AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. CAAP succeeded in causing the lifting of the Significant Safety Concerns (SSC) issued by the International Civil Aviation Organization (ICAO) and the ban on Philippine air carriers by the European Union (EU).

Section 2 of Republic Act No. 9497 provides that “It is hereby declared the policy of the State to provide safe and efficient air transport and regulatory services in the Philippines by providing for the creation of a civil aviation authority 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.”

As part of the airspace user community, a state has the responsibility to conform to the Standards and Recommended Practices (SARPs) set by the ICAO which are “necessary for aviation safety, security, efficiency and environmental protection on a global basis (2012 ICAO’s Safety Report). The ICAO, a specialized agency of the United Nations, was created in 1944 to promote the safe and orderly development of international civil aviation throughout the world.

In January 2008, the US Federal Aviation Administration (FAA) downgraded the Philippine’s rating from Category 1 to Category 2, which means that the then Air Transportation Office (ATO) does not provide safety oversight of its air carrier operators in accordance with the minimum safety oversight standards established by the ICAO. With a Category 2 rating, the carriers from the Philippines will be permitted to continue operations at current levels under heightened (FAA) surveillance. Expansion or changes in services to the United States by such carriers are not permitted. (www.faa.gov/about/initiatives/iasa)

Furthermore, EU has banned Philippine air carriers from operating in European airspace effective April 2010 because they still operate in conditions which fall below the essential and internationally recognised safety levels.

In order for the Philippines to regain its FAA Category 1 rating and lift the EU ban, the State needs to be compliant with the eight critical elements to an effective State aviation security oversight system, (Annex A) prescribed by the ICAO.

In October 2009 and October 2012, ICAO has identified two SSCs relating to the certification process for the issuance of air operator certificates and the aircraft registration process of the CAAP. Accordingly, the Authority has implemented the necessary corrective actions to resolve these SSCs in accordance with the mechanism previously approved by the ICAO.

In March 2013, ICAO has lifted the SSC status of the country. This was followed by the EU granting Philippine Airlines and Cebu Pacific on July 11, 2013 and April 10, 2014, respectively, the privilege to operate again in Europe.

Finally, the Philippines regained its US FAA Category 1 status on April 9, 2014, which means that the Republic of the Philippines’ air carriers can add flights and service to the United States and carry the code of U.S. carriers once again.

We congratulate and commend the Authority's achievement. The Authority now has to focus on the sustainability of the aviation safety oversight particularly the compliance with international aviation safety standards set by ICAO.

Gaining Category 1 status and lifting of the ban by the EU will definitely have a positive impact on the economy of our country.

The Authority through their Director General was grateful and proud with the attainment of Category 1 status and committed to continue its efforts to maintain the status quo with the end view of providing a safe aviation in the country.

2. Significant balances of accounts transferred from the abolished Air Transportation Office (ATO) to the CAAP books of accounts since CY 2008 could not be substantiated due to the inadequacy of the accounting records

Republic Act No. 9497 or the Civil Aviation Authority Act of 2008 was issued creating the Civil Aviation Authority of the Philippines (CAAP) and abolishing the ATO. 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.

As of December 31, 2013 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 Annual Audit Reports (AARs) since CY 2008. Accordingly, the asset and liability accounts with doubtful balances also affect the government equity recorded in the books. Details of the balances of the accounts follow:

<u>Other Assets</u>

Various Current Assets, Property and Equipment, and Unserviceable and Fully Depreciated Assets transferred from ATO books, which were temporarily lodged under the account "Other Assets" in CY 2008 pending verification, remain unreconciled and unadjusted. As of December 31, 2013 the account balance is P5.221 billion, P4.362 billion in the Head Office books while the remaining P859.026 million in the Area Centers. This comprises 24 per cent of the total assets of the Authority. Details of the Other Assets account are shown in Note 10 of the Notes to Financial Statements.

<u>Receivables</u>

The accuracy, validity and collectability of the balance of *Accounts Receivable* account as of December 31, 2013 in the total amount of P7.409 billion (net) cannot be ascertained due to the variance of P737.175 million between the total Accounts Receivable (AR) per General Ledger and per aging schedule of AR, negative balances in the total amount of P27.415 million in the Head Office and debtors' unsettled accounts which dates back to 1997 in the total amount of P5.510 billion or 88 per cent of the total AR of the Head Office.

Furthermore, the reliability and accuracy of *Due from National Government Agencies (NGAs)* and *Due from Local Government Units (LGUs)* accounts could not be ascertained due to the inadequacy of accounting records. Since the transfer of the account balances from ATO, no significant adjustments were made. As of December 31, 2013, the balances of the respective accounts are P65.001 million and P42.586 million, respectively.

Likewise, Receivables - Disallowances /Charges account amounting to P29.675 million was also a carried forward account from ATO. The persons liable for these disallowances were still not established/determined to date.

Deposit on Letters of Credit

The validity of the recorded Deposit on Letters of Credit amounting to P18.332 million which is presented under the Deferred Assets is doubtful considering the long period they have been outstanding in the books. Likewise, details of the account could not be substantiated in the absence of subsidiary records and documents.

Due from Regional Offices (GL 142) and Due to Regional Offices (GL 422):

The validity and existence of the Due from Regional Offices and Due to Regional Offices account balances of P81.528 million and P81.794 million, respectively are doubtful considering that these reciprocal accounts should be eliminated or should have a zero balance upon consolidation of the financial statements of the Head Office and the Area Centers.

Property and Equipment

For CY 2013, the Authority conducted physical inventory of its property and equipment nationwide and prepared the required Report of Physical Count of Property and Equipment (RPCPE). However, there were deficiencies noted in the conduct of the inventory and in the preparation of the report that cast doubt on the reliability, validity, existence and accuracy of the account in the total amount of P2.967 billion.

The RPCPE has revealed critical inadequacy in its preparation as shown below:

1. Some important columns were not filled in such as:
    a. Property Number;
    b. Balance per card;
    c. Shortage/Overage as to quantity and value; and
    d. Unit value and unit of measure.
2. In the Head Office, the report was not approved by the agency head and was submitted on April 24, 2014, past the January 31 deadline.

The deficiencies in the RPCPE are crucial in the reconciliation of the balances between the physical count against supply and accounting records. Reconciliation could have been facilitated if the report was prepared and sorted out by type of properties and by offices and/or departments.

Moreover, the validity and existence of the Authority's Motor Vehicle account in the amount of P3.591 million (net) as of December 31, 2013 in the Head Office cannot be ascertained due to non-existence and non-recording in the books of accounts of various motor vehicles used by the Authority.

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 reiterated our recommendation, as embodied in our Annual Audit Reports on CAAP since CY 2008, that Management determine the existence, validity and propriety of the significant balances of the various ATO transferred accounts. We strongly recommended the creation of a special committee who shall focus on the validation, reconciliation and documentation tasks.

With regard to the Accounts Receivable account, the Accounting Division assured the gradual reconciliation of the disparity between the GL balance and schedule of aging of accounts receivable and the adjustment of negative balances. Likewise, the Enforcement and Legal Services (ELS) in collaboration with the Office of the Government Corporate Counsel (OGCC) is considering the filing of collection suits to customers with delinquent accounts.

The Authority informed us that the Inventory Team will comply with the recommendations on the deficiencies noted.

With regard to the other accounts, Management stated that a task force or a special committee will be created to focus on the validation, reconciliation and documentation tasks.

3. Only several CAAP properties in the Head Office and in 21 airports with a total market value of P9.490 billion were insured with the Government Service Insurance System (GSIS)

Section 5 of RA 656 states that:

> *"Every government, except a municipal government below first class, is hereby required to insure its properties, with the Fund against any insurable risk herein provided and pay the premiums thereon, which however, shall not exceed the premiums charged by private insurance companies: Provided, however, that the System reserves the right to disapprove the whole or a portion of the amount of insurance applied for: Provided, further, that such property or part thereof as may not be insurable or acceptable for insurance may be insured with any private insurance company."*

In the course of our audit, we have noted that not all properties owned by the Authority were insured with the GSIS. The Authority has insurable properties in the Head Office and the 82 Airports nationwide under its jurisdiction, however, only some properties in the Head Office and in 21 airports with total market value of P9.490 billion were insured with the GSIS. This leaves several properties in the Head Office and in the remaining 61 airports unsecured from losses that may arise out of natural and/or man-made catastrophe.

We recommended that management exert extra effort to adhere to the provision of RA No. 656 that requires insuring its insurable properties with the GSIS for protection against any insurable risk.

The Authority informed us that they were not able to insure all their properties as they cannot fully comply with the documentary requirements of the GSIS.

4. **COA recommendations on several audit observations included in the CY 2012 Annual Audit Report (AAR) of the Authority were not acted upon in CY 2013; hence our reiteration as follows:**

   a. **As of December 31, 2013 a total of P7.357 million of prior years' unliquidated Cash Advances (CAs) in the Head Office were not settled and unliquidated CAs beyond the reglementary period for CY 2013 totaled ₱5.192 million or 28 per cent of the total cash advances granted for the year**

   During our audit, we noted that prior years' unliquidated CAs totalled P7.357 million as of December 31, 2013 despite the issuance of COA Circular No. 2012-004 which served as a final demand to settle CAs.

   On the other hand, out of the total of P18.365 million cash advances granted to CAAP officers and employees in CY 2013, only P11.865 million or 65 per cent were liquidated as of December 31, 2013. Of the total P6.500 million unliquidated CAs, P5.192 million or 80 per cent are past due since these CAs granted were not liquidated within 30 days for local travels and 60 days for foreign travels as required under COA Circular No. 97-002 dated February 10, 1997.

   We also noted that most of the liquidation reports submitted by the officers and employees concerned exceeded the mandated 60 days after return to the Philippines in the case of foreign travel or within 30 days after return to his permanent official station in the case of local travel.

   Furthermore, despite our previous observations the Authority still grants cash advances to employees with unliquidated CAs. Continuous violation of these regulations led to the increase in the unliquidated CAs.

   The non-liquidation of the cash advances in the total amount of P12.550 million as of December 31, 2013 within the prescribed period is contrary to the above cited COA Circulars and exhibits weakness in the monitoring thereof.

   We further noted that the negative balances in the total amount of ₱.348 million remained unadjusted. Likewise, the general ledger balance is still not reconciled with the subsidiary ledger totals.

   The non-liquidation of cash advances within the prescribed period resulted in the overstatement of the Advances to Officers and Employees account and the understatement of the Travelling Expenses account. Cash account may also be understated for failure to refund the unused portion of the cash advance.

   Area Centers 6 and 7 also reported unliquidated cash advances amounting to P1.587 million and P0.366 million, respectively.

We reiterated our recommendations that the Authority's Management:

a) Require strict adherence to the pertinent provisions of COA Circular No. 97-002 dated February 10, 1997 regarding the granting, utilization and liquidation of cash advances and COA Circular No. 2012-004 and enjoin those with outstanding cash advances to immediately liquidate their long outstanding cash advances;
b) Cause or order the withholding of the payment of any money due the officers and employees concerned for them to immediately liquidate their long outstanding cash advances; and
c.) Require the Accountant to strictly monitor the liquidation of CAs.

The Authority's concerned officers stated that they will enforce the "no travel with unliquidated cash advances" policy.

Also, the Accounting Division stated that they are doing their best for the eventual reconciliation of the differences noted between the GL balance and schedule of cash advances. They further claimed that the past due accounts were cash advances granted during the ATO days where pertaining documents could not be found.

COA's rejoinder:

We noted that it is not only during the ATO days that cash advances were not liquidated within the reglementary period as what we have presented in the above observation of the cash advances granted in CY 2013. The recurrent problem of unliquidated CAs still is very evident since the creation of CAAP in CY 2008.

b. The propriety and correctness of the Deferred Charges account totaling P138.274 million are doubtful

The propriety and correctness of the following accounts composing the Deferred Charges account are doubtful:

Particulars	**Balance**
Trust Fund (PHI 9501)	P118,438,334.59
Cooperative Development for Operational Safety and Continuing Airworthiness Programme – South East Asia (COSCAP-SEA) for 2010 & 2013	2,564,910.00
Tim Neel & Associates (TNA)	5,080,565.00
Federal Aviation Administration (FAA)	11,884,655.66
Others transactions with ICAO	305,552.56
TOTAL	**P138,274,017.81**

The Trust Fund (TF/PH1195/901) account balance amounting to P118.438 million maintained with the International Civil Aviation Organization (ICAO) cannot be ascertained due to non-recording of the related disbursements and other adjustments to the fund.

Verifications disclosed that Quarterly Statements of Estimated Fund Balance for the four quarters of CY 2013 were submitted by ICAO through the International Civil Aviation Coordinating Staff (ICACS). The Statement as at December 31, 2013 shows a balance of $2.190 million or P97.272 million after deducting/adding disbursements and other adjustments to the fund. We noted that several CY 2010 transactions in the total amount of $483,931 or P21.237 million are still not recorded in the books.

Further, we noted an unreconciled balance as at December 31, 2013 of P21.166 million between the balance of Trust Fund per Statement of Estimated Fund Balance amounting to $2.190 million or P97.272 million and the recorded balance per accounting records of P118.438 million.

To date, we were not able to audit all the recorded disbursements of the Trust Fund since the Authority has not submitted the supporting documents to the transactions recorded in the books despite our requests for the submission of all the supporting documents in our previous audit observation memoranda.

On the other hand, other remittances/transactions since CY 2010 with ICAO, FAA and TNA other than the Trust Fund account in the total amount of P19.836 million remained outstanding/unliquidated as of December 31, 2013. Failure to record the liquidation of such remittances with ICAO overstated the Deferred Charges account balance and understated the affected expense accounts as of December 31, 2013.

Also, the Accounting Division is still not maintaining subsidiary ledgers (SL) for Deferred Charges account as of December 31, 2013.

Unless disbursements and other adjustments in the total amount of P21.237 million are recognized in the books and related supporting documents submitted, the balance of Deferred Charges account and other affected accounts as of December 31, 2013 will remain doubtful.

We reiterated our previous years' recommendations that the Authority require the Accounting Division to:

a) Prepare reconciliation of its records with ICAO records and book up the reconciling items immediately;
b) Submit the supporting documents for all the recorded disbursements of the Trust Fund;
c) Prepare the liquidation reports of the remittances other than the Trust Fund and prepare necessary adjusting entries; and
d) Maintain SLs for Deferred Charges account to properly monitor the account balance.

The Accounting Division stated that SL will be maintained for the Deferred Charges account and that they will work on the reconciliation of the account. Adjustment of the 2010 liquidation has already been recorded in the books in CY 2014.

c. No physical count was conducted to determine the existence and accuracy of inventories of P29.329 million under Other Prepaid Expenses account

The breakdown of the Other Prepaid Expenses account as of December 31, 2013 is presented below:

Account	Acct. Code	Balance
Office Supplies Inventory	155	P13,554,590.18
Accountable Forms Inventory	156	(168,545.52)
Drugs and Medicine Inventory	159	97,000.26
Gas, Oil & Lubricants Inventory	161	9,353,517.72
Other Supplies Inventory	165	6,492,361.33
Total of Inventory accounts		**P29,328,923.97**
Other Prepaid Expenses	185	11,805,532.70
TOTAL		**P 41,134,456.67**

The existence and validity of the inventories of P29.329 million presented above could not be ascertained due to the non-conduct of physical inventory.

In our audit, we noted that the Office Supplies Inventory balance of P13.555 million does not reconcile with the balance in the Supplies Ledger Cards (SLCs) of P11.678 million; hence, a variance of P1.877 million. Also, except for Accountable Forms Inventory with a negative balance of P.169 million, which has incomplete SLCs, the Accounting Division does not maintain SLCs for the other inventory accounts.

Further verification disclosed that the Supply Division does not maintain Stock Cards (SCs) for accountable forms, gasoline, oil and lubricants and other supplies. Since SCs are not maintained, there is no means to check the accuracy of the said inventories recorded in the books as of a given period. This deficiency indicates weak internal control in the recording of procurement and issuance of inventory items.

Verification also disclosed that deposits with Petron Corp. are made specifically for delivery of aviation fuel for use by CAAP aircrafts housed at CAAP Hangar and diesel fuel and lube oils for consumption by the Manila AFC, Manila Control Tower, and Air Navigation Facilities in different locations.

The arrangement with Petron was made to facilitate the continuous supply of the required aviation fuel, diesel fuel and lube oils of the Authority. However, we noted that consumptions of aviation fuel, diesel fuel and lube oils were not recorded as expense thereby overstating the balance of the Gas, Oil & Lubricants Inventory account. Further, we noted that cancelled checks payable to Petron Corp. in the total amount of P890,000.00 were not yet adjusted in the Gas, Oil & Lubricants Inventory account.

In addition, SCs for Drugs and Medicine Inventory are not updated as to purchases and distribution of the medicines since 2009 by the Office of the Flight Surgeon and Aviation Medicine (OFSAM). Likewise, medicines purchased by the designated Special Disbursing Officer were not recorded in the SCs for proper monitoring.

The Drugs and Medicines Inventory and Other Supplies Inventory with balances of P97,000.26 and P6.492 million, respectively, remained dormant since the transfer of accounts from the defunct ATO to CAAP in 2008; therefore all the purchases and withdrawals since the opening of the CAAP books were not recorded in the SCs.

The Authority's failure to conduct the physical inventory, submit the Report on Physical Count of Inventories (RCPIs), maintain of the SLCs and SCs, recognize in the book of accounts the expenses on the consumption of gasoline and oil and the cancelled checks pertaining to payment of diesel fuel and oil and the existence of dormant, unadjusted, undocumented and unaccounted balances render the balance of the Inventory accounts unreliable and doubtful.

We recommended that Management require:

a) Concerned officials and employees to conduct a physical count of all inventories once every semester and submit the RCPIs in the prescribed format not later than July 31 and January 31 of each year and reconcile the results of the physical count with the property and accounting records;
b) The Accounting Division to:
    - maintain SLCs and reconcile the GL balance with the SLCs:
    - prepare adjustments on the consumption of fuel and oil and update the Gasoline, Oil and Lubricants Inventory account on the cancelled checks to determine the correct balance as of December 31, 2013;
    - exert extra effort to reconcile, document and adjust the unaccounted balance of Other Prepaid Expense account to the proper accounts; and
c) The Supply Section and OFSAM to prepare/maintain/update the SCs for all inventory accounts.

d. Accounts Payable totaling P53.529 million were again certified as payables even in the absence of supporting documents

Paragraph 2 of Section 157 of the Government Accounting and Auditing Manual (GAAM), Volume 1 states that:

> *"No obligation shall be certified to accounts payable unless the obligation is funded on a valid claim that is properly supported by sufficient evidence and unless there is a proper authority for its incurrence. Any certification for non-existent or fictitious obligation and /or creditor shall be considered void."*

Our verification revealed that the supporting documents which are very important to prove the validity and existence of the obligated transactions such as Contracts, Purchase Orders, Delivery Receipts, Progress Billings, Daily Time Records, etc. were not attached to the Journal Entry Vouchers (JEV).

Recording in the books without the proof of valid claims overstated various Expense, Asset and Accounts Payable accounts.

We further noted that for CY 2013 subsidiary ledgers of suppliers/creditors were still not maintained. In effect, the Authority has no mechanism to monitor and determine the details of the accounts payable and reconciliation of balances with the general ledger (GL) balance could not be made.

Hence, we reiterated our recommendation that the Management:

a) Instruct the Accounting Division to record only those obligated transactions with complete supporting documents in compliance with Paragraph 2 of Section 157 of GAAM, Volume I; and
b) Ensure that obligations are recognized in the books only when goods or services have been delivered or rendered based on valid supporting documents.

e. Examination of the cash and accounts of 20 Petty Cash Custodians (PCCs) in 2013 revealed the same deficiencies that were noted in our previous cash examinations

In the examination of the cash and accounts of PCCs, we noted the following:

- various regular operating expenses and procurement of equipment and other assets were still not paid by checks but in cash thru the Petty Cash Funds and without going thru any public bidding or alternative methods of procurement;
- two PCCs with outstanding cash advances were still granted additional cash advances;
- splitting of transactions;
- PCCs incurring expenses before the issuance of cash advance; and
- PCCs cashbooks are not properly maintained and not regularly updated.

The above cited deficiencies violate pertinent provisions of COA Circular No. 97 – 002 dated February 10, 1997, on the rules and regulations on the granting, utilization and liquidation of cash advances and RA 9184, the procurement law.

We therefore reiterate our previous recommendations that Management:

a) Ensure that petty cash funds and special cash advances are used only in payment of petty operating expenses and current operating expenditures of the Authority when it is impractical to pay the same by check or travel expenses, respectively;
b) Make certain that goods and services are acquired thru public bidding or alternative methods of procurement as required under RA 9184 so that the number of Petty Cash Custodians and Special Disbursing Officers can be reduced; and
c) Make sure that the establishment and utilization of the Petty Cash Fund strictly follow the provisions in COA Circular No. 97-002.

f. Despite the appointment of almost all of the former Air Transportation Office (ATO) personnel, the number of consultants, contracts of services and job orders still increased

Since the creation of the Authority, hiring of consultants and contractuals and job orders were done. Below are the number of consultants, contractual and job order personnel for the past three years:

Particulars	**Number of personnel**		
	2013	**2012**	**2011**
Consultants	18	5	7
Contracts of Services	117	184	173
Job Orders	566	476	482
Total	**701**	**665**	**662**

Audit revealed that compliance with the provision of COA Circular No. 2009-001 specifically on the submission of the contracts within five days upon perfection and the required supporting documents such as the Personal Data Sheet or Resume; Training Certificates and documents in relation to the consultants' line of expertise were not observed. Failure of the Authority to submit the required documentations hindered us to undertake the auditorial review of the contracts as required in the aforementioned COA Circular such as the qualifications of the hired consultants/contractual cannot be evaluated or confirmed and the validity of payments cannot be ascertained.

Likewise, most of the accomplishments attached to the payments of their services were not in accord with the stated duties/functions/work in the contracts of service.

The Authority stated that they are in the process of restructuring the DBM approved plantilla as the Authority finds it inadequate. It was further explained that the Authority hired consultants/contracts of service as there were still no qualified organic personnel to fit in the vacant positions particularly in the Flight Standard Inspectorate Service (FSIS). It was also explained that they opted to hire Job Orders instead of contracting it out to agencies/ private companies as it is more cost beneficial.

We believe that the hiring of consultants, contractuals and job orders can still be reduced through the re-evaluation and determination of the essential functions/jobs to be tackled by the consultants/contractual and job order personnel. Also, filling-up of the vacant positions in the approved plantilla would reduce the hiring of consultants/contractual and job order personnel to only those crucial jobs urgently needed by the Authority.

In view thereof, we reiterated our recommendation that the Authority re-evaluate the need to hire consultants/contractual and job order personnel and that the contracts be submitted within five days upon perfection together with Personal Data Sheet or Resume and the training certificates and documents in relation to the consultants'/contractual line of expertise.

Also, the Authority is required to submit explanation why most of the accomplishment reports attached to the payments were not in accord with the stated duties/functions/work in the Contracts.

5. **The balance of the Construction In Progress (CIP) account of P461.714 million does not reflect the actual cost of on-going infrastructure projects**

The Philippine Government Chart of Accounts describes the Construction in Progress (CIP) – Other Public Infrastructures account as Cost/Appraised value of other public infrastructure projects which are still under construction.

In our examination, we noted the practice of charging the account for the estimated obligation during the year of the different infrastructure projects even though there is neither progress billing nor actual physical accomplishment. An infrastructure contract does not immediately give rise to an actual liability and an increase in the asset of the agency. It only creates reciprocal obligations between contracting parties i.e. the CAAP is obligated to pay the contractor/supplier for what it had constructed or delivered, in accordance with the provisions of the contract. Thus, at the time of the perfection of the contract and until the contractor/supplier has performed its obligation, the Authority has no resource under its control nor a present obligation that needs to be settled.

Because of the untimely recognition of assets and liabilities for procurement contracts, the Construction in Progress and Accounts Payable (AP) accounts are overstated.

Likewise, our audit disclosed that 10 of the 17 projects comprising the account have already been completed. The total costs of these completed projects amounting to P299.418 million are still carried under the CIP account.

Furthermore, we also noted the negative balance of the following projects amounting to P4.062 million, indicating improper and/or non-recording of related transactions:

1. Improvement of CAAP Canteen Project; and
2. Passenger Terminal Building at Masbate Airport Project

Lastly, analysis of the balance of the item "Others" in the account amounting to P1.615 million showed that this consists of accumulated charges for labor, travel expenses and other miscellaneous charges related to the development of the Casiguran Airport, which should have been treated as additional project cost.

We recommended that the Management require concerned employees to:

a) Prepare and submit the Schedule of CIP Account (based on on-going projects not by contractors) as of December 31, 2013;
b) Determine the total actual disbursements (project cost) for each on-going project as of December 31, 2013;
c) Effect the necessary and proper adjusting entries to recognize the actual project costs, for proper valuation of the CIP account; and
d) Recognize additions to the CIP account based on contractor's progress billing and other valid related claims only.

Management explained that physically completed projects are still included in the account because these are not yet accepted by the concerned offices and the contractors have not yet filed their claims for final payment.

6. **The Authority incurred additional cost of P221,180 representing the direct labor and indirect cost computed by the contractor on the furniture and equipment it provided under the contract for the improvement of ADMS Office.**

Pursuant to The Revised Guidelines on the Preparation of Approved Budget for the Contract (DPWH Department Order No. 29), *"the ABC shall be composed of the Direct Cost and Indirect Cost." Direct cost can be defined as the cost of installed equipment, material, labor and supervision directly or immediately involved in the physical construction of the permanent facility while indirect cost are costs which do not become a final part of the installation, but which are required for the orderly completion of the installation and may include, but are not limited to, field administration, direct supervision, contractor's fee, etc*. (Cost Engineering Terminology @www.aacei.org)

In the examination of the final payment to the contractor for the Improvement of ADMS Office Project, we noted that one of the pay items of the contract was the provision of the following office furniture and equipment:

Item	No. of unit	Government Estimated Cost
1. Three-seater sofa	3	P36,000.00
2. Steel book cabinet	14	42,000.00
3. Steel Lateral cabinet	14	42,000.00
4. Conference table and chairs (set)	1	32,000.00
5. Computer set	12	360,000.00
6. External hard drive	2	10,000.00
7. Printer	1	12,000.00
8. Polyester Sun Screen (sq. ft.)	431	94,820.00
		P628,820.00

The Authority paid the contractor P850,000.00 for the cost of the above items which is more by P221,180.00 or 35 per cent of the government estimated cost. Verification disclosed that the difference was brought about by the contractor's add-on cost for direct labor and indirect cost.

The furniture and equipment supplied by the contractor are finished products acquired in the open market. These items did not undergo any construction/modification nor were these part of the physical construction of the facility, which would have warranted additional manufacturing or construction cost by the contractor.

Notwithstanding that the government estimates has no fixed or indirect cost, it did not deter the contractor from supplementing its estimates with extra costs due to the absence of any prohibition in the contract and/or contract documents. This deficiency has resulted in an unnecessary increase in the project cost.

In view thereof, we recommended that payment for the provision of stand-alone furniture and equipment for construction project be made on a reimbursable basis upon submission of valid official receipt. Also, this provision shall be clearly stated in the provisions of the appropriate contract documents.

7. Non-issuance of assessments/billing statements to Alphaland Corporation resulted in late payments and the non-recognition in the books and non-collection

of earned rent for the period August 16 to December 31, 2013, amounting to P0.645 million.

Sound accounting practice dictates that assessment and billing of revenues should be done within a month after they are earned.

Likewise, subsidiary ledgers (SL) shall be maintained for each control account in the General Ledger (GL). The subsidiary ledgers are detailed records of all the transactions of the General Ledger balance. At the end of each month, the totals of the subsidiary ledger balances shall be reconciled with the corresponding controlling account.

In June 2011, the Authority entered into a contract of lease with Alphaland to rent out the half portion of the CAAP Hangar, estimated to be 1,580 square-meters, for a lease term of 10 years and renewable for another 10 years. The rate for the rent was P70 per square-meter with an escalation rate of 10 per cent per annum. Alphaland started occupying the hangar in July 2011.

The lease agreement states that payment is to be made on or before the fifth (5^{th}) banking day from the start of the calendar month to which the monthly rent corresponds.

We noted that the Accounting Division failed to assess and issue monthly billing statements to Alphaland for the collection of the rent income earned since July 2011. This resulted in the delay of all the payments of the monthly rental of the hangar for periods ranging from 37 to 559 days. Also, with the non-issuance of the billing statements, the Accounting Division failed to record accrued rent income.

A total of P644,372.19 representing earned rent for the period August 16 to December 31, 2013 was not billed, collected and recorded in the books as at year end; therefore, non-accrual of the rent income from the lease of the CAAP resulted in the understatement of the Rent Income and Accounts Receivable accounts.

Furthermore, transactions related to the lease of the hangar were not recorded in the subsidiary ledger for Alphaland, only those transactions related to operational charges were recorded therein. Rent Income from the hangar was only recorded in the general ledger upon receipt of rental payments.

The failure to assess and issue billing statements and update the subsidiary ledger resulted in the ineffective monitoring of the account and collections of rental payments. Assessment and billing and collection of revenues is a critical and indispensable management function. Non-performance of this function will lead to a high possibility of delayed and/or non-collection of income for the Authority's use.

Moreover, we noted erroneous recording to Accounts Receivable (GL-121) of several collections from Alphaland Corporation for rent income from the lease of the CAAP Hangar in the total amount of P2.500 million which resulted in the understatement of the Rent Income and Prior Years' Adjustment accounts and the overstatement of the Accounts Receivable account.

We recommended and Management agreed to effect the following measures:

a) Require the Accounting Division to issue the monthly billing statement to Alphaland as agreed upon by CAAP and Alphaland Corporation;

b) Review the lease agreement to ascertain the payment terms agreed upon, and include the penalty clause on the delayed payments in order for the Authority to properly assess the monthly rental income and assure them of the prompt collection of rent income;

c) Require the Accounting Division to update the subsidiary ledger of Alphaland to include the transactions related to the rent of the CAAP Hangar to properly monitor the collections and receivables for unpaid rental; and

d) Instruct the Accounting Division to prepare the necessary adjusting entries to correct erroneous recording to Accounts Receivable and accrue the rent income earned for CY 2013.

The Accounting Division assured us that they will issue the monthly billing statement to Alphaland. Furthermore, the Authority reassured us that they will review the contract between CAAP and Alphaland.

8. The Authority has not adopted and published its own schedule of fees and charges, thus, still uses the schedule of fees and charges on the Addendum dated October 5, 1998 to Department Order No. 94-762, Series of 1993 of the abolished Air Transportation Office (ATO) under the Department of Transportation and Communications (DOTC).

Section 17 of Republic Act (RA) No. 9497 provides that the Authority shall adopt and publish its schedule of fees and charges. The Authority shall hold such public hearings or consultative meetings with stakeholders in the industry before adapting its schedule of fees and charges. The Authority shall not revise its schedule of fees and fines more often than once every three years.

Section 26 of the same RA provides the guideline on setting of charges and fees. The Board, after consultation with the Director General, and after public hearing, shall determine, fix, impose, collect or receive reasonable charges, fees, dues or assessments in respect of aviation certificates, licenses and all other authorizations or permissions authorized to be issued under this Act and all services performed by the Authority. All charges and fees shall be formally promulgated in accordance with the requirements of the Administrative Code of the Philippines or any amendment or successor thereto. Pending the promulgation of such new schedule of charges and fees, the current charges and fees of the ATO shall continue to apply.

When the Authority was established in 2008, it adopted and continued to apply the fees and charges of the ATO which is the Addendum to Department Order No. 94-762, Series of 1993, issued on October 5, 1998, as its basis for the collection of revenue from issuance of licenses, certifications, examination and other services rendered.

Moreover, for more than five years since its creation, the Authority has not yet issued a schedule of fees and charges under its own prerogative or even amended various rates of fees and charges.

The rates of the fees and charges presently used by the Authority are deemed outdated and unreasonable. Factoring in the concept of time value of money, the money collected by the Authority today has lower purchasing power compared to the money collected in 1998 using the same rates of fees and charges.

The Authority is losing potential revenue for adopting the rates used by ATO way back in 1998. The increase in the fees and charges that may be collected could be used for the overall development of the Authority. Also, the Authority can have enough budget to support state of the art technology to improve its systems and the services it renders. The developments can eventually lead to the improvement of general aviation in the Philippines.

We recommended that the Authority effect the following measures:

a) Adopt and publish the updated schedule of fees and charges that are reasonable and in accordance with Republic Act No. 9497; and

b) Circularize the new schedule of fees and charges and ensure that the change is properly communicated to all concerned parties.

The Authority informed us that a committee on the revision of fees and charges was already formed and was submitted to the Board of Directors for approval.

9. Unremitted taxes withheld of P11.229 million and P2.315 million in the Head Office and Area Center VI, respectively

Bureau of Internal Revenue (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 forms, file the tax returns together with the required Monthly Alphabetical listing of Payees as required under Revenue Regulation (RR) No. 2-2006, to the BIR collecting agents and pay the corresponding withholding taxes due thereon.

On the other hand, RR No. 2-98 dated April 17, 1998 states 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. "*

Audit of the Authority's withheld taxes and remittances for CY 2013 in the Head Office revealed that the balance of Due to BIR (GL 412) account as of December 31, 2013 amounting to P24.298 million include P10.623 million unremitted taxes withheld prior to CY 2013 and P0.606 million in previous months of 2013 for a total P11.229 million.

Had the management observed Revenue Memorandum Circular No. 23-2007 dated March 20, 2007 and RR No. 2-98 dated April 17, 1998, that withheld taxes for the month are to be remitted the following month, the balance as December 31, 2013 should have been the taxes withheld for December 2013 only amounting to P13.069 million.

Non-compliance with the revenue regulations resulted in the overstatement of Cash and Due to BIR accounts by P11.229 million as of December 31, 2013. 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 officials.

We also observed that the Due to BIR account does not have Subsidiary Ledgers (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 could have facilitated the Authority's monitoring of the withholding and the remittances of taxes to comply with the revenue regulations.

The issues raised are reiterations from the Annual Audit Reports since CY 2010.

Furthermore, in Area Center VI, the balance of account Due to BIR representing taxes withheld totaling ₱ 2.315 million as of December 31, 2013 was not remitted to the BIR in violation of RR No. 2-98, as amended; thus, exposing the trust collections to possible misuse or misapplication.

We recommended that the Authority's concerned personnel ensure that taxes withheld are remitted within the prescribed period to avoid penalties and evaluate their system in the withholding and remittance of taxes withheld to comply with Revenue Regulations. Also, subsidiary ledgers are to be maintained for each type of tax withheld, to support the controlling GL account and facilitate the monitoring.

The Authority commented that they are religiously remitting their taxes withheld, but will however; look into the schedules presented in the observations. Also, it was stated that some of the unremitted taxes withheld are for refund to the retirees.

10. GSIS premiums withheld from employees amounting to ₱4.114 million were not immediately remitted within the first ten (10) days of the calendar month following the month when the deductions were effected.

Section 14 of the Republic Act No. 8291 ("Revised Government Service Insurance Act of 1997") states that "Each government agency shall remit directly to the GSIS the employees' and government agency's contributions within the <u>first Ten (10) days of the calendar month following the month to which the contributions apply</u>. The remittance by the government agency of the contributions to the GSIS shall take priority over and above the payment of any and all obligations, except salaries and wages of its employees. The government agency shall also deduct from the fixed monthly compensation of the employee the loan amortizations (consolidated loans, policy loan, emergency loan, housing loan, and other loans), premium payments (optional, pre-need and other non-life insurance) and other amounts due the GSIS. The said amounts shall be remitted to the GSIS within the first Ten (10) days of the calendar month following the month when the deductions were effected, accompanied by supporting lists in the form prescribed by the GSIS." (Underscoring ours)

In our audit of Life and Retirement Insurance Contributions (731) and Due to GSIS (413) accounts, we noted that premiums amounting to ₱4.114 million were not remitted within the first 10 days of the calendar month. These premiums pertain to the salary differences due to promotions. The Authority withholds the premiums for the salary differences once the salary base of the employees is updated in the payroll. However, the remittance of the withheld premiums is done on a much later date which ranges from 71 to 636 days of delay. The late remittances also violate the mandate that contributions to GSIS shall take priority over and above the payment of any and all obligations.

We recommended and management agreed to strictly adhere with the provision to remit the withheld contributions within 10 days of the next calendar month when premiums are withheld. Since most of the late remittances pertain to salary differentials due to promotion, late remittances may be avoided if the Authority establishes its own policy for updating the Member's Service Profile (MSP). The policy should explicitly specify the person responsible for updating the MSP when there are changes in personal data, salaries, promotion, transfers and separation of a member and the deadline for making the needed updates.

11. Dividends payable for CY 2013 equivalent to 50 per cent of CAAP's Net Profit, not recognized in the books

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 2013, the Authority failed to recognize dividends payable equivalent to 50 per cent 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 as of December 31, 2013.

We recommended that dividends payable equivalent to 50 per cent of the Authority's net profit for CY 2013 be recognized in the books.

The Authority commented that in light of the need for CAAP to invest in infrastructure and technology, particularly with the onset of the ASEAN Single Aviation Market (ASAM) in January 2015, CAAP submitted a letter to the Department of Finance (DOF) dated February 18, 2013, informing them of its preference to defer the implementation of this provision of RA 7656 and in the future, through appropriate procedures, be exempted from this provision as a measure of achieving its sustainability objectives. The Authority informed us further that they have not received yet a response from the DOF.

VALUE FOR MONEY

12. The Authority saved P80.00 million by foregoing the acquisition of a Flight Plan Converter and continuing to process the modified New Flight Plan Format manually.

In May 27, 2008, Amendment No. 1 to the Fifteenth Edition of the Procedures for Air Navigation Services-Air Traffic Management (PANS-ATM, ICAO Doc 4444) was approved by the ICAO Council, providing changes to the ICAO Flight Plan (FPL) and Supporting ATS (Air Traffic Service) Message formats. A Flight Plan is defined in Doc 4444 as "specified information provided to air traffic services units, relative to an intended flight or portion of a flight of an aircraft."

Under the amendment, the present FPL formats and ATS messages will no longer be valid on November 15, 2012. It "was formulated to meet the needs of aircraft with advanced capabilities and the evolving requirements of automated air traffic management systems." (Asia/Pacific Guidance Material for the Implementation of Amendment 1 to the 15th Edition of PANS-ATM, Doc 4444)

The amendment provided significant changes to flight plan and related ATS message formats that necessitates the upgrading of existing Aeronautical Integrated Data Agent (AIDA) equipment of the Manila AFS. In order to comply with the provisions of Amendment 1, the ATS requested for an allocation of P80 million pesos to upgrade the AIDA, featuring a Flight Plan Converter that will convert the present manual system of flight processing to full automation. The request was approved by management and the proposed procurement was included in the 2013 Annual Procurement Plan (APP).

However, after the re-evaluation of the proposed upgrade, the ATS decided to forego the procurement and continue with the manual processing of flight plans. The decision of the Authority was based on the significant costs involve and that the AIDA will become irrelevant once the Communication, Navigation and Surveillance/Air Traffic Management System (CNS/ATM) becomes operational in November 2015. In order to compensate for the non-automation of flight plan processing, and at the same time comply with Amendment No. 1, the ATS issued Procedure Order No. 03-12 dated November 8, 2012. The procedural guidelines aim to establish uniform practices to be observed by appropriate ATS facilities in the implementation of the New Flight Plan and its associated ATS messages. It also introduces the new indicators and changes to existing indicators on the ICAO model flight plan form and associated ATS messages.

Despite the significant savings from cancelling the procurement of the flight plan converter solutions, the decision of management to manually process the flight plan was not without a risk. As part of the airspace user community, CAAP's action has consequences for other airspace users. If a flight plan with new content is sent to an Air Navigation Service Providers (ANSP) that has not yet changed to automatically accept the new content, it is likely that some information may be lost, misinterpreted or cause a rejection of the flight plan. Furthermore, information and messages that have not been automatically checked for grammar, figures, symbols and structure may also affect information that is communicated between ANSPs as the flight progresses and may have serious consequences. Humans are more prone to commit lapses than machines or computer programs. Human errors can be committed due to fatigue, stress, negligence or an honest mistake. Automation mitigates the risks of having human errors by minimizing human involvement in the process.

We recommended that management adopt the necessary measures to prevent and/or minimize the fundamental risk of error in the manual processing of flight plan and related messages until the operation of the CNS/ATM system.

Management has asserted that the procedures they have employed have been constantly monitored by the ICAO which have not been cited as a significant safety concern to date.

13. Management did not attain its objective of procuring a total of 110 infrastructure projects (capital outlay) for the calendar year 2013.

Section 7.1 of the Implementing Rules and Regulations (IRR) of RA 9184 provides that "All procurement shall be within the approved budget of the procuring entity and should be meticulously and judiciously planned by the procuring entity. Consistent with government fiscal discipline measures, only those considered crucial to the efficient discharge of government functions shall be included in the Annual Procurement Plan (APP)". The APP is the requisite document that an agency prepares and contains the entire procurement activities that it plans to undertake within the calendar year (CY).

Based on the CY 2013 APP, the CAAP has programmed to undertake the procurement of 110 infrastructure projects nationwide with a total estimated budget of P1.716 billion. A comparison of the APP and the Procurement Monitoring Report disclosed that at the end of CY 2013, the Authority was able to undertake the procurement of 22 projects only amounting to P375.090 million or 22 per cent of the budgeted cost. The considerable variance between the planned and the completed procurements signifies inefficiency and ineffectiveness of the Authority's procurement system.

The APP is the result of a careful, methodical and prudent process of selecting the suitable goods, services and infrastructure projects to be procured by the agency that would enable it to perform and accomplish its functions. Therefore, any unsuccessful and/or non-procurement of any item in the APP may translate to negative impact in the delivery of the Authority's mandated services.

Had the APP been carefully and methodically planned and had the Authority decentralized the implementation of the projects to the Area Centers where the projects will be undertaken, all the programmed infrastructure project could have been undertaken.

We recommended that Management adopt a policy geared toward maximizing its resources to attain its objective such as decentralization of procurement and/or project implementation.

Management informed us that the BAC was not able to accommodate the bidding processes of all the infrastructure projects and that they really are considering the decentralization of Area Center projects.

AREA CENTERS

14. The balances of the Cash accounts of several Area Centers are doubtful.

In the examination of the Cash accounts of the different Area Centers, the following deficiencies were noted:

In Area Center 7, there was an unidentified/unrecorded deposit in the total amount of P2.94 million which resulted in the understatement of Cash in Bank account and its corresponding credit both by the said amount. The unidentified deposit could not be recorded in the books due to the absence of supporting documents.

In Area Center 6, the balance of the Cash in bank account of the Evelio V. Javier (EVJ) Airport, San Jose, Antique is overstated since the balance of one of the bank accounts comprising the account amounting to P0.935 million per Subsidiary Ledger has no cash back up or non-existent as confirmed by the bank. Further verification disclosed that in CY 2008, Land Bank of the Philippines, upon the request of the Area Manager, has transferred on several occasions, the total amount of P1.459 million to INFRA account (LBP 0771-1124-08). The transactions were posted only in the subsidiary ledger (SL). There was also a credit posting of P0.524 million thereby showing a net balance of P0.935 million.

In Area Center 11, the existence and accuracy of Cash in Bank- Local Currency-Current (LCC) account in the amount of P19.470 million is doubtful due to an unaccounted difference of P1.653 million between the cashbook balance and the controlling account.

We recommended the following:

For Area Center 7, to coordinate with the bank and exert extra efforts to determine the details of the deposit amounting to P2.94 million so that it can be recognized in the books.

For Area Center 6, to require the concerned Airport Manager to:

a) Submit copy of instruction/directive issued to the Airport Manager to transfer the amount to another bank account or in the absence of such directive explain:
    - Why the amount was transferred when disbursement could be easily made from the regular current account of the Airport;
    - Why control over the disbursements from the other account was not exercised and was left to persons not assigned at the EVJ airport at that time;

b) Explain why copies of disbursement documents were not submitted within the required period to the CAAP Area Center for recording. Only unaudited report of disbursement duly noted by the airport manager was submitted for the purpose; and
c) Submit to the Accounting Section of the Area Center audited Reports of Disbursements totalling P0.935 million together with certified copies of documents supporting withdrawals/disbursements for recording in the books in order that the balance of the Cash in Bank account could be correctly reported.

For Area Center 11, to require the Area Accountant to submit explanation on the unaccounted difference and prepare reconciling/adjusting entries, if necessary, to correct the Cash in Bank-LCC account as of December 31, 2013. Also, she shall prepare the subsidiary ledgers for each bank account and regularly reconcile it with the General Ledger balance.

The Area Center 6 officials have informed that Reports of Disbursements and the LBP Bank Statements for LBP 0771-1124-08 account has been received by Area Finance from the accountable officers and will be forwarded to the COA - CAAP Office after recording in the books.

15. Absence of budget for Overtime services incurred in the total amount of P21.46 million

In Area Center 7, it was verified that only P 4 million or 18.64 percent out of the total P21.465 million paid for overtime services and night differential in CY 2013 has budget in the 2013 approved Corporate Operating Budget (COB). Based on the approved COB, only Night Differential (ND) has a total budgeted amount of P4,000,000 and this is earmarked for CAAP Mactan. For CAAP Tagbilaran and Dumaguete, there are no provisions whatsoever.

Further, analysis of the total payment of overtime services of P21.465 million in CY 2013 revealed that it includes payments for prior year amounting to P6.751 million, for which no budget is provided in the COB, as follows:

Year	Amount
2012	P6,750,561.57
2013	14,714,002.48
Total	P21,464,564.05

The non-inclusion of budget for overtime services in the COB, both in prior and current years, rendered the transaction amounting to P17,464,564.05 irregular as defined in COA Circular No. 85-55A. It is emphasized that all expenditures must be within the budget. The reason of the law is for the proper and effective disposition of government funds in consonance with Section 2 of PD 1445, also known as Government Auditing Code of the Philippines, which provides that:

> *"It is the declared policy of the State that all resources of the government shall be managed, expended or utilized in accordance with law and regulations, and safeguarded against loss or wastage through illegal or improper disposition, with a view to ensuring efficiency, economy and effectiveness in the operations of government. xxx"*

Further, it was also noted that most of the overtime services rendered by the personnel were regular routine works and could have been performed on a regular schedule through proper and adequate planning. None of the exceptions provided under DBM Budget Circular (BC) No. 10 dated March 29, 1996 were met to warrant the rendition of overtime services.

In Area Center 11, overtime service payments which totalled P0.236 million were also not in accordance with the above cited guidelines because the activities conducted were part of the regular and routine jobs or duties of the concerned employees.

We recommended the following:

a) Request for reconsideration from CAAP Head Office for the inclusion of overtime services in the COB of the Area;

b) Adequately plan work activities and hire sufficient number of personnel to serve the needs of the Area Center; and

c) Strictly adhere to the provisions of DBM BC No. 10 dated March 29, 1996 on the rendition of overtime services.

16. STATUS OF SUSPENSIONS, DISALLOWANCES AND CHARGES

Head Office

For CY 2013, we have issued nine Notices of Suspension in the total amount of P116.026 million, five Notices of Disallowance in the total amount of P53.234 million and one Notice of Charge amounting to P19,537.80 Details are shown in the Statement of Audit Suspensions, Disallowances and Charges (SASDC) as of December 31, 2013:

	Beginning Balance (As of Dec. 31, 2012)	**This Period Jan. 1 to Dec. 31, 2013**		**Ending Balance (As of Dec. 31, 2013)**
		NS/ND/NC	**NSSDC**	
Notice of Suspension	92,668,913.67	116,026,255.20	90,287,612.67	118,407,556.20
Notice of Disallowance	3,037,956.47	53,233,802.36	0	56,271,758.83
Notice of Charge	0	19,537.80	0	19,537.80
Total	**95,706,870.14**	**169,279,595.36**	**90,287,612.67**	**174,698,852.81**

Disallowances prior to the implementation of COA Circular No. 2009-006 dated September 15, amounted to P29.675 million. These audit disallowances were issued to then Air Transportation Office (ATO) employees and recorded in the books. It was further disclosed that subsidiary records for some audit disallowances were not maintained, thus, settlement of the same could not be implemented. Accordingly, the observation and recommendation are reiterated this year.

Area Centers

As of December 31, 2013, the balance of the Notices of Suspension and Disallowance follows:

Area Center	As of December 31, 2013	
	Notices of Suspension	**Notices of Disallowance**
Area Center I	0	5,445,385.00
Area Center V	5,617,275.77	5,544,724.23
Area Center VI	18,790,259.94	7,334,093.96
Area Center VII	0	49,282.47
Area Center IX	8,741,562.24	0
Area Center X	55,500,042.18	75,364,080.42
Area Center XI	5,675,927.02	12,792,845.12
TOTAL	**94,325,067.15**	**106,530,411.20**

17. GENDER AND DEVELOPMENT (GAD)

GAD Projects/Activities/Programs (PAPs) were not fully implemented and actual expenses on four GAD activities were in excess of their budget

For CY 2013, CAAP appropriated P22.330 million for the GAD PAPs and incurred expenses in the total amount of P3.510 million.

The Client Focused Projects accomplished for the year are the following:

- Launching/inauguration of Kids' Play Area and Breastfeeding and Diaper-changing Rooms in Kalibo, Legazpi and Zambianga Airports;
- Improvement of the GAD facilities in Tuguegarao and Laoag International Airports;
- Provision of mono block chairs in the Pre-departure Area of the Passenger Terminal Building (PTB) of the Puerto Princesa, Busuanga and Area VII Airports; and
- Provision of the catwalk canopy in Zamboanga Airport.

While the Organization Focused Projects conducted/completed for the year follows:

- Full accreditation of 16 CAAP trainers by the DOTC GAD TWG;
- 30 CAAP GAD TWG members from the Area Centers and the Head office attended the Summit and shared CAAP's GAD best practices;
- Conducted Wellness Seminars with emphasis on menopause and andropause as it affects the productivity of the workers in Plaridel, Laoag, Dipolog,Puerto Princesa and Mactan International Airports;
- Procurement of IT equipments for use by the GAD TWG at Dipolog and Tacloban Airports; and

- Conduct of physical fitness (aerobics) in the Head Office three times per week with an average attendance of 20 employees per session

Our audit of the CY 2013 GAD related transactions revealed that 13 proposed GAD PAPs were not implemented in CY 2013 totaling P13.400 million.

Also, the actual expenses of four GAD activities for the year were in excess of the budget in the total variance of P335,961.08.

We reiterated our last year's recommendation that the Authority try their best to accomplish all the proposed PAPs for the year for the benefit of the employees and the flying public and strictly disburse within the budget for a particular PAP and henceforth plan properly and accurately to avoid the excesses in the disbursements.