded as Due from DOTC was transferred to account Due to Other NGAs. However, per the Authority's comment, the transfer by DOTC to then ATO in the Head Office books on January 1, 2004 cannot be ascertained due to lack/unavailability of supporting documents and that the present Accounting personnel has no knowledge of the transaction.

We recommended and the Authority agreed that coordination will be done with the Department of Transportation and Communications to determine the purpose of the fund transferred to then ATO so that proper liquidation maybe made to close the account.

Due from National Government Agencies (NGAs) and Due from Local Government Units (LGUs)

The validity of the account balances Due from National Government Agencies (NGAs) and Due from Local Government Units (LGUs) 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. For the year 2010, no significant adjustments were made in both accounts with balances as of December 31, 2010 of P67,811,877.25 and P42,496,625.87, respectively.

We reiterated the following prior year's recommendation of which Management agreed to implement:

- a. coordinate with the different government agencies for the submission of the report of expenditures to liquidate the funds transferred to them;
- b. coordination between the Accounting and Supply Section and the Procurement Service to reconcile the Authority's records to determine the correctness of their account balances; and
- c. the maintenance of Subsidiary Ledger for each debtor/creditor for proper control and monitoring of the General Ledger account.

Receivables-Disallowances/Charges

Audit disallowances/charges amounting to P26.584 million remained outstanding for more than two years.

We have recommended in our previous year's audit and Management agreed to determine all persons liable for the entire audit disallowances. A mechanism on how to collect said audit disallowance should be implemented such as deducting a fixed amount from the salary of the persons liable concerned until the audit disallowances are fully settled.

The Authority stated in its management comments/actions taken that: "82 accounts (P24,890,655.25) were found as settled accounts".

COA's Rejoinder:

Verification of the account however revealed that no entries or adjustments in the books were recorded. Also, no documents regarding the settlement of the accounts were submitted to COA for the year 2010.

2. Overstatement of the Cash In Bank – Foreign Currency-Time Deposit Account by P11,759,000.00 due to non recognition of the foreign currency loss on matured time deposits.

Paragraph 22 of Philippine Accounting Standards (PAS) 21 "The Effects of Changes in Foreign Exchange Rates" states that: "The date of the transaction is the date on

which the transaction first qualifies for recognition in accordance with the IFRS. For practical reasons, a rate that approximates the actual rate at the date of the transaction is often used, for example, an average rate for a week or a month might be used for all transactions in each foreign currency occurring during that period. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate”.

Non recognition of the foreign currency loss on matured time deposits resulted to understatement of Loss on Foreign Exchange by P11,759,000.00, correspondingly, the overstatement of the Cash In Bank – Foreign Currency-Time Deposit Account. We likewise noted that the interest income in the pre-terminated \$5 million at UCPB (CTD # 704694) amounting to P124,624.01 was not recognized.

Furthermore, our verification of the bank reconciliation statements as of December 31, 2010 revealed that certain bank withdrawals to the Cash in Bank-Foreign Currency account on July 22, 2009 amounting \$23,011.65 or P1,009,866.26 was not yet taken up in the books. Likewise, in the Cash in bank – Local Currency account bank reconciliation statement also disclosed unrecorded withdrawals in the total amount of P284,200.94. Bookkeeping Section informed us that the non-recording was attributed to the absence of supporting documents.

Also, the Cash In Bank-Local Currency maintained in Philippine National Bank (PNB) with outstanding balance of P758,854.90 was inactive over a long period and on hold by the bank due to various unpaid All Purpose Salary Loan of various employees of then ATO, now CAAP, contrary to Section 4 of PD 1445 which provides that “No money shall be paid out of any public treasury or depository except in pursuance of an appropriation law or other specific statutory authority.”

We also noted erroneous recording due to the recognition of a bank error in the book of accounts (Cash in Bank-Foreign Currency (LBP) ATO). In our analysis of Cash in Bank-Foreign Currency (LBP) ATO account, we noted that the authority has drawn two (2) Journal Entry Vouchers (JEV) on February 2010 amounting to \$5,688,635.20 or P263,702,373.33 which pertains to the adjustment for unrecorded remittances/collections for 2009 and July 2010 amounting to \$5,000,016.44 or P231,780,762.09 for the adjustment of bank error. This was supported with a letter from LBP informing the Authority that they have erroneously debited the abovementioned account with \$5,000,016.44 on October 8, 2009 based on the CAAP’s letter to LBP on the same date, regarding application for Outgoing Telegraphic Transfer (OTT) intended for ICAO, Canada in the amount of P5,000,000.00. The error was immediately acted upon by the bank on 15 October 2009 by crediting back the amount of \$4,999,941.20 plus the cable charges of \$58.80. The letter further explained that the \$16.44 bank charges will be included to the total amount of interest earned from October 8 to 15, 2009, net of tax amounting to \$224.83. The total amount to be credited to the account is \$241.27 including the bank charges of \$16.44, the only entry that should have been adjusted in the books of CAAP.

Had they analyzed the entries in the passbook properly, the bank error on October 8, 2009 should have not been reconciling items in the bank reconciliation statement as of October 31, 2009. These reconciling items were included in the 2009 AAR as

unrecorded withdrawals and remittances based on their Bank Reconciliation Statement.

The erroneous entries were eventually adjusted in December 2010.

In Area Center 7, Check disbursements of Calbayog Operating Unit totaling P2,057,082.35 covering the last quarter of CY 2010 were not taken up in the books, resulting to the overstatement of cash in bank balance by P 2,057,082.35 and aggregate understatement of various expenses by same amount as of December 31, 2010.

We recommended and the Authority agreed to:

- a. Make necessary adjustments on FOREX, Cash and interest income and strictly adhere to the provisions of PAS 21 particularly on the recognition of the gain or loss on FOREX; and
 - b. Exert best efforts to obtain documents pertaining to unrecorded transactions. Also, prepare the Monthly Bank Reconciliation Statements on the two (2) bank accounts and submit all the Monthly Bank Reconciliation Statements on time. Likewise, prepare immediately the adjusting entries for reconciling items per bank reconciliation statements.
- 3. The existence of unliquidated cash advances as of December 31, 2010 resulted in the overstatement of advances to Officers and Employees account by P26.40 million and the understatement of related expense accounts.**

Section 4.1.2 of COA Circular No. 97-002 provides that “No additional cash advance shall be allowed to any official or employee unless previous cash advance given to him is first settled or a proper accounting thereof is made.”

Moreover, Section 5.1.3 provides that “The Accountable Officer shall liquidate his cash advance for official travel within sixty (60) days after return to the Philippines in case of foreign travel or within thirty (30) days after return to his permanent official station in the case of local travel.”

Section 5.8 further provides that “All cash advances shall be fully liquidated at the end of each year. Except for petty cash fund, the AO shall refund any unexpended balance to the Cashier/Collecting Officer who will issue the necessary official receipt”.

A total of P20,627,092.31 unliquidated cash advances for local and foreign travels as of December 31, 2010 correspond to prior years’ which dates back from 1999 in the total amount of P17,200,594.10 and a total of P3,426,498.21 for the current year. Out of the prior years’ unliquidated cash advances, a total of P2,480,207 were cash advances of officers and employees who are no longer connected with the authority.

We also noted that for the year 2010, additional cash advances in the total amount of P5,533,791.01 were granted even if previous cash advances were not yet liquidated. We further noted that they are only liquidating the current year cash advances.

Additionally, a total of P3,210,455.59 from current SDOs and former SDOs and P872,338.37 representing Petty Cash Fund were not liquidated as of December 31, 2010. The amount comprised mostly of prior years' cash advances totaling P3,083,540.21 which dates back from 1997 up to 2009.

Likewise, the Area Centers have reported unliquidated cash advances as follows:

Area 2	P 616,426.06
Area 6	228,485.83
Area 9 & 10	846,271.50
Total	P1,691,183.39

Failure to liquidate cash advances within the prescribed period resulted in the overstatement of Advances to Officers and Employees account balance and understatement of travelling expense/cash account balances as of December 31, 2010.

We recommended that the Authority must enforce liquidation/settlement of all unliquidated cash advances and withhold any money due them until their cash advances are liquidated and henceforth, strictly adhere to the pertinent provisions of COA Circular 97-002 dated February 10, 1997 in granting and utilization of cash.

- 4. Erroneous recording of obligated transactions resulted in the overstatement of several expense accounts in the total amount of P7.809 million and the understatement of the asset account by P2.809 million and the overstatement by P5 million of the payable account. Also, in Area 4, a total of P6.027 million obligated transactions coming from the Head Office were not supported with documents, hence, validity could not be ascertained.**

Par. 7 of PAS 16 - Property Plant & Equipment states that "The cost of an item property, plant and equipment shall be recognized as asset if and only if:

- a. it is probable that future economic benefits associated with the item will flow to the entity;
- b. the cost of the item can be measured reliably."

Also, Par. 8 provides that "Spare parts of servicing equipment are usually carried as inventory and recognized in profit or loss as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

In our analysis of the repairs and maintenance accounts we noted that a total of P7,808,688 obligated transactions for 2010 were erroneously recoded to expense accounts.

The purchase of *Portable ILS/VOR Receiver*, an equipment that will be used by the Air Navigation Services (ANS) in their operation amounting to P1,558,688 was charged to Repairs & Maintenance – Airport Equipment.

Likewise, the total amount of P6,250,000 was recorded as Repairs & Maintenance – Other Machineries and Equipment. The amount of P5,000,000 pertains to Power Amplifier for Primary Surveillance Radar at Manila Approach Radar Facility while P1,250,000 pertain to five (5) units of DVD RAM Drive for the Terminal Radar Data Processing System (TRDPS) also for the Manila Approach Radar Facility. Further verification revealed that the Power Amplifier for Primary Surveillance Radar was not yet delivered as of December 31, 2010, therefore should have not been obligated in 2010.

Management failed to consider that the ILS/VOR Receiver is an equipment, hence should be recognized as an asset, per paragraph 7 of PAS 16. Also, the five units DVD RAM Drive are major spare parts of the equipment, which can be used during more than one period, therefore, must be recognized as an asset rather than an outright expense as stated in paragraph 8 of PAS 16.

Erroneous recordings resulted to the overstatement of several expense accounts in the total amount of P7,808,688, the understatement of the asset accounts by P2,808,688 and the overstatement by P5,000,000 of the payable account.

In Area 4, a total of P6,027,271.44 obligated transactions coming from the head office were not supported with documents hence validity could not be ascertained.

We recommended and the Authority agreed that, adjusting entries must be prepared to correct the errors in recording of the above cited transactions.

- 5. Despite the Trust Fund in the total amount of \$12.33 million as of December 31, 2010, extended by then Air Transportation Authority (ATO) and currently the Civil Aviation Authority of the Philippines (CAAP) to International Civil Aviation Organization (ICAO) from 1996 to 2010, and the enactment of R.A. 9497 also known as “The Civil Aviation Act of 2008” on March 4, 2008, the Philippine Civil Aviation has not regained its Category I (Pass) status since December 2007.**

On September 13, 1995, the Philippine Civil Aviation was downgraded from Category I (Pass) to Category II (Conditional) status because of the findings of the Federal Aviation Administration (FAA) Audit. FAA asserted that the Philippine Civil Aviation through ATO as line agency of the Government was weak especially on the safety and surveillance programs. The FAA in its report, imposed requirements to ATO stating that if the deficiencies noted are not resolved within 120 days from September 13, 1995, there will be a possibility of further downgrading to Category III (Fail) status.

On November 22, 1995, the then Assistant Secretary wrote to the then DOTC Secretary requesting authority to negotiate and enter into a trust fund agreement with the ICAO to provide ATO with Technical Consultants for the development and improvement of the safety and surveillance programs. The safety and surveillance program will be based on the ICAO standards and practices.

It was on December 4, 1995 that said request was duly granted & a Trust Fund Agreement known as TF/PH 195/901 came into effect which was entered into by the Director General of the Civil Aviation in behalf of the Philippine Government and ICAO to provide the technical co-operation activities as requested by ATO.

Some of the highlights/significant provisions of the Trust Fund Agreement follow:

Clause 2. The Organization shall provide the technical co-operation in accordance with the same principles, policies, procedures and rules that it follows in executing the technical co-operation programme of the United Nations Development Programme (UNDP), except when mutually agreed by the Government and the Organization to deviate there from in order to best meet the requirements of the Government.

Clause 7. The Organization shall maintain a Trust Fund account in accordance with the relevant financial regulations. The Organization shall furnish periodic statements showing the status of the Trust Fund as at the end of April, August, and December. The year-end statement shall only be submitted when the accounts for the year have been closed and audited by the External Auditor.

Clause 8. The funds paid to the Organization by the Government shall be used only to cover expenditures and commitments incurred in respect of the services specified in the Annex hereto.

Clause 10. On cessation of the technical co-operation activities, the Organization shall refund to the Government the balance of funds on deposit after all financial commitments have been liquidated. Conversely, in the event that the funds on deposit are insufficient to cover in full the financial commitments incurred, the Government shall pay to the Organization the additional funds required to cover the shortfall.

After almost two (2) years, then ATO regained the Category I (Pass) status for the Philippine Civil Aviation on November 1997, when the significant deficiencies were resolved. However, the Trust fund has continued to be remitted to the ICAO to date.

On December of 2007, FAA released its audit report to ATO particularly to the then Aviation Safety Division (ASD) noting eight (8) critical deficiencies which lead again to the downgrading of Philippine Civil Aviation from Category I (Pass) to Category II (Conditional) status.

On March 4, 2008, R.A. No. 9497 was enacted, abolishing the ATO as line agency receiving appropriated funds and creating the CAAP as an independent regulatory body with quasi-judicial-legislative powers and possessing corporate attributes attached to the Department of Transportation and Communications (DOTC) for the purpose of policy coordination. The passage of R.A. No. 9497, as provided for in Section 2, has its foremost intention of enabling CAAP to provide safe and efficient air transport and regulatory services in the Philippines, with jurisdiction over the

restructuring of the civil aviation system, the promotion, development and regulation of the technical, operational, safety, and aviation security functions under the civil aviation authority.

In our audit, we noted that the technical co-operation activities rendered by ICAO are in a form of consultancy by providing assistance to the Government's ultimate goal of attaining the Category I (Pass) status. Then ATO resorted to the assistance of ICAO through Trust Fund Agreement because ATO believed that the services/activities needed were of such magnitude and/or scope as would require level of expertise or attention beyond the optimum in-house capability of ATO and such capability required is not available locally.

We noted that, despite the fact that then ATO regained the Category I (Pass) status on November 1997, Trust Fund Agreement between ATO & ICAO has continued to date. We believed that when ATO reclaimed the Category I (Pass) status on November 1997, there's a conclusive presumption that technology and knowledge had already been transferred to ATO and the corrective measures specifically on the safety and surveillance programs. Thus, technical co-operation activities with ICAO thru the Trust Fund Agreement should have been terminated.

Despite the continuance of the trust fund agreement, still ATO was downgraded to Category II (Conditional) status in December 2007.

Furthermore, what prompted the Government to enact the R.A. No. 9497 also known as "The Civil Aviation Act of 2008" was the result of FAA Audit which led to the downgrading again of Philippine Civil Aviation to Category II (Conditional) status in 2007. R.A. No. 9497 mandates among others, the transformation of the ATO into CAAP to become a corporate agency armed with expanded autonomy to provide improved services in the field of civil aviation. Despite the more than three (3) years existence of CAAP, Category I (Pass) has not been regained to date.

Per Annex 1 of the Trust Agreement, the initial cost of the Project was \$163,300 for safety and \$95,900 for security. As of December 31, 2010 the total project costs is already \$12,334,599 per the Statement of Estimated Fund Balance submitted by ICAO through the International Civil Aviation Coordinating Staff (ICACS). The trust fund balance with ICAO from its inception in 1996 up to 2010 follows:

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
2010	774,044	3,548	2,235,948	-	(5,136)	1,573,467
TOTAL	12,334,599.00	405,059.00	10,797,555.00	359,620.00	(9,016.00)	1,573,467.00

The total amount involved in the Trust Fund Agreement is huge and somehow resulted to loss of benefits to the Government for part of it should have been used to finance the needed improvements of the facilities of the Authority.

Based on the submitted documents collated by our Office, we were not able to validate the remittances to the trust fund for the years 1996 to 2008. Likewise, the breakdown of the disbursements made and the supporting documents for the abovementioned years were not available for our validation.

Verification disclosed that, the Trust Fund with ICAO account balance per books amounting to P90,712,803.48 as of December 31, 2010, does not tally with the trust fund balance per the Statement of Estimated Fund Balance submitted by ICAO. The following reconciling items were not recognized in the books to wit:

- a. Interest earned for the 4th quarter amounting to \$862 or P37,828.87;
- b. Disbursements for the 4th quarter amounting to \$482,440 or P21,171,879.40;
- c. Net loss on foreign exchange adjustment amounting to \$629 or P27,603.67.

We also noted that all disbursements and adjustments made from the Trust Fund were recorded as Training Expenses. Most of the disbursements made out of the trust fund were payment for experts and related personnel, travel costs and fellowships. We believe that it would be proper that the disbursements should be charged to Consultancy Services.

In our review of the Trust Fund Agreement entered into between the Government (CAAP) and the Organization (ICAO) along with the supplemental Annexes submitted thereto, there are neither provisions nor clauses as regards to the ownership of the procured motor vehicles, furniture, IT equipments and other non-expendable items from the trust fund after the cessation of the technical co-operation activities. What was provided only is the balance of funds after termination of the agreement which shall be refunded to the Government.

The total purchases of motor vehicles, furniture, IT equipments and other non-expendable items from the trust fund for the years 2009 and 2010 alone totaled P12.56 million. No data were submitted to our Office for the breakdown of disbursements for the years 1996 to 2008 thus the total purchases of motor vehicles, etc. for the whole duration of the trust fund agreement cannot be determined.

Ambiguous or deficiency of such provisions with regard to the ownership of the motor vehicles, furniture, IT equipments and other non-expendable items will result to loss of benefits to the Government.

There were also other remittances to ICAO account other than the Trust Fund amounting to P1.4 million for the 2010 annual contribution to the COSCAP South East Asia Programme by the Philippines and the payment for the purchase of ICAO

Annexes for AANSOO which remained outstanding/unliquidated as of December 31, 2010. These remittances should be liquidated immediately, when the purpose had been acknowledged and have been served.

Failure of the Authority to liquidate such remittances with ICAO overstated the Deferred Charges account balance and understated the affected expense accounts as of December 31, 2010.

Also, the Authority failed to maintain subsidiary ledgers (SL) for Deferred Charges account with total balance of P92.2 million as of December 31, 2010. Since the Deferred Charges account include not only the Trust Fund account with ICAO but also other separate transactions with ICAO and the contributions to Cooperative Development for Operational Safety and Continuing Airworthiness Programme – South East Asia (COSCAP-SEA), therefore should have been broken down into subsidiary ledger accounts. Non maintenance of SL for the different purposes of the remittances to ICAO makes it difficult for them to monitor the account. Further, this also resulted to the difficulty of the accounting division to reconcile the Trust Fund balance per books with ICAO's Statement of Estimated Fund Balance.

We recommended that the Authority must submit to our Office the justification as to the continuance of the Trust Fund Agreement and the reasons why the Philippine Civil Aviation has not regained the Category I (Pass) status including Management Reports on the status of the eight (8) critical deficiencies noted by FAA in its audit report in 2007 since the creation of CAAP in 2008; the Annexes to the Trust Fund Agreement and their amendments thereto if any; and the necessary documents to support the basis for remittances to ICAO from 1996 to 2008 and the supporting documents pertaining to the disbursement schedules for validation.

Furthermore, we recommended that the Authority must require the Accounting Division to reconcile the recorded transactions with ICAO records and immediately prepare the necessary adjusting entries and prepare also the liquidation reports for the annual membership and the purchase of ICAO annexes to AANSOO to adjust the account; prepare the adjusting entry to reclassify the expenses incurred thru the trust fund from training expenses to consultancy services; and to maintain SL for Deferred Charges account.

The Authority must also require ICAO through ICACS to submit promptly the periodic statements as stated in Clause 7 of the Trust Fund Agreement to closely monitor the Trust Fund account balance.

And lastly, we recommended that the Authority make representations with ICAO for the amendments of the Trust Fund Agreement or draw a new Agreement, if necessary with clear provisions on the following:

- a. the ownership of the non-expendable equipment procured from Trust Fund Agreement upon completion/termination of the project;
- b. reports to be submitted, supporting schedules & attachments & when these reports shall be submitted; and
- c. other necessary provisions beneficial to the Philippine Government.

6. Disbursements through Petty Cash Custodians/Special Disbursing Officers (SDOs) in the total amount of P24.1 million for the year 2010, contravenes COA Circular No. 97-002 and R. A. 9184.

General Principles as stated in COA Circular 97-002 include among others that: "All payments must be made in checks and only payments in small amount may be made through the petty cash fund. Replenishment of the petty cash fund shall be equal to the total amount of expenditures made there from."

Sections 4.3.1 and 4.3.2 of the Circular further provides that: "The cash advance shall be sufficient for the recurring expenses of the agency for one month. The AO may request replenishment of the cash advance when the disbursements reach at least 75%, or as the need requires, by submitting a replenishment voucher with all supporting documents duly summarized in a report of disbursements. The cash advance shall not be used for payment or regular expenses, such as rentals, subscriptions, light and water and the like. Payments out of the cash advance shall be allowed only for amounts not exceeding ₱15,000.00 for each transaction, except when a higher amount is allowed by law and/or specific authority by the Commission on Audit. Splitting of transactions to avoid exceeding the ceiling shall not be allowed".

Also, Article IV, Section 10 of Republic Act 9184, The Government Procurement Reform Act provides that "All Procurement shall be done through Competitive Bidding, except as provided for in Article XVI of this Act".

We have noted that for the year 2010, twenty three (23) Petty Cash Custodians (PCCs)/Special Disbursing Officers (SDOs) were designated by the Director General. The accountability ranges from P20,000.00 to P100,000.00. Purpose of the Petty Cash funds as stated in the Authority Orders was not only for petty operating expenses but include regular expenses included in the Annual Procurement Plan (APP) that should have gone thru the process of bidding/other methods of procurement and should have been paid by checks.

As a result thereto, the replenishments for the year totaled P24,110,889. There are several SDOs who disbursed more than half a million in one month, the highest of which reaches P899,111.55. Also, monthly replenishments of PCCs/SDOs range from a high of nine (9) times a month or a total of 76 times in a year to once a month.

Post-audit through sampling of various disbursements of two (2) Special Disbursing Officers (SDOs) in the total amount of P3.263 million were not in accordance with the provisions of Republic Act 9184. The two (2) assigned SDOs of Air Navigation Services (ANS), disbursed a total of P1,719,175.12 and P1,543,366.53 for the procurement of goods without going thru competitive bidding or any alternative modes of procurement. Disbursements include the acquisition of a mixture of mechanical, electronic materials/spare parts and lubricants to be used by various Air Navigation Facilities equipment nationwide in the total amount of P1,675,213.44. Also, one of the SDO purchased computers for various offices in the total amount of P507,718.00.

We also observed that splitting of various transaction by the SDOs amounting to P1,341,131 were resorted to in the acquisition of computer parts (CPU, monitor, etc.) separately, various mechanical/electronics spare parts, lubricants and payment of

labor for repairs incurred by Air Navigation Services Division and other offices within the Authority in violation of Sections 4.1.4 and 4.3.2 of the above cited Circular.

These transactions are considered regular expenses of the Authority and should have been procured generally, thru bidding. The purchased items can be requested and communicated to Supply Division who shall do the procurement in accordance with the 2010 Annual Procurement Plan. Had the purchase of these equipments gone thru the regular bidding procedures, the Authority should have been assured of the lowest price in the market thus, most advantageous to the Authority.

Splitting of transactions violates the provision of COA Circular No. 97-002 dated February 10, 1997 thus, renders the disbursements irregular.

We recommended that the Authority must:

1. Procure needed equipments, supplies and other regular expenses based on the approved Annual Procurement Plan to refrain from using the Petty Cash Fund to pay the regular expenses.
2. Reduce the number of PCCs/SDOs to comply with the provisions of COA Circular 97-002 specifically on the type of expenses that can be paid thru Petty Cash Fund and avoid the splitting of transactions.

7. Copies of contracts of service together with the supporting documents of ninety one (91) consultants for the year 2010 were not submitted to COA within five (5) working days after perfection for our review.

Section 6.6 of COA Circular No. 2009-02 dated May 18, 2009, provides that “the copies of contracts, purchase/letter orders, loan agreements, bond flotation/certificate of indebtedness, whether domestic or foreign, and appraisal reports of property for disposal including all supporting documents required in COA Circular No. 2009-001 dated February 12, 2009 and its annexes, must be submitted to the Supervising Auditor/Audit Team Leader for review, within five (5) days after perfection”.

Likewise, 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:

- a. Head of agency may hire consultants provided there are funds in their respective appropriations especially for the purpose, as certified by the agency Accountant;
- b. The consultant to be hired shall be known expert in his field as manifested by his work experience and training;
- c. The services of a consultant shall be engaged for a limited period only; and
- d. The consultant shall be hired to perform specific activities or services which cannot be provided by the regular staff of the agency.

Also, Section 1.a of CSC Resolution No. 02-1480 dated November 12, 2002 (CSC MC No. 24, s.2002) provides that "Contract of service - refers to the engagement of the services of a person, private firm, non-governmental agency or international organization to undertake a specific work or job requiring special or technical skills not available in the agency to be accomplished within a specific period not exceeding one (1) year. The person engaged performs or accomplishes the specific work or job under his own responsibility and with minimum supervision by the hiring agency. For purposes of this issuance, contract of services shall include the hiring of consultants and personnel engaged to perform work for special projects whether funded by the agency itself or externally funded."

CSC Memorandum Circular No.26-97 pertains to Prohibiting the Designation of Consultants, Contractual and Non-Career Employees to positions Exercising Control or Supervision over regular and career personnel. This has been prohibited since 1985 as contained in CSC Memorandum Circular No. 5,s, 1985.

Section 4.6 of P.D. 1445 provides that Claims against government funds shall be supported with complete documentation.

For the year 2010, we noted that contracts of service including all the supporting documents (Personal Data Sheet/Resume and the Training Certificates and other documents in relation to his/her expertise as a consultant) of the 91 consultants hired in 2010 were not submitted to our office within five (5) days after perfection for our review.

Likewise, payments for some consultancy services lack the monthly Accomplishment Reports and Daily Time Records.

We were not able to determine if the hired consultants are really expert in their fields and that their expertises were really needed by the Authority. Likewise, there were no proofs that services were rendered since no monthly accomplishment reports were attached to the payments.

There are also consultants designated as Officer-In-Charge or similar positions with corresponding power of exercising control or supervision over regular personnel in violation of CSC Memorandum Circular No.26-97. This practice usually resulted in the demoralization of regular employees which prejudices public service, in general.

These observations were included in our 2008 and 2009 Annual Audit Reports. However, management gave justifications that the expertise of consultants would be of great help to regain Category 1 status for CAAP. To date, the said goal was not yet attained despite the hiring of consultants and spending P16,285,776.21 for the year 2010.

We recommended that management must submit to COA copies of contracts for review within five (5) days after perfection together with the Personal Data Sheet or Resume and training certificates and documents in relation to his/her expertise. They must also submit their Accomplishment Reports in connection with the duties and responsibilities and the Daily Time Record to prove the validity of the claims

They must also review the need to hire consultants in line with the existing laws, rules and regulations.

8. Extension of security service contract was made beyond the allowable one (1) year period and was not reported in writing to the GPPB.

Section 4 of the Revised Guidelines on the Extension of Contracts for General Support Services provides among others that Procuring entities may extend the duration or effectivity of an ongoing contract about to expire for a period not to exceed one (1) year; the original contract subject of the extension was awarded in accordance with the provisions of RA 9184 and its Implementing Rules and Regulations; 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 Award Committee. The Head of the Procuring Entity or his/her authorized representative shall immediately report to the Government Procurement Policy Board (GPPB) in writing if its intent is beyond six (6) months.

On the other hand, Section 38.1 of the IRR of RA 9184 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.

Audit of the security services account showed that the extension of the contract was made on a month to month basis starting January 2009 up to the present after the contact between CAAP and Lockheed Security and Watchman Agency Inc. has expired on December 21, 2008.

The Authority conducted a public bidding for the procurement of security services on April 28, 2009. However, to date, 2 years after opening of the bids, no security service contract was awarded in violation of Section 38.1 of the IRR of RA 9184, hence, the extension of the contract on a monthly basis beyond one (1) year. In addition, the Head of the Procuring Entity or his/her authorized representative did not report to the Government Procurement Policy Board in writing its intent to extend the contract beyond six (6) months.

In addition, Area V's Contract for Security Services entered into by the Civil Aviation Authority of the Philippines (CAAP), Head Office has also expired in 2009 and the renewal of the said contract was done on a monthly basis to date, contrary to the abovementioned GPPB Resolution.

We recommended that Management should strictly adhere to the provisions 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.

This observation and recommendation was already included in the 2009 Annual Audit Report.

9. Payment of Honoraria in the form of *Per Diems* to the CAAP Board of Directors who hold positions in *ex-officio* capacities in the total amount of P585,000.00 violated DBM National Budget Circular No. 2007-510 dated May 8, 2007.

DBM 2007-510 dated May 8, 2007 was issued as Guidelines on the Grant of Honoraria to the Governing Boards of Collegial Bodies. Sec. 2.0 defined Honorarium as a form of compensation given as a token of appreciation or reward for gratuitous services on account of one's broad and superior knowledge or expertise in a specific field for which, going by custom, tradition or propriety, no fixed price is set.

Furthermore, Section 5 of the DBM Circular provides for the Guidelines and include among others the following:

- 5.4 Department Secretaries, Department Undersecretaries and Department Assistant Secretaries who are *ex-officio* members of governing boards of collegial bodies shall not be granted honoraria authorized for such governing boards in line with the Supreme Court ruling in G.R. No. 83896 and G.R. No. 83815, as consolidated, dated February 22, 1991. Such *ex-officio* position is actually and in legal contemplation part of the principal office. They may, however, receive reimbursement for actual transportation and miscellaneous expenses incurred in attending board meetings.
- 5.6 Department Undersecretaries and Department Assistant Secretaries who serve as duly authorized alternates to or representatives of Department Secretaries and Department Undersecretaries who occupy *ex-officio* positions in governing boards are not entitled to the honoraria.

In the Supreme Court decided case, National Amnesty Commission vs. COA (G.R. No. 156982 dated September 8, 2004), the term *ex-officio* means "from office; by virtue of office." It refers to an "authority derived from official character merely, not expressly conferred upon the individual character, but rather annexed to the official position." *Ex-officio* likewise denotes an "act done in an official character, or as a consequence of office, and without any other appointment or authority than that conferred by the office." An *ex-officio* member of a board is one who is a member by virtue of his title to a certain office, and without further warrant or appointment.

In our audit of the honoraria account, we noted that the basis of their payment of honoraria in the form of *per diems* per meeting attended in the amount of Fifteen Thousand Pesos (₱ 15,000.00) to the Members of the Board or their representatives was CAAP Board Resolution No. 08-003 to take effect as of the first Board Meeting, citing Section 11 of the Civil Aviation Authority Act of 2008. For the year 2010, the total amount of honoraria paid to the CAAP Board of Directors totaled P585,000.00.

We believe that the CAAP Board of Directors should have not been paid any additional compensation as *ex-officio* members of the board as provided for in the

DBM National Budget Circular No. 2007-510 dated May 8, 2007, hence considered as irregular expenditure as defined in COA Circular No. 85-55A.

We recommended that the Authority must comply with the provisions of DBM 2007-510 dated May 8, 2007.

Management commented that their basis in the payment of the Honoraria to the Board of Directors was Section 11 of the Civil Aviation Authority Act of 2008 which stated that "The members of the Board shall receive a per diem for each meeting actually attended. The per diems of the members of the Board shall be determined pursuant to a resolution adopted by the Board subject to compliance of the guidelines duly existing and applicable by the Commission on Audit". They also pointed out that Section 5 of the above cited DBM Circular applies only prior to the passage into law of Civil Aviation Authority Act of 2008.

We issued our rejoinder stating that DBM Circular No. 2007-510 remains in force as stated in Section 49 of the General Provisions of RA 9970 (General Appropriation Act FY 2010) and Supreme Court ruling per G. R. No. 147392 dated March 12, 2004 (Benedicto Ernesto, Jr., petitioner vs Commission on Audit and Celso D. Gangan, Chairman of the Commission on Audit) ruled that the petitioner is indeed not entitled to receive per diem for his attendance at board meeting during his tenure as member of the Board of Director of the PEZA. One of the arguments in this case is similar to the case in CAAP where R.A. 7916, otherwise known as the Special Economic Zone Act of 1995 expressly grants payment of per diem to the members of the board.

10. Payment of Monthly Reimbursable Allowance of the Office of the Government Corporate Counsel (OGCC) lawyers assigned at CAAP in the total amount of P1 million from January to October 2010 was not in accordance with Executive Order (EO) No. 878 dated March 4, 1983.

Section 6 of the Executive Order (EO) No. 878 dated March 4, 1983 provides that: "When the exigency of the service so require, any member of the legal staff of the OGCC may be assigned or designated in a concurrent capacity to act as corporate officer of the government - owned or controlled corporations being serviced by OGCC, provided that the GCC approves the assignment or designation. Whenever any member of the legal staff of OGCC is assigned / designated to perform additional or special task in any of the client corporations, he is allowed to receive such additional compensation and privileges as may be granted them by the government corporation concerned".

Likewise, Rule 3, Section 3.1.1 of the Rules Governing the Exercise by the Office of the Government Corporate Counsel (OGCC) of its Functions and Powers as Principal Law Office of All Government or Controlled Corporations provides that:

"As principal law office and as supervisor.-The OGCC, as principal law office exercising control and supervision over the law departments separately maintained by the GOCCs, shall have the following powers:

a. Represent GOCCs in the litigation of appropriate cases brought before the courts or quasi-judicial bodies in the Philippines or abroad in accordance with Rule 5 hereof;

b. Xxx

Section 1 of the Memorandum of Agreement (MOA) between CAAP and the Office of the Government Corporate Counsel (OGCC) dated November 13, 2008 states that: "The OGCC has assigned a team headed by the Government Corporate Counsel (GCC) and the Assistant Government Corporate Counsel (AGCC) who, in addition to their tasks and duties as statutory legal counsel of CAAP, shall handle and perform the following special functions and/or services:

- a) to assist in the handling and supervision of its corporate and financial requirements;
- b) to help in the conceptualization and implementation of special projects aimed at increasing revenues;
- c) to assist in preparing and conceptualizing plans and strategies intended to promote and strengthen CAAP in terms of corporate governance, risk management and excellence and efficiency in its financial operation;
- d) to prepare all correspondence, certification and documentation which may be required;
- e) to assist CAAP in carrying out special projects to increase and streamline and naturalize its business activities and operation;
- f) to provide the general counsel's opinion if assisted, relative to any borrowing and audit transaction whether foreign or domestic;
- g) to represent CAAP in cases that may be brought before the courts and quasi-judicial bodies on issues and matters arising from the implementation of special projects; and
- h) to review all agreements, contracts, documentation, that CAAP may be required to fulfill and execute.

Section 2 provides that "For services rendered, CAAP shall extend monthly reimbursable allowances to the team of OGCC lawyers assigned to the corporation by the Government Corporate Counsel by means of the Office Order assigning and detailing said lawyers thereto, in an amount at least approximating PESOS: One Hundred Thousand (Php100,000.00) commencing on November 2008, to be made payable to the OCGG for the account of the said lawyers, in the manner and according to the schedule hereto attached and marked as Annex "A" and made an integral part hereof by reference, subject to the usual government accounting and auditing rules and regulations."

Likewise, Section 5 states that "The Team shall submit the periodic status reports on legal queries/matters assigned by CAAP.

Also, COA Opinion No. 2001-001 dated February 14, 2001, stated that: "(T)his office believes and so holds that OGCC lawyers are not entitled to additional compensation of whatever form and nomenclature unless the same is given to one who has been assigned/designated as a corporate officer in a concurrent capacity with the approval of the Government Corporate Counsel as provided in Section 6 of EO No. 878."

Review of the submitted Consolidated Status of CAAP Cases Handled by Team 7 Headed by the AGCC as of October 2010, we noted that the services rendered by the team were considered regular functions and do not fall within the scope of additional and or special tasks to allow them to receive the additional compensation and privileges as provided in Section 6 of Executive Order (EO) No. 878 dated March 4, 1983. Reading through the nature of the cases handled we noted that it do not include the special functions and/or services as enumerated in Section 1 of the MOA.

Also, we noted that payments from March 2010 to October 2010 were paid directly to the Lawyers. Section 2 of the Memorandum of Agreement (MOA) entered into between CAAP & OGCC clearly states that the payment shall be made payable to the OGCC for the account of the said lawyers.

Thus payment of the monthly reimbursable allowances to the team of OGCC lawyers may be considered as irregular disbursements as defined in COA Circular No. 85-55A.

We recommended that the Authority must strictly adhere to the provisions of E.O. 878 dated March 4, 1983.

- 11. Motor vehicles not recorded in the books of the Authority were issued gasoline and diesel in the total amount of P1.25 million, in violation of the provisions of COA Circular No. 77-61 dated September 26, 1977, (Prescribing the use of the Manual on Audit for Fuel Consumption of Government Motor Vehicles). Also, various motor vehicles were also issued gasoline/diesel without the required properly accomplished trip tickets in violation of Administrative Order No. 239 dated September 15, 2008.**

Specific Rules and Regulations of the Manual on Audit for Fuel Consumption of Government Motor Vehicles provide among others that the Auditor shall "See that under no circumstances should fuel be issued to privately owned motor vehicles."

Administrative Order No. 239 dated September 15, 2008 provides in Section 3 that "The use of government vehicles by the bureaus and the offices shall be authorized only through the issuance for each trip a serially numbered ticket, duly signed by an authorized official. Xxx."

Our audit of the gasoline consumption of the Authority for the year 2010 revealed that based on the List of Vehicles at CAAP, the Summary Report of Fuel Consumption as of December 31, 2010, included several privately owned motor vehicles and other vehicles not recorded in the books but included in the List of vehicles at CAAP, were issued gasoline/diesel in the total amount of P94,893.40 and P1.16 million respectively.

We further noted that all trip tickets were not serially numbered and some were not properly accomplished (not signed by the authorized officials and plate numbers were not specified).

Furthermore, we noted that there were motor vehicles which were not supported with driver's trip tickets as follow:

Name of Vehicle	Plate Number	Vehicle assigned to
Ambulance – KIA	SFG 723	Motor pool/Medical
Mitsubishi L-300	SFG 647	Civil Aviation Training Center
Mitsubishi Lancer	URK 681	Air Navigation Services
Nissan Terrano	LDL 453	Enforcement and Legal Services
Toyota Hi-Lux	SEF 894	Manila NAVAIDS
Mitsubishi L-200	SFX 757	Technical Center
Nissan Cefiro	ZRJ 607	DDG for Operations
Starex	NFO 387	Executive Assistant
Starex	NFO 383	Director General

Payments of fuel consumed by the above listed vehicles without trip tickets totaled P662,849.38 for the year 2010.

Unless duly supported by properly accomplished and approved serially numbered driver's trip tickets we cannot determine whether the control is being exercised over the use of government motor vehicles and the reasonableness of the fuel consumed for the period.

Had management strictly implement the provisions of COA Circular and the Administrative Order cited above, proper control of fuel consumed should have been achieved.

As a result, without the properly accomplished trip tickets the use of the government vehicles were not authorized, hence payments of gasoline consumption were irregular and unnecessary.

We recommended that they must strictly implement and adhere to the pertinent provisions of the Administrative Order No. 239 and COA Circular No. 77-61 dated September 26, 1977 prescribing the use of the "Manual on Audit for Fuel Consumption of Government Motor Vehicles".

12. Validity and correctness of the disbursements amounting to P1.403 million charged to Representation Expenses cannot be established due to lack of supporting documents.

Representation Expenses as described in COA Circular No. 2004-002 dated April 29, 2004 pertain to expenses for Official meetings, conferences and entertainment.

Section 4, paragraph 6 of P.D. 1445 provides that: "*Claims against government funds shall be supported with complete documentation.*"

Section 168 of the Government Accounting and Auditing Manual (GAAM), Vol. I provide that basic requirements applicable to all classes of disbursements shall be complied with, which include among others that: "*Documents to establish validity of claim. – Submission of documents and other evidences to establish the validity and correctness of the claim for payment.*" (Emphasis ours)

In the review and analysis of the Representation Expense account for the year 2010, we noted that P1,402,917.46 were incurred by the Office of the Director General. Expenses incurred were for official meetings, conferences and entertainment, however, disbursements were not supported by notices of meeting stating among others the agenda of the meeting and guest list and/or personnel who attended the meeting. We cannot determine if all the expenses pertain to official functions in pursuance of the mandates/objectives of the Authority.

We further observed that representation expenses of the Office of the Director General include the following:

1. Expenses amounting to P185,134.17 were incurred during Saturdays, Sundays and P7,963.45 on Holidays. These include reimbursements of the Chief of Staff and the Petty Cash Custodian from January to March 2010 and the Director General from March to December 2010;
2. Food expenses paid to ATO Employees Multi Purpose Cooperative include the monthly charges for meals (Monday –Friday) and other individual receipts reimbursed by the Chief of Staff and the Director General amounting to P136,427.00 and P32,959.00 respectively. Accordingly, there are also payments to Philippine Air Traffic Controllers Cooperative from January to June 2010 amounting to P40,048.50;
3. Reimbursements of the Director General and the Chief of Staff for the year 2010 also include payments to different hotels in the total amount of P245,020.05. There are also payments to various restaurants amounting to five thousand and above per receipt in the total amount of P308,276.29. Supporting documents attached are only certification of the Director General and Official Receipts.

Management should have properly documented all the disbursements charged to representation expenses to show that they were incurred in the implementation of the mandates/objectives of the Authority.

Failure to support the expenses with proper documents may render the disbursements as irregular, unnecessary and excessive.

The same observation was included the 2009 Annual Audit Report and a corresponding notice of disallowance was issued.

We recommended that the Authority must submit all documents to prove the validity and correctness of the representation expenses. Accordingly, the Authority must 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.

13. Taxes withheld from employees and contractors/suppliers amounting to P3.660 million remained unremitted to the BIR contrary to Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 and Revenue Regulations No. 2-98

dated April 17, 1998, thus depriving the national government of the immediate use of the much needed funds.

BIR Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 clarified the computation of withholding taxes and other requirements on government money payments due or payable to Suppliers of Goods and/or Services.

In the said BIR Circular, the person in-charge of withholding in each government agency (Government offices, bureaus, agencies or instrumentalities, local government units, GOCCs) shall prepare the following forms, file the tax returns together with the required Monthly Alphabetical List of Payees as required under RR No. 2-2006, to the BIR collecting agents and pay the corresponding withholding taxes due thereon, to wit:

BIR Form 1600 (Monthly Remittance Return of Value-Added Tax and Other Percentage Taxes Withheld) to be filed on or before the 10th day of the month following the month in which the withholding was made.

BIR Form 1601-E (Monthly Remittance Return of Creditable Income Taxes Withheld - Expanded) to be filed on or before the 10th day of the month following the month in which the withholding was made except for tax returns covering transactions in December which shall be filed on or before January 15 of the succeeding year.

On the other hand, Revenue Regulation No. 2-98 dated April 17, 1998 state that:

“The employer shall make a return and pay such tax on or before the 10th day of the month following the month in which the withholding was made to any Authorized Agent Banks (AAB) within the Revenue District Office where the employer’s place of business or legal residence is located. However, taxes withheld from the last compensation for the year shall be paid to the BIR not later than January 25 of the succeeding year. “

Our evaluation on management’s withheld taxes and remittances for the year 2010 revealed that the balance of Due to BIR (GL 412) account as of December 31, 2010 amounting to P15,968,591.44 include P3,659,755.40 unremitted taxes withheld in previous months.

Had the management observed Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 and Revenue Regulations No. 2-98 dated April 17, 1998, withheld taxes for the month and remitted the following month, the balance as December 31, 2010 should have been the taxes withheld for December 2010 only.

Non compliance with the revenue regulations resulted to the overstatement of Cash and Due to BIR accounts by P3,659,755.40 as of December 31, 2010. Also, remittances beyond the reglementary period shall have penalty charges, which in such case shall be charged to the personal account of the concerned responsible official.

We also observed that the Due to BIR account does not have SL for the following:

- Value-Added Tax and Other Percentage Taxes Withheld

- Creditable Income Taxes Withheld –Expanded
- Compensation income Taxes Withheld

Recording the details of each type of taxes withheld in their respective SL should have facilitated the Authority’s monitoring of the withholding and the remittances of taxes to comply with the revenue regulations.

Similarly, in Area 2 taxes withheld and other trust collections totaling P9,824,642.67 as of December 31, 2010 were not remitted to concerned government agencies/corporations in violations of existing laws, rules and regulations

Audit analysis of inter-agency payables disclosed withheld deductions, summarized in the table below:

Payables to	Amount
BIR	6,035,812.05
GSIS	3,075,474.35
Pag-ibig	421,891.46
Philhealth	291,464.81
Total	9,824,642.67

We recommend that management should evaluate their system in the withholding and remittance of taxes withheld to comply with Revenue Regulations and ensure that taxes withheld are remitted within the prescribed period to avoid penalties. Also, subsidiary ledgers must be maintained for each type of taxes withheld, to support the controlling GL account and facilitate compliance with Revenue Regulations.

AREA 4

14. Construction in Progress (CIP) totaling P13.451 million is unreliable and /or doubtful due to the (1) absence of subsidiary ledgers to support the account contrary to Section 114(2) of PD 1445 and (2) inclusion in the account of long completed and accepted projects totaling P6.232 million at Virac Airport which are yet to be reclassified to the proper Property, Plant and Equipment (PPE) accounts.

Section 114(2) of PD 1445 states in part that “Subsidiary records shall be kept where necessary.”

Subsidiary ledger is defined as a group of accounts showing in detail the same information shown in summary by controlling account. At the end of a posting period, the balance of the controlling account (a general ledger account which shows in summary the same information shown in detail in the subsidiary ledger) should equal the total of the balances of the accounts in the subsidiary ledger.

Our examination of the account Construction In Progress (264) disclosed that the Accountant does not keep and maintain subsidiary ledgers to support the account

totaling P 13,450,646.93 as of December 31, 2010. There were no additions nor deductions noted to the account during the year.

The account also included the following completed and accepted projects at Virac Airport, viz:

Project	Cost
Rehabilitation of Airport at Virac Airport	1,135,082.66
Expansion of Terminal Building at Virac Airport	910,766.58
Construction of CHB Perimeter Fence and Obstruction Removal Project at Virac, Airport	4,185,961.45
Total	6,231,810.69

The Accountant commented that no Certificate of Completion and Acceptance was received by the Legazpi Airport thus, the projects were not dropped from the CIP account.

The above-cited projects should have been reclassified to its proper PPE accounts upon completion and acceptance by the responsible agency officials.

Auditor's Rejoinder

Management was fully aware that projects were undertaken at the Satellite Airports and should have required the respective Managers to make periodic reports on its implementation and to submit the required Certificate of Completion and Acceptance upon completion of the projects. For projects not funded by CAAP, the Accountant should have requested the implementing agency to furnish them with copies of the necessary documents to serve as basis for recording same to the appropriate asset accounts in the books of the Area Center.

We recommended that the Accountant should cause the immediate reclassification of the completed projects to the appropriate PPE accounts and the dropping of the same from the Construction-in-Progress account to reflect the true and correct balance of the affected asset accounts in the agency's financial statements.

AREA 5

- 15. Various inventory accounts totaling P8.904 million were erroneously recorded under account "Other Prepaid Expenses" instead of accounts "Office Supplies Inventory", "Gasoline, Oil and Lubricants Inventory", "Other Supplies Inventory" and "Spare Parts Inventory" resulting in the overstatement of account "Other Prepaid Expenses" and understatement of the corresponding inventory accounts.**

COA Circular No. 2004-008 dated September 20, 2004 on the Updated Description of Accounts under the New Government Accounting System provides that the account "Other Prepaid Expenses" should only be used to record the amount advanced for other expenses which are not classified in the specific prepaid accounts.

Analysis of the financial reports showed that the account “Other Prepaid Expenses” was used to record transactions pertaining to different specific inventory accounts.

Among the accounts erroneously taken up under the account “Other Prepaid Expenses” instead of a proper charge to the specific inventory accounts are as follows:

Account Name	Amount
Office Supply Inventory	18,627.00
Gasoline, Oil and Lubricants Inventory	120,075.41
Other Supplies Inventory	33,885.00
Spare Parts Inventory	8,731,267.69
Total	8,903,855.10

The account “Office Supply Inventory” should be used to record the cost of office supplies purchased/received for use in government office operations, the account “Gasoline, Oil and Lubricants Inventory” for cost of gasoline, oil and lubricants purchased/received, while “Other Supplies Inventory” is for cost of supplies purchased or received for use which cannot be classified under any of the specific inventory account, and the account “Spare Parts Inventory” for cost of spare parts purchased/received for the repair of government vehicles, aircrafts, machineries and other equipment.

Failure to record transactions in the specific inventory account and the continued use of the account “Other Prepaid Expenses” resulted in the understatement of the corresponding specific inventory accounts and overstatement of the account “Other Prepaid Expenses”.

Management commented that “Area finance staff is now working on the reconciliation of the erroneous recording in all satellite airports designated personnel so that necessary correction will be effected.”

Further, we recommended that the Accountant draw a Journal Entry Voucher to correct the erroneous entries made using the account “Other Prepaid Expenses”.

GENDER AND DEVELOPMENT (GAD)

16. CAAP appropriated P4,105,000.00 for Gender and Development (GAD) Plan for Calendar Year 2010 and incurred total expenses amounting to P1,945,583.09, utilizing 48% of their total budget appropriation with the following Gender Issues/Activities.

Gender Issue/Activity	No. of Employees Trained/Attended
1. Lack of information awareness and understanding of gender issues among	

employees:	
a. Conducted the following trainings:	
- Gender sensitivity	30
- CAAP-GAD Technical Working Group Strategic Planning Conference.	25
b. Send participant to the following seminar/workshop:	
- Gender Fair Education at Miriam College	2
- International Women's Human Rights Course at Miriam College.	4
- Training of Trainors (TOT)	26
- Orientation on Menopause and Andropause at Jomalig Airport(Jomalig airport personnel)	12
2. Lack of gender-sensitive facilities to help-passenger with infant/children:	
- Breastfeeding Rooms at pre-departure area at Cagayan de Oro airport	Implemented
- Diaper changing room (relocation of diaper-changing table from the female CR at Laoag airport	Implemented
- Breastfeeding room and Toddler's play area at Laoag airport	Implemented
- Proposed GAD corner bulletin board at Iloilo airport	Implemented
- Prepared Program of Works for proposed signage for person with disability, elderly, pregnant women and children at Iloilo airport	Implemented
- Breastfeeding room and Toddler's play area at Iloilo Airport	Implemented

17. STATEMENT OF SUSPENSIONS, DISALLOWANCES AND CHARGES

Head Office

For the years 2008 to 2010 no Notice of Suspension, Notice of Disallowance and Notice of Charge was issued.

Prior years' disallowances as of December 31, 2010 as recorded in the books as Receivables–Disallowances/Charges amounting to P26,583,612.26. These audit disallowances were issued to then Air Transportation Office (ATO) employees and remained outstanding for more than two years. It was further disclosed that subsidiary records for some audit disallowances were not maintained thus collecting the same could not be implemented. Accordingly, the observation and recommendation was reiterated this year.

Area Centers

Area Center	2010		Prior years' Disallowances
	NS	ND	
Area Center IV	540,144.16	25,051.26	53,144.00
Area Center V	31,500.00	439.00	367,507.86
Area Center VI	-	-	28,482.47
Area Center VIII	-	-	1,051,419.99
Area Center IX	-	-	1,238,199.81
TOTAL	571,644.16	25,490.26	2,738,754.13