

## COMMENTS AND OBSERVATIONS

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**1. The existence, validity and correctness of the ATO-asset account balances carried into the CAAP books of account in 2008 could not be substantiated due to the inadequacy of the accounting records.**

Republic Act (RA) No. 9497, or the Civil Aviation Authority Act of 2008, created the Civil Aviation Authority of the Philippines and abolished the Air Transportation Office (ATO). All the powers, duties, and rights vested by law and exercised by 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 ATO and its offices and branches were, likewise, transferred to CAAP. RA 9497 further provided that 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 CAAP.

In CY 2008, a COA team conducted a terminal audit of the accounts of ATO. Most of the audit observations of the audit team pertain to the non-existence, the uncertainty and the doubtfulness of the propriety, correctness and validity of the ATO asset account balances as of June 30 2008, which account balances were carried over into the books of accounts of the then newly-created CAAP. Some ATO-transferred asset account balances were temporarily lodged under the account "Other Assets" pending verification. From the original amount of P5.026 billion as of December 31, 2008, this account increased to P5.479 billion as of December 31, 2011. Of the total amount of P5.479 billion, P4.3749 billion pertain to the CAAP Head Office while P1.104 billion pertain to the Area Centers. Details of these asset accounts are shown in Note 9 of the Notes to Financial Statements of CAAP. The P5.479 billion balance of the "Other Assets" account as of December 31, 2011 forms part of the recognized equity of the national government in CAAP's books. It represents about 21% of the stated total assets of CAAP and 24% of the stated total equity of CAAP.

Also, the long-outstanding balances of the Due from National Government Agencies (NGAs) and Due from Local Government Units (LGUs) accounts could not be ascertained due the inadequacy of accounting records. Since the transfer of the account balances from ATO, no significant adjustments were made. As of December 31, 2011, the balances of the respective accounts are P65.847 million and P42.466 million, respectively.

Further, the balance of Receivables - Disallowances /Charges account amounting to P26.214 million was also carried forward account from ATO. The persons liable for these disallowances were still not established/determined to date.

Considering the substantial amount of the assets and the accountabilities involved and the significant effect of these doubtful accounts on the reliability of CAAP's financial statements, we reiterate our recommendation, as embodied in our Annual Audit Reports on CAAP for CY 2008, 2009 and 2010, that Management determine the existence, validity and propriety of the balances of the various accounts lodged under the Other Assets account and the validity and details of the balances of the Due from National Government Agencies (NGAs), Due from Local Government Units (LGUs)

and Receivables - Disallowances/Charges accounts. We strongly recommend the creation of a special Committee which shall focus on this task.

**2. The fairness of the balance of Receivables of P6.350 billion as of December 31, 2011 is doubtful.**

The Authority's Statement of Financial Position reflect Receivables at P6.350 billion as of December 31, 2011. This amount includes Accounts Receivable of P5.947 billion (net): P4.506 billion at the CAAP Head Office and P1.764 billion at the CAAP Area Centers nationwide.

The CAAP Accounts Receivable at the Head Office of P4.506 billion per general ledger is P525 million short when compared with the total of the subsidiary ledger balances and P542 million short when compared with the total accounts receivable per Aging Schedule. No reconciliation was made of the variances.

Likewise, confirmation of selected Head Office Accounts Receivable from different Airlines with a total book balance of P3.915 billion resulted in confirmed balances of only P3.880 billion. Seven (7) airlines with account balances per books of P108.926 million claimed that they have no account balances with CAAP.

Further, aging of Head Office Accounts Receivable totaling P5.048 billion disclosed that 27%, or P1.363 billion of these receivables, are outstanding for one year and below, while 73% or P3.685 billion are outstanding for more than one year. In the Area Centers, some P1.723 billion Accounts Receivable have long been outstanding. Despite this, we noted that the provided allowance for uncollectibility is only P322.65 million or barely 6% of the long-outstanding receivables. The receivables are thus not presented at their reasonable estimated net realizable values.

Relative to the long-outstanding accounts receivable, we have noted that the Authority has not sent demand letters or filed collection suits for delinquent accounts. It did not also charged the required penalties for these delinquent accounts as provided under CAAP Administrative Circular No. 03-11 and the defunct DOTC-ATO Aeronautical Information Department Order No. 99E-002, dated July 5, 1999.

On the other hand, we have noted that the Authority is still adopting the old Schedule of Fees and Charges issued by the abolished ATO. It was only in CY 2011 that it initiated revisions for Air Navigation Services (ANS) under CAAP Administrative Circular No. 03-11 dated April 11, 2011.

We reiterate our prior years' recommendation for Management to:

- a. Reconcile the variances between the balances of the general ledger, subsidiary ledger and aging of accounts receivable.
- b. Reconcile the variances between the subsidiary ledger balances and confirmed balances by airline companies.
- c. Provide adequate allowance for doubtful accounts.

- d. Exert more efforts to collect the long-outstanding receivables by sending demand letters and filing collection suits.
- e. Charge penalties on delinquent accounts.
- f. Update/revise the schedule of fees and charges for the other aviation services rendered by the Authority.

**3. The fairness of the balance of Property, Plant and Equipment stated at a net book value of P9.192 billion as of December 31, 2011 cannot be substantiated because of lack of inventory taking and inadequacy of records relative thereto.**

Property, plant and equipment is presented in CAAP's Statement of Financial Position as of December 31, 2011 at a net book value of P9.192 billion. Of this amount, P1.505 billion are booked at CAAP-Head Office while P7.687 billion are booked at the various Area Centers. We could not establish the accuracy of the reported PPE balance because of the inadequacy of accounting records and the absence of property/equipment ledger cards. At the CAAP-Head Office, no physical inventory was undertaken since the creation of CAAP in 2008. On the other hand, the conducted physical inventory in some Area Centers were either incomplete or not completed.

In our audit of the CAAP-Head Office PPE accounts, we have noted that the cost of some properties like Runways/Taxiways, Buildings, Airport Equipment, Other Structures and Communication Equipment with a net book value of P226.234 million and which were constructed or acquired for and being utilized by the Area Centers were recognized at the Central Office books, together with their depreciation. Though not affecting the balance of the total PPE account, the erroneous recording of the Area Center properties in the Head Office affected the financial position and results of operation of both the Head Office and the concerned Area Centers.

On the other hand, we have noted that some motor vehicles included in the motor vehicle account in the Head Office are non-existent, while sixteen (16) motor vehicles being used by the Authority are not recorded in the books. In 2011, two (2) motor vehicles were registered in the name of the Authority and these are being used by its officers. There are no supporting disbursement vouchers for these acquired vehicles; hence, these were not recorded in the books.

The non-recording of these motor vehicles together with their depreciation expense understated the balance of the motor vehicle account stated at P4.792 million (net)

We wish to inform that ownership by the Authority over these unrecorded vehicles should be established. Otherwise, expenses incurred in their maintenance will be disallowed in audit.

We reiterate our recommendation for Management to:

- a. Conduct yearly physical count of the Authority's property and equipment to establish their existence, condition and to support the PPE balance reflected in the financial statements.

- b. Draw journal vouchers to derecognize at the Central Office books the properties pertaining to the Area Centers and provide copies thereof to the Area Centers concerned so that they could, in turn, recognize the same in their books.
- c. Fully establish ownership over the sixteen (16) unrecorded vehicles and recognize the same in CAAP's books of accounts.

**4. Reciprocal accounts were not analyzed and reconciled so that at the end of the year upon consolidation of the financial statements of the Head Office and the Area Centers their balances will be eliminated or will have zero balances.**

Financial Statements at the end of the year include the balances of the Due from Regional Offices and Due to Central Office accounts amounting to P245.260 million and P169.242 million respectively.

Moreover, audit of the reciprocal accounts revealed that in the books of accounts of CAAP-Head Office, the account *Due to Regional Offices (GL 422)* is being debited to record the fund transfers to the Area Centers for their operational needs instead of the account *Due from Regional Offices/Staff Bureaus/Branch Offices (GL 142)*.

On the other hand, the account *Due from Central Offices/Home Office (GL 141)* is being used by the Area Centers to record the receipt of the funds transfer from the Head Office instead of the account *Due to Central Office/Home Offices (GL 421)* as prescribed in the mentioned COA Circular.

We recommended that the Authority's Accounting Division of the Head Office and the Area Centers must exert extra efforts to reconcile the reciprocal accounts and eliminate these accounts upon consolidation of the Authority's financial statements.

The same observations were noted in the Annual Audit Reports since 2008, thus, we are constrained to reiterate the same in this report.

**5. Deposit on Letters of Credit stated at P18.332 million as of December 31, 2011 have long been outstanding and could not be substantiated**

Deferred Assets in the Statement of Financial Position include Deposits in Letters of Credit in the amount of P18.332 million. The balance, which was carried over from ATO books, could not be substantiated in the absence of subsidiary records and documents.

We reiterate our prior years' recommendation that the Authority exert efforts to determine the banks where subject deposits were made, analyze them and prepare necessary adjusting entries.

**6. The P51.4 million balance of the ATO-transferred account Due to DOTC-Central as of December 31, 2011 differs from the P96.645 million balance per DOTC books and the same could not be validated due to the unavailability of documents to support the account.**

The account Due to Other Government Agencies in the Statement of Financial Position includes the ATO-transferred account "Due to DOTC-Central" with a balance

of P51.4 million as of December 31, 2011. However, per confirmation made, the balance as appearing in the DOTC books amount to P96.645 million, or a variance of P45.245 million. Coordination between DOTC and CAAP was made regarding the account but up to now no adjustments were made. The account cannot be validated because of the absence of documents to support it.

We reiterated our prior years' recommendation for the Authority to continue its coordination efforts with DOTC to reconcile the account.

**7. The cash and related accounts are understated by P50.02 million because of the non-recording of collections pertaining to CY 2011. Also, the Due to National Treasury and Retained Earnings accounts are understated and overstated, respectively, due to the unrecognized dividend payable for CY 2011 equivalent to 50% of CAAP's Net Profit, as required under RA No. 7656.**

In our verification of the bank reconciliation statements, we noted reconciling items which have not yet been take up in the books. These pertain to dollar payments thru telegraphic transfers in the amount of \$478,518 or P20.964 million and peso payments thru the banks in the amount of P29.056 million or a total of P50.02 million, which were made in 2011 by unidentified customers. The non-recording of the collections understated cash in bank account by P50.02 million and correspondingly overstated the receivable account.

We also noted unrecorded bank debits (charges) pertaining to check payments made by customers without sufficient funding in the total amount of P89,392, of which P78,067 pertain to 2008.

Section 3 of RA 7656 – An Act Requiring Government-Owned or Controlled Corporations to Declare Dividends Under Certain Conditions to the National Government, and for Other Purposes, provides that:

*“All government-owned or-controlled corporations shall declare and remit at least fifty percent (50%) of their annual net earnings as cash, stock or property dividends to the National Government. Xxx.*

For the year 2011, the Authority failed to recognize dividend payable for CY 2011 equivalent to 50% of the net profit, as required under RA No. 7656, hence, the Due to National Treasury and Retained Earnings accounts are understated and overstated, respectively.

We recommended that the collections be immediately recorded and that arrangements be made with the client Airlines for the latter to inform immediately the Authority upon remittance, so as to be able to record the transactions upon receipt of telegraphic transfers/payments. Also, dividend payable equivalent to 50% of CAAP's net profit should be recognized in the books.

**8. The Philippine Civil Aviation has not regained its Category I (Pass) status even with the \$14.835 million Trust Fund extended from 1996 to 2011 by ATO and CAAP to ICAO and even after three (3) years from the enactment of the Civil Aviation Act of 2008.**

On December 31, 1995, then ATO entered into a Trust Fund Agreement, known as TF/PH 195/901, with the International Civil Aviation Organization (ICAO), for the latter to provide ATO with Technical Consultants for the development and improvement of the safety and surveillance programs. This was because the Philippine Civil Aviation was downgraded from Category I (Pass) to Category II (Conditional) status by the Federal Aviation Administration (FAA) due to weaknesses in the field of flight safety.

On November 1997, the Category I status was regained when the significant deficiencies were resolved. Remittance to the Trust Fund continued and so with the services of the ICAO consultants.

On December 2007, the FAA again downgraded the Philippine's Civil Aviation to Category II because of eight (8) noted deficiencies in ATO's safety and surveillance programs. This prompted the Philippine government to enact RA 9497, the Civil Aviation Act of 2008, on March 4, 2008, ATO was abolished and CAAP was created as an independent regulatory body with quasi-judicial-legislative powers and possessing corporate attributes.

Aside from the Trust Fund Agreement, there are other existing agreements with ICAO as follows:

- a. ICAO-Cooperative Development for Operational Safety and Continuing Airworthiness (COSCAP-SEA) Programme;
- b. Flight Procedures (FP) Programme under the ICAO Project RAS098010;
- c. TRAINAIR Management Service Agreement (MSA) under the Project PH199801.

In addition, on March 1, 2011, CAAP entered into a special services consultancy contract with Tim Neel and Associates, Inc. (TNA) for CAAP's Special Aviation Safety Oversight/Training Project with a total contract price of \$116,500. Despite the creation of CAAP and all the agreements with ICAO and the agreement with TNA, the Philippine Civil Aviation has not regained its Category I status up to now.

From 1996 to date, total contribution to ICAO amounted to \$14.835 million. The Summary of Trust Fund contribution and balance follows:

Year	Contributions (in US dollars)	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

Year	Contributions (in US dollars)	Interest Earned	Disbursements Made	Transfer to Other Funds	Gain/ (Loss) on Forex	Fund Balance
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
<b>2011</b>	<b>2,500,000</b>	<b>748</b>	<b>1,014,620</b>	<b>-</b>	<b>(1,797)</b>	<b>3,057,798</b>
<b>TOTAL</b>	<b>14,834,599</b>	<b>405,807</b>	<b>11,812,175</b>	<b>359,620</b>	<b>(10,813)</b>	<b>3,057,798</b>

We also noted that there were purchases of motor vehicles from the trust fund, which is contrary to the Agreement since the project budget has not earmarked any amount/fund for the procurement of motor vehicles. For the years 2009 to 2011 alone, seven (7) motor vehicles were purchased in the total amount of P8.952 million.

We reiterate our recommendation, as embodied in our CY 2010 Annual Audit Report on CAAP, for Management to provide the audit team with:

- a. a clarification on why the Philippine Civil Aviation has not regained its Category I status up to now;
- b. a justification for the continuance of the Trust Fund Agreement with ICAO;
- c. information on the status of CAAP's programs to address the eight (8) deficiencies noted by FAA in the latter's audit report in 2007; and

Relative to the consultancy agreement with TNA, we request that we be furnished a copy of the Terms of Reference of the same and be favored with a reply to our letter, dated March 28, 2011, requesting clarification on certain issues on the scope of work and the mode of procurement of the consultancy contract with TNA.

Relative to the contracts with ICAO, we reiterate our request to be provided the following:

- a. Annexes to the Trust Fund Agreement, and any amendments thereto and necessary documents to support the basis of the remittances to ICAO from 1996 to 2008 and the supporting documents pertaining to the disbursement schedules; and
- b. Contract agreements and supporting documents on COSCAP-SEA Programme, FP Programme and the TRAIN AIR MSA and other project/service agreements with ICAO and the status of the projects/service agreements.

**9. Regular operating expenses and procurement of equipment and other assets were paid not by checks but in cash thru the cash advances granted to the Petty Cash Custodians/Special Disbursing Officers**

Ideally, all payments in small amounts may be made through the petty cash fund. In practice, however, there are certain instances when it may be very difficult,

impractical or impossible to make payments by check. In such a case, payments may be made by the disbursing officer in the form of cash thru his cash advance.

Resorting to the cash advance system, despite certain problems, has been recognized as a facilitative tool in the financial operations of the government. Relative thereto and in accordance with its constitutional mandate, the Commission on Audit issued rules and regulations on the grant, utilization and liquidation of cash advances under COA Circular No. 90-331 dated May 3, 1990, as amended by COA Circular No. 97-002 dated February 10, 1997.

COA Circular No. 97-002 recognizes two types of cash advances: regular cash advances and special cash advances. Petty cash funds handled by Petty Cash Custodians (PCCs) are regular cash advances. These shall be sufficient for the recurring expenses of the agency for one month. It shall be used for payment of operating expenses in small amounts. It shall not be used for payment of 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 P15,000 for each cash transaction. Splitting of transactions to avoid exceeding the ceiling shall not be allowed. On the other hand, cash advances handled by Special Disbursing Officers (SDOs) are special cash advances. These are granted to be used for field or activity current operating expenses. These shall be limited to the requirements for two months. Payment for each transaction shall not be subject to amount limitation. However, all payments shall be approved by the Director/Head of Field Office.

For the year 2011, the Authority designated three (3) Petty Cash Custodians (PCCs) and twenty (20) Special Disbursing Officers (SDOs) to handle cash advances. We have noted that the purposes for which the cash advances were held as stated in the Authority Orders approved by the Director General do not conform to the purposes as provided and allowed in COA Circular No. 97-002. Among the purposes of the cash advances granted by the Authority to its PCCs and SDOs were as follows:

- a. Purchase and payment of urgently needed repair, replacement of spare parts/repair of communication, navigation and surveillance equipments, micro processors/computers and its peripherals and/or ancillaries
- b. Payment for urgently operational expenses for building and grounds maintenance, janitorial urgent supplies and materials, repair and maintenance of motor vehicles.
- c. Emergency procurement of common office supplies and materials not available in stocks and thermal strips for Area Control Center.
- d. Payment for travel expenses of OGCC lawyers attending court cases.
- e. Reimbursement of representation expenses.
- f. Meetings, operational emergency and incidental expenses including food and beverages, urgently needed aircraft parts, equipment, chemicals and lubricants.
- g. Purchase of urgently needed office supplies and equipment, entertainment, and incidental expenses and other official business related travelling expenses.

In our conduct of cash examination and review of the replenishment vouchers of the PCCs and SDOs, we noted that cash payments were made for operating expenses in large amounts and acquisition of equipment and other assets, where payment for these items by checks may not be considered difficult, impractical and impossible.



Splitting of transactions was also practiced. The purchases of supplies/equipment/ / spare parts of communication, navigation and surveillance equipments/ were procured separately, in some cases on a daily basis, when in fact, the requirements of the Area Centers can be summarized and submitted to the Procurement Division to be purchased thru public bidding or other any alternative methods as provided for in RA 9184. IT equipments were purchased by part (CPU, Monitor, Printer etc.) on different dates so as not to exceed the cash payment limit.

In the case of two (2) SDOs of the Air Navigation Services, replenishment in CY 2011 of their cash advances totaled P12.3 million. Monthly replenishment averaged half a million, with the highest at P899 thousands. Among those paid out of the SDOs' cash advances were for procurement of goods like airport equipment, furniture and supplies and spare parts, computers for the Area Centers etc., acquisition of which should have gone public bidding or other alternative methods of procurement as required by RA 9184, the "Government Procurement Reform Act".

We recommend that Management ensure that:

- a. Petty Cash Funds should only be used for cash payment of operating expenses in small amounts which could not conveniently be paid in checks or which require immediate payment.
- b. Special Cash Advances should be used only for payment of current operating expenses which are difficult, impractical or impossible to make payments by checks.
- c. Goods and services should be acquired thru public bidding or other modes of procurement as required under RA 9184.
- d. The number of Petty Cash Funds and Special Cash Advances should be reduced and the establishment and utilization of these funds should comply with the requirements of COA Circular No. 97-002.

**10. The general ledger balance of Advances to Officers & Employees account as at December 31, 2011 of P38.531 million differs from the total subsidiary ledger balance of P32.063 million or a variance of P6.468 million. Also, a total of P12.063 million of cash advances for foreign and local travels remained unliquidated as of December 31, 2011.**

The General Ledger (GL) is a book of final entry summarizing all of the company's financial transactions. It contains the control account of items which are summarized in the financial statements. On the other hand, a subsidiary ledger (SL) is a book of final entry containing the details or breakdown of the balance of the controlling account appearing in the GL. Postings to GL and SL generally come from source documents. The totals of the SL balances shall be regularly reconciled with their respective control accounts/GL balances. Schedules should be prepared periodically to support the corresponding controlling GL accounts.

In our audit, we noted that there was a substantial difference between the GL and the SL balance of the Advances to Officers and Employees account amounting to P7 million. The difference could be attributed partly to the improper maintenance of the

SL for Advances to Officers and Employees, as follows: 1) using the ending balances from the book of the Air Transportation Office (ATO) as beginning book balances of the Authority without proper verification and reconciliation of balances; and 2) not recording simultaneously in the GL and SL the JEVs pertaining to the liquidation reports; 3) not analyzing and adjusting the negative balances of some accounts included in the SL.

We also noted that cash advances granted for travel expenses in the total amount of P12.063 million were not liquidated as of December 31, 2011 in violation of COA Circular 97-002. Liquidation of cash advances should have been made as soon as their purposes have been served.

Unliquidated cash advances include those availed during the time of the Air Transportation Office (ATO) or before the creation of the Civil Aviation Authority of the Philippines (CAAP). It can also be attributed to the Authority's practice of allowing its officers and employees with unliquidated cash advances to travel and later reimburse their traveling expenses, despite the issuance of a Memorandum by the Director General (DG) dated February 9, 2011 which provides, among others, that "No CAAP Personnel or Official shall be issued Travel Order (Foreign or Local) unless he/she has fully liquidated his/her accountabilities and complied with the requisite clearance."

The non-liquidation of cash advances for local and foreign travel resulted in the overstatement of the Advances to Officers and Employees account and the understatement of the Travel Expenses account.

Moreover, we noted that JEV Nos. 11-09-0100 up to 11-09-0171 with a total amount of P1.352 million that were submitted to COA were not recorded in the books as of December 31, 2011. The JEVs were prepared to record the liquidation of cash advances for the year 2011 and prior years, pertaining to training and travelling expenses-local and foreign accounts and a Special Disbursing Officer.

Non-recording of the drawn JEVs deprived the accountable officers from relief from their accountabilities and resulted in the overstatement of the Asset and Retained Earnings accounts and the understatement of several Expense accounts.

Area Centers 2 and 5 also reported unliquidated cash advances amounting to P471 thousand and P1.673 million, respectively.

We recommended that the Authority:

- a. strictly comply with the provisions of COA Circular No. 97-002 dated February 10, 1997 regarding liquidation of cash advances;
- b. withhold the payment of any money due to the officers and employees of the Authority until they have liquidated their long outstanding cash advances;
- c. exert effort to reconcile the substantial difference between the SL and GL balances;
- d. reconcile regularly SL balances with the GL account;

- e. record the unrecorded JEVs and, henceforth, ensure that JEVs submitted to COA have been recorded in the Authority's books.

**11. Technical review of the Work Agreement between CAAP and INTECH PROPERTY APPRAISAL, INC. (INTECH) in the amount of P29.5 million cannot be completed due to the failure of the Authority to submit various documents required by Annex D of COA Circular No. 2009-001 dated February 12, 2009.**

Work Agreement for P29.5 million was entered into by and between CAAP & INTECH for the appraisal of CAAP Properties at various airports and facilities nationwide. We referred the Work Agreement to our Technical Service Unit (TSU) for technical review. Initial result of the review requires the submission of items 4 and 5 of the Checklist for Technical Evaluation of Consultancy Services Contract as embodied in COA Circular No. 2009-001 dated February 11, 2001, as follows:

- a. Schedule of detailed breakdown of all items in the Approved Budget for the Contract (ABC); and
- b. Copy of the detailed breakdown of the Contract Cost indicating among others: the schedule of basic rates certified by the consultant with a sworn statement; derivation of the billing factor/multiplier certified by the consultant with a sworn statement; detailed breakdown of reimbursable costs based on agreed fixed costs; and detailed breakdown of reimbursable costs based on actual costs.

Unless the required documents are submitted, our TSU will not be able to determine the reasonableness of the cost of the Work Agreement. In turn, we cannot pass in audit the payments made to INTECH without the results of the TSU technical review.

We have informed the Authority of the TSU Report regarding the evaluation of the Work Agreement between CAAP and INTECH and requested submission of the required documents, but we have not received any reply to date.

We recommended that the Authority submit the documents required by the TSU. Failure to submit the required documents will result in our issuance of a Notice of Suspension on the payments made to INTECH.

**12. Appraisal Reports submitted by INTECH were incomplete not having included some of CAAP properties.**

We requested our TSU to review and evaluate the Appraisal Reports submitted by INTECH of CAAP's various airports and facilities. The Appraisal Reports of the following airports were reviewed and evaluated:

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

Quoted hereunder are the findings/observations of the TSU:

*“In the Terms of Reference (TOR) attached to the Work Agreement dated November 7, 2009, the project provides the following objectives, to wit:*

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

*Furthermore, the TOR also provides that the assets referred above are **movable and immovable properties** which include but not limited to, land, buildings and other land improvements, owned and likewise in possession with CAAP situated at eighty one (81) airports nationwide (emphasis supplied).*

*Article 415 of the New Civil Code which was cited in the book entitled “Philippine Real Estate Law and Jurisprudence”, 1997 edition by Alberto E. Filamor, provides that “The following are immovable property:*

- (1) Land, buildings, roads and constructions of all kinds adhered to the soil;*
- (2) Trees, plants, and growing fruits, while they are attached to the land or form an integral part of an immovable;*
- (3) Everything attached to an immovable in a fixed manner, in such a way that it cannot be separated there from without breaking the material or deterioration of the object;*
- (4) Statues, reliefs, paintings or other objects for use or ornamentation, placed in buildings or on lands by the owner of the immovable in such a manner that it reveals the intention to attach them permanently to the tenements;*
- (5) Machinery, receptacles, instruments or implements intended by the owner of the tenement for an industry or works which may be carried on in a building or on a piece of land, and which tend directly to meet the needs of the said industry or works;*
- (6) Animal houses, pigeon-houses, beehives, fish ponds or breeding places of similar nature, in case their owner has placed them or preserves them with the intention to have them permanently attached to the land, and forming a permanent part of it; the animals in these places are included;*

- (7) *Fertilizer actually used on a piece of land;*
- (8) *Mines, quarries, and slag dumps, while the matter thereof forms part of the bed, and waters either running or stagnant;*
- (9) *Docks and structures which, though floating, are intended by their nature and object to remain at a fixed place on a river, lake, or coast;*
- (10) *Contracts for public works, and servitudes and other real rights over immovable property.”*

Review made by the TSU of the Appraisal Reports disclosed that INTECH only appraised the land, land improvements, and buildings but did not include the equipment inside the buildings contrary to the requirements of the TOR. In the TOR, it was clearly stated that assets of CAAP that have to be appraised should include movable and immovable properties. The equipment and other instruments that are installed and placed in the building to meet the needs or to carry on an industry or works of the owner are considered immovable property as defined in Article 415 of the New Civil Code.

Hereunder are the list of the equipment and other land improvements that were not included in the valuation of INTECH as reported by our TSU:

<b><i>Appraisal Report/Airport</i></b>	<b><i>Equipment/Land Improvements</i></b>
<i>1. Davao (F. Bangoy) International Airport</i>	<i>Machineries and equipment approximately 35% of the total cost of building and improvements.</i>
<i>2. General Santos (GenSan) City International Airport</i>	<ul style="list-style-type: none"> <li><i>a. Airport road network;</i></li> <li><i>b. Fire trucks;</i></li> <li><i>c. Electric power plants;</i></li> <li><i>d. Pump house equipment;</i></li> <li><i>e. Substations;</i></li> <li><i>f. Switch gears/panel boards;</i></li> <li><i>g. Localizer equipment;</i></li> <li><i>h. VOR equipment;</i></li> <li><i>i. Tower control equipment;</i></li> <li><i>j. Air conditioning units;</i></li> <li><i>k. Perimeter fence, new, cyclone wire on GI steel pipes (east area, center portion approximately 1,000 linear meters);</i></li> <li><i>l. Perimeter fence, barb wire, old (at west to south area approximately 4,520 linear meters), etc.; and</i></li> <li><i>m. Security fence.</i></li> </ul>
<i>3. Puerto Princesa Airport</i>	<ul style="list-style-type: none"> <li><i>a. Fire Station Equipment such as Fire Trucks and Fire Water Storage Tank;</i></li> <li><i>b. Passenger Terminal Building Equipments such as PAUs, AHUs, Elevators, Escalators, Baggage handling System, X-Ray Machines, and CCTV;</i></li> <li><i>c. Control Tower and Operation Building Equipments; and</i></li> <li><i>d. Navigational Facility Equipments for:</i> <ul style="list-style-type: none"> <li><i>1. Communication (VHF Transmitters and</i></li> </ul> </li> </ul>

<b>Appraisal Report/Airport</b>	<b>Equipment/Land Improvements</b>
	Receivers); 2. Navigation (DVOR, Localizer and Glide Slope Equipment); 3. MET (Celometer, Wind, Humidity & Temperature Sensors including Digital barometer); and 4. AFL (Airfield Lighting) System (PALS, SALS & PAPI).
4. Iloilo International Airport	a. Sewerage Treatment Plant; b. Fire Station Equipments such as Fire Trucks and Fire Water Storage Tank; c. Electric Central Plant Equipment such as Generators, CCRs and UPSs; d. Mechanical Central Plant Equipments such as Aircooled Water Chillers, Fire Pumps, Water Distribution Pumps, Primary and Secondary Pumps; e. Passenger Terminal Building Equipments such as PAUs, AHUs, Elevators, Escalators, Baggage handling System, X-Ray Machines, CCTV and Passenger Boarding Bridge; and f. Control Tower and Operation Building Equipment g. Navigational Facility Equipment for: 1. Communication (VHF Transmitters and Receivers); 2. Navigation (DVOR, Localizer and Glide Slope Equipments); and 3. Underground Service Link connecting the control tower, VOR, Passenger Terminal and Central Plant.
5. Lumbia Domestic Airport	a. Fire Station Equipment such as Fire Trucks and Fire Water Storage Tank; b. Plant Equipment such as Generators, CCRs and UPSs; c. Mechanical Equipment such as Fire Pumps, Water Distribution Pumps, Primary and Secondary Pumps; d. Control Tower and Operation Building Equipment; e. Navigation Facility Equipment for: 1. Communication (VHF Transmitters and Receivers); 2. Navigation (DVOR, Localizer and Glide Scope Equipment); 3. MET (Ceilometer, Wind, Humidity and Temperature Sensors including Digital barometer; and 4. AFL (Airfield Lighting) System (PALS, SALS and PAPI).

The TSU, likewise, noted several deficiencies during its inspection, as follows:

<b>Appraisal Report/ Airport</b>	<b>Findings</b>
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<p>1. <i>Davao (F. Bangoy) International Airport</i></p>	<p><i>There were three (3) buildings that were not included in the Appraisal Report as follows:</i></p> <ul style="list-style-type: none"> <li><i>a. One (1) storey building – Old Flight Service Station;</i></li> <li><i>b. One (1) storey building-Old Power House Building; and</i></li> <li><i>c. One (1) storey building-Old Receiver Building.</i></li> </ul> <p><i>Moreover, the Stock Room and Kitchen were included in the Appraisal Report when in fact, they are non-existent.</i></p>
<p>2. <i>General Santos (GenSan) City International Airport</i></p>	<p><i>The land where the airport is situated is not yet registered in the Register of Deeds of the Land Registration Authority of General Santos City. Verification from the records in the Community Environment and Natural Resources Office (CENRO) at Bauyan, General Santos City showed that then Air Transportation Office (ATO), now CAAP, applied for land registration but was not yet given due course pending compliance with some requirements due to the adverse claims of ancestral/indigenous people on some portions of the land reservations.</i></p> <p><i>The perimeter fence, especially in the north and northeastern sides, is not along the property line but is a few meters deep inside the property area, thus, does not indicate the true boundary of the property of CAAP. As per computation (based on actual inspection), the old perimeter fence (cyclone wire on GL steel pipes on the north and northeastern portion of the property) is only approximately 2,600 linear meters by 1.8 meter high or a total of 4,680 sq.m. The computations done by Intech reflected an area of 49,135 square meters or a difference of 44,455 sq.m. from the COA computed area.</i></p> <p><i>Computation of the Reproduction Cost New of the old perimeter fence based on the above area is shown below:</i></p> <p style="text-align: center;"><b><i>COA: 4,680 x P2,546 = P11,915,280.00</i></b>  <b><i>Intech: 49,135 sq.m. x P1,800.00 = P88,443,000.00</i></b>  <b><i>Difference: P76,527,720.00</i></b></p>
<p>3. <i>Puerto Princesa Airport and Lumbia Domestic Airport (Cagayan De Oro)</i></p>	<p><i>There is a tunnel connecting the Passenger Terminal Building to the VOR, Glide Slope, and Localizer Buildings. The said tunnel serves as an emergency facility connecting to the said areas and it is where the electrical and mechanical facilities are laid, which was not also considered in the appraisal made by INTECH.</i></p>

The non-inclusion of the various assets in the Appraisal Reports defeats the objectives as stated in the TOR.

We have, on various dates, informed the Authority of the TSU Reports regarding the evaluation of the Appraisal Reports on Davao (F. Bangoy) International Airport, General Santos City International Airport, Iloilo International Airport, and Puerto Princesa Airport, including several follow up letters and requested submission of the required documents as well as solicited their comments/explanations on the findings/observations by the TSU, but we have not received any reply to date.

We recommended that the Authority submit its comments/explanations in the findings/observations by the TSU to preclude our issuance of a Notice of Suspension on the payments made to INTECH.

**13. Propriety of transactions pertaining to Cable, Satellite, Telegraph & Radio Expenses amounting to P43.8 million and Construction in Progress account amounting to P461.9 million cannot be ascertained due to non submission of supporting documents.**

Section 4, paragraph 6 of P.D. 1445 and the New Government Accounting System (NGAS) provides that: "Claims against government funds shall be supported with complete documentation."

For CY 2011, the Authority paid a total amount of P43.801 million for Cable, Satellite, Telegraph & Radio Expenses to the following service providers:

<b>Service Providers</b>	<b>Amount</b>
Bayan Telecommunications, Inc	28,078,286.27
Eastern Telecommunications	2,280,272.64
Innove Communications, Inc	2,642,196.77
Philippine Global Communications	9,493,630.36
Philippine Long Distance Telephone Company	1,306,414.02
<b>TOTAL</b>	<b>43,800,800.06</b>

We cannot validate the propriety of the payments made because no service contracts were submitted to the Office of the COA Auditor for review and Disbursement Vouchers (DVs) were also supported with the service contracts but only by billing statements. In some instances, the attached billing statements do not even pertain to the months of services that were being paid.

Likewise, the validity of the infrastructure projects in the total amount of P461.8 million obligated by the Authority as of December 31, 2011 and recorded as Construction in Progress cannot be ascertained due to non submission of supporting documents.

The Journal Entry Voucher (JEV) taking up the obligation was supported only by a Statement of Accounts Payable indicating various Budget Utilization Request (BUR). The indicated BURs together with the supporting documents were not submitted. Box A of the BUR is being certified by the requesting party as to proper charges to the budget, lawful and incurred under his/her direct supervision and supported by documents which are valid, proper and legal.



Likewise, contracts together with all the required documents relative to the infrastructure projects were not submitted to the Office of the Auditor for our auditorial review and technical evaluation five days upon perfection, in violation of COA Circular 2009-001. Also, proof that the infrastructure projects were under construction such as progress billings were not submitted.

We recommended that:

- a. service Contracts of the five (5) service providers be submitted to COA;
- b. correct billing statements be attached to the DVs; and
- c. all documents to properly support the obligated transactions recorded in the Construction in Progress account be submitted.

Failure to submit the required documents will result to the suspension of the transactions.

**14. Non-implementation of the DBM-approved CAAP Organization Structure along with the Approved Plantilla of Personnel despite the issuance of Administrative Order No. 7 dated March 3, 2011 resulted in the continuous hiring of consultants, contracts of service/job orders and casual employees**

The Department of Budget and Management (DBM) approved the CAAP Organizational Structure in 2009 along with the CY 2009 Plantilla of Personnel. The DBM-approved CAAP staffing pattern is composed of 3,544 positions. This includes all those positions in the Head Office and ten Area Centers.

Administrative Order No. 7 dated March 3, 2011 authorizes the CAAP Director General to appoint employees and personnel of CAAP for the positions with Salary Grades 26 and below as well as positions with Job Levels 21 and below stating that there is a necessity to appoint forthwith the employees and personnel of CAAP in order to expedite reversion of the Philippine Civil Aviation to Category 1 status.

Our audit of the monthly payroll of the regular employees disclosed that, despite the Authority given to the DG on March 3, 2011, then ATO employees have not been appointed to the 2009 CAAP Plantilla of Personnel.

Furthermore, in our audit of the Consultancy Services account, General Services account, and Other Professional Services account as of December 31, 2011, we noted that the Authority has paid a total of P99,380,394.61 for the following:

<b>Account/Account Code</b>	<b>Number of personnel</b>	<b>Total amount paid for CY 2011</b>
Consultancy Services Account (GL-793)	7	P 801,017.38
General Services (GL 795)	482	30,995,767.14
Other Professional Services (GL-799)	173	67,583,610.09
<b>TOTAL</b>	<b>662</b>	<b>P 99,380,394.61</b>

The General Services account (GL 795) was used to record the payments for Job Orders (JOs). While the Other Professional Services account (GL-799) was used to

record the payment for consultants and personnel hired through contracts of service. Payments include, among others, 26 consultants/contractuals for the Office of the Director General (ODG), 124 for the Flight Standard and Inspectorate Services (FSIS), 7 for the Deputy Director Generals' Office, 6 for the CAAP Security and Intelligence Services (CSIS) and 3 for the Aircraft Accident Investigation and Inquiry Board (AAIIB).

Further, we noted that:

- The contracts of service together with the supporting documents were not submitted to the Office of the COA Auditor for review in violation of Section 3.1.1 of COA Circular No. 2009-001 dated February 12, 2009;
- Other consultants/ contracts of service have no specific projects to be worked on; instead, they were assigned to do works regularly being done by regular employees. The natures of work accomplished are regular and recurring in nature, and scope of work would not require the level of expertise; and
- Payments made by the Authority for various consultants/contractual employees were not properly supported by complete documents.

Likewise, we noted that casual employees were continuously hired even if the DBM-approved organizational structure and plantilla of personnel do not include the casual positions and the DBM-confirmed Corporate Operating Budget (COB) for CY 2011 of CAAP disallowed the budget for casual position. A total of P6.658 million was paid to 40 casual employees in the Head Office for the year 2011.

Since the budget for the compensation and other benefits to casual employees was disallowed in the DBM-confirmed CAAP COB for CY 2011, we believe that the payments made to all casual personnel have no legal basis.

Hiring of consultants, contractual/JOs and casual employees could have been minimized had the Plantilla of Personnel been filled up through the issuance of the permanent appointments by the DG. This observation was included in our Annual Audit Reports since 2008.

We believe that had a sound organizational structure with all the duties and responsibilities of all the officers and employees of CAAP been in place, the Authority's mandate, objectives and goals could have been properly implemented.

We recommended that the Authority:

- a. submit explanation/justification why the filling up of positions based on the Plantilla of Personnel was not fully achieved despite the issuance of AO No. 7 dated March 3, 2011.
- b. submit justification/explanation why the Authority must hire so many consultants, contractuals/JOs and casual employees despite the Authority's approved organizational structure and plantilla of personnel by DBM and the DG's granted authority to appoint employees of CAAP;

- c. submit legal basis for the payments made to casual employees and, henceforth, strictly adhere to CAAP's approved organizational structure, approved plantilla of personnel and COB; and
- d. comply strictly with the provision of COA Circular 2009-001 specifically on the submission of the required supporting documents such as contract of service agreement of consultants; Personal Data Sheet or Resume; Training certificates and documents in relation to the consultants line of expertise

**GENDER AND DEVELOPMENT (GAD)**

**15. For Calendar Year 2011, CAAP appropriated P5.486 million for Gender and Development (GAD) Plan and incurred total expenses amounting to P2.335 million for the following Gender Issues/Activities.**

Gender Issue/Activity	No. of Employees Trained/Attended	Projects Completed/Implemented
<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"> <li>- Assessment and Planning Workshop at GEM's Hotel &amp; Restaurant, Antipolo City. (CAAP GAD TWG Attendance &amp; CY 2012 PAPs. 23</li> <li>- Gender Sensitivity Training (GST) for Area Center 5- Iloilo Airport on April 5-8, 2011 38</li> <li>- Gender Sensitivity Training (GST) for Area Center 1- Laoag Airport on July 7-9 , 2011 31</li> <li>- Gender Sensitivity Training (GST) for Area Center – Cagayan de Oro and other area center 9 personnel ( October 19-21, 2011) 33</li> <li>- Gender Sensitivity Training( GST) for Central Office- June 1-3, 2011 at GEM's Hotel &amp; Restaurant Conference Center 37</li> <li>- Gender Sensitivity Training (GST) for Central Office- October 5-7, 2011 at Kuhala Bay Resort, Cardona, Rizal 33</li> <li>- Gender Fair Education Course offered by WAGI- Miriam 5</li> </ul>		Completed/implemented

Gender Issue/Activity	No. of Employees Trained/Attended	Projects Completed/Implemented
<p>College on May 2-6, 2011</p> <ul style="list-style-type: none"> <li>- International Women Human Rights Course by WAGI- Miriam College on May 9-14, 2011</li> </ul> <p>2. Lack of gender-sensitive facilities to help passengers with infants/children.</p> <ul style="list-style-type: none"> <li>- Launching/Inauguration of Breastfeeding Rooms and Toddlers' Play area at Iloilo Airport on June 5, 2011.</li> <li>- Travel expenses of Central Office invited guests to the Launching of Iloilo Airport project.</li> <li>- Travel expenses of Central Office invited guests to the launching of Cagayan de Oro Airport project.</li> <li>- Launching/Inauguration of Breastfeeding Room and Toddlers' play area, and Nursing Mother Station at Cagayan de Oro Airport.</li> <li>- Launching/Inauguration of Breastfeeding Room and Toddlers' play area and Diaper-changing Room at Laoag International Airport.</li> <li>- Travel expenses of Central Office invited guests to the launching of Laoag Int'l Airport project.</li> <li>- Travel of GAD TWG to Kalibo Airport for assessment/site survey for installation of GAD projects.</li> <li>- Purchase of T-Shirts for the Yearly activities of " International Breast Cancer Month" or "Pink October " at Zamboanga City.</li> </ul>	<p>5</p>	<p>Completed/implemented</p> <p>Completed</p> <p>Completed</p> <p>Completed/implemented</p> <p>Completed/implemented</p> <p>Completed</p> <p>Completed</p> <p>Completed</p>

**16. STATEMENT OF SUSPENSIONS, DISALLOWANCES AND CHARGES**

## Head Office

As of December 31, 2011, we have issued three (3) Notices of Suspension in the total amount of P3.933 million and two (2) Notices of Disallowance in the total amount of P1.103 million.

Details is shown in the Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2011:

	Beginning Balance (As of Sept. 30, 2011)	This Period Oct. 1 to Dec. 31, 2011 (See B Below)		Ending Balance (As of Dec. 31, 2011)
		NS/ND/NC	NSSDC	
Notice of Suspension	-	3,932,846.22	-	3,932,846.22
Notice of Disallowance	562,956.47	540,000.00	-	1,102,956.47
Notice of Charge	-	-	-	-
<b>Total</b>	<b>562,956.47</b>	<b>4,472,846.22</b>	<b>-</b>	<b>5,035,802.69</b>

Prior years' disallowances as of December 31, 2011 as recorded in the books as Receivables–Disallowances/Charges amounted to P26.214 million. 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 were reiterated this year.

## Area Centers

Area Center	As of December 31, 2011	
	Notice of Suspension	Notice of Disallowance
Area Center IV	862,599.09	25,051.28
Area Center V	2,256,095.04	23,239.00
Area Center VI	-	-
Area Center VIII	-	1,051,419.99
Area Center IX	25,758,993.44	417,494.27
Area Center X	26,790.89	1,250,000.00
<b>TOTAL</b>	<b>28,904,478.46</b>	<b>2,767,204.54</b>